

*CITY OF FALLS CITY  
ANNUAL FINANCIAL REPORT  
YEAR ENDED JUNE 30, 2019*

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Falls City, Oregon 97344

*CITY OF FALLS CITY, OREGON*  
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*FINANCIAL SECTION*



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

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS  
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(503) 581-7788

### *INDEPENDENT AUDITOR'S REPORT*

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

#### *Report on the Financial Statements*

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Falls City, Oregon, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

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

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

*Opinions*

In our opinion, the modified cash basis financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Falls City as of June 30, 2019, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the basis of accounting described in the notes to the financial statements.

*Basis of Accounting*

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

*Other Matters*

*Report on Supplemental and Other Information*

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

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

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

*Report on Other Legal and Regulatory Requirements*

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated November 1, 2019, on our consideration of the City's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

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

By:   
Devan W. Esch, A Shareholder

November 1, 2019

# CITY OF FALLS CITY, OREGON

## Management's Discussion and Analysis June 30, 2019

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, 2019.

### Financial Highlights

	June 30,		change
	2019	2018	
Net position	\$ 1,364,971	\$ 1,290,107	\$ 74,864
Change in net position	74,864	88,101	(13,237)
Governmental net position	669,941	585,762	84,179
Proprietary net position	695,030	704,345	(9,315)
Change in governmental net position	84,179	10,672	73,507
Change in proprietary net position	(9,315)	77,429	(86,744)

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Falls City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. These statements include:

*The Statement of Net Position (Modified Cash Basis).* This presents information on the assets and liabilities of the City as of the date on the statement utilizing the modified cash basis of accounting. Net position is the difference between the assets and liabilities recorded using the modified cash basis of accounting. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

*The Statement of Activities (Modified Cash Basis).* The *statement of activities* presents information showing how the cash basis net position of the City changed over the most recent fiscal year by tracking revenues, expenditures and other transactions that increase or reduce net position in total.

In the government-wide financial statements, the City's basic activities are shown as governmental activities. All basic City government functions are shown here, such as general government, community development, fire service, parks and street. These activities are primarily financed through property taxes and other intergovernmental activities. The business-type activities of the City include utility operations.

**Fund financial statements.** The *fund financial statements* provide more detailed information about the City's funds, focusing on its most significant or "major" funds – not the City of Falls City as a whole. A fund is a

grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City of Falls City, like state and other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

**Governmental funds.** The *governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful in obtaining an understanding of each fund's activity.

**Proprietary funds.** The City of Falls City charges customers for the utility services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *supplemental information*, including the budgetary comparison schedules, the combining nonmajor fund financial statements, and other schedules.

### Government-wide Financial Analysis

**Statement of Net Position.** The Statement of Net Position (modified cash basis) is provided on a comparative basis. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Falls City, assets exceeded liabilities by \$1,364,971 as of June 30, 2019. Overall, the City's financial position increased.

Net position - restricted represent sources that are subject to external restrictions on their use, such as debt service or capital projects.

Net position - unrestricted is available for general operations of the City.

	2019			2018		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Cash and cash equivalents	\$ 671,560	\$ 695,030	\$ 1,366,590	\$ 585,895	\$ 704,345	\$ 1,290,240
Liabilities	1,619	-	1,619	133	-	133
Net position:						
Restricted	293,977	63,513	357,490	248,396	65,473	313,869
Unrestricted	375,964	631,517	1,007,481	337,366	638,872	976,238
Total Net Position	<u>\$ 669,941</u>	<u>\$ 695,030</u>	<u>\$ 1,364,971</u>	<u>\$ 585,762</u>	<u>\$ 704,345</u>	<u>\$ 1,290,107</u>

**Statement of Activities (Modified Cash Basis).** The City's net position increased by \$74,864 during fiscal 2018-2019. This increase is explained in the governmental and business-type activities as follows:

**Governmental activities** - The City's net position increased by \$84,179 from governmental activities. This increase is due mainly to revenues approximately \$24,000 more than expenditures and by \$60,000 of transfers in.

**Business-type activities** - The City's net position decreased by \$9,315 from business-type activities. This decrease was due primarily to transfers out of \$60,000.

	2019			2018		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
<b>Revenues</b>						
Program revenues						
Charges for service	\$ 39,778	\$ 479,990	\$ 519,768	\$ 9,560	\$ 481,842	\$ 491,402
Operating grants	137,153	61,584	198,737	88,722	20,000	108,722
General revenues						
Property taxes	164,121	-	164,121	114,588	-	114,588
Franchise taxes	58,478	-	58,478	54,656	-	54,656
Intergovernmental	30,666	-	30,666	29,239	-	29,239
Miscellaneous	37,837	186	38,023	71,429	-	71,429
<b>Total revenues</b>	<b>468,033</b>	<b>541,760</b>	<b>1,009,793</b>	<b>368,194</b>	<b>501,842</b>	<b>870,036</b>
<b>Expenses</b>						
General government	316,566	-	316,566	194,690	-	194,690
Community development	23,849	-	23,849	53,988	-	53,988
Fire Levy	28,134	-	28,134	91,938	-	91,938
Parks	8,836	-	8,836	8,648	-	8,648
Street	64,832	-	64,832	69,283	-	69,283
Interest on long-term debt	1,637	-	1,637	975	-	975
Water	-	292,117	292,117	-	1,236,051	1,236,051
Sewer	-	198,958	198,958	-	96,604	96,604
<b>Total expenses</b>	<b>443,854</b>	<b>491,075</b>	<b>934,929</b>	<b>419,522</b>	<b>1,332,655</b>	<b>1,752,177</b>
Transfers	60,000	(60,000)	-	62,000	(62,000)	-
Proceeds from issuance of debt	-	-	-	-	970,242	970,242
<b>Change in net position</b>	<b>84,179</b>	<b>(9,315)</b>	<b>74,864</b>	<b>10,672</b>	<b>77,429</b>	<b>88,101</b>
Net position, beginning of year	585,762	704,345	1,290,107	575,090	626,916	1,202,006
Net position, end of year	<b>\$ 669,941</b>	<b>\$ 695,030</b>	<b>\$ 1,364,971</b>	<b>\$ 585,762</b>	<b>\$ 704,345</b>	<b>\$ 1,290,107</b>

### 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 two changes to the General fund budget during the year.

## Significant Fund Transactions

**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.* The General fund is the primary operating fund of the City. The General fund had an increase in fund balance of \$19,120 during the year, which is primarily due to expenditures less than what were budgeted.

As a measure of the fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Fund balance represents 92% of total General fund expenditures.

*Street Fund.* The Street fund is used to account for revenues and expenditures of State gas tax and other revenue related to streets. The Street fund had an increase in fund balance of \$64,532 during the year due to revenues in excess of expenditures and transfers in.

*Community Development Revolving Loan Fund.* The Community Development Revolving Loan fund had an increase in fund balance of \$21,985 during the fiscal year. The increase was due to loan payments received in excess of loan disbursements.

**Proprietary (Enterprise) funds.** The focus of the City's proprietary funds is to provide water and sewer services to customers. As with the governmental funds, net position may serve as a useful measure of net resources available for spending at the end of a fiscal year.

*Sewer Fund.* The Sewer fund is used to account for revenues and expenditures related to the operation of the City's sewer operations. The Sewer fund had a decrease in net position of \$8,624 during the year due mainly to more expenses than revenues.

*Water Fund.* The Water fund is used to account for revenues and expenses related to the operation of the City's water operations. The Water fund had a decrease in net position of \$50,505 during the year due mainly to transfers out. The decrease in fund balance was budgeted.

*City Utility Reserve Fund.* The City Utility Reserve fund is used for major projects in water, waste water, and as a reserve for grant funds. The City Utility Reserve fund had an increase in net position of \$49,814 during the year due to expenses less than budget.

## Debt Administration

Long-term debt: The City had total revenue-backed bonded debt outstanding of \$840,000 at the end of the current fiscal year, and loans in the amount of \$173,750 outstanding.

The City's total debt increased by \$21,918 during the current fiscal year.

State statutes limit the amount of general obligation debt a governmental entity may issue to 3 percent of its total assessed valuation. The City had no outstanding general obligation debt.

	Governmental Activities		Business-type Activities		Totals	
	2019	2018	2019	2018	2019	2018
Loans	\$ 173,750	\$ 116,834	\$ -	\$ -	\$ 173,750	\$ 116,834
Revenue bonds	-	-	840,000	875,000	840,000	875,000
Total	\$ 173,750	\$ 116,834	\$ 840,000	\$ 875,000	\$1,013,750	\$ 991,834

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 2019-20 fiscal year:

- a. Prior history of revenue and expenditures
- b. Capital projects in the water and sewer
- c. Expected property tax revenue

**Requests for Information**

This financial report is designed to present the user (citizens, taxpayers, investors and creditors) with a general overview of the City’s finances and to demonstrate the City’s accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

City of Falls City  
 299 Mill Street  
 Falls City, Oregon 97344

*BASIC FINANCIAL STATEMENTS*

**CITY OF FALLS CITY, OREGON**  
**STATEMENT OF NET POSITION (MODIFIED CASH BASIS)**  
**JUNE 30, 2019**

	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Totals</i>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 671,560	\$ 695,030	\$ 1,366,590
<b>LIABILITIES</b>			
Payroll withholdings	1,619	-	1,619
<b>NET POSITION</b>			
Restricted for:			
Debt service	-	63,513	63,513
Community development Streets	75,700 218,277	- -	75,700 218,277
Unrestricted	375,964	631,517	1,007,481
<i>Total Net Position</i>	<u>\$ 669,941</u>	<u>\$ 695,030</u>	<u>\$ 1,364,971</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, 2019**

	Program Revenues		Net (Expenses) Revenues and Changes in Net Position			
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>FUNCTIONS/PROGRAMS</b>						
<i>Governmental activities:</i>						
General government	\$ 316,566	\$ 12,874	\$ 17,789	\$ (285,903)	\$ -	\$ (285,903)
Community development	23,849	26,884	-	3,035	-	3,035
Fire Levy	28,134	-	-	(28,134)	-	(28,134)
Parks	8,836	20	-	(8,816)	-	(8,816)
Street	64,832	-	119,364	54,532	-	54,532
Interest on long-term debt	1,637	-	-	(1,637)	-	(1,637)
<b>Total Governmental activities</b>	<b>443,854</b>	<b>39,778</b>	<b>137,153</b>	<b>(266,923)</b>	<b>-</b>	<b>(266,923)</b>
<i>Business-type activities:</i>						
Water	292,117	314,476	-	-	22,359	22,359
Sewer	198,958	165,514	61,584	-	28,140	28,140
<b>Total Business-type activities</b>	<b>491,075</b>	<b>479,990</b>	<b>61,584</b>	<b>-</b>	<b>50,499</b>	<b>50,499</b>
<b>Total Activities</b>	<b>\$ 934,929</b>	<b>\$ 519,768</b>	<b>\$ 198,737</b>	<b>(266,923)</b>	<b>50,499</b>	<b>(216,424)</b>
<i>General Revenues:</i>						
Property taxes				164,121	-	164,121
Franchise taxes				58,478	-	58,478
Intergovernmental				30,666	-	30,666
Miscellaneous				37,837	186	38,023
<b>Total General Revenues</b>				<b>291,102</b>	<b>186</b>	<b>291,288</b>
<b>Transfers</b>				<b>60,000</b>	<b>(60,000)</b>	<b>-</b>
<b>Change in net position</b>				<b>84,179</b>	<b>(9,315)</b>	<b>74,864</b>
<b>Net Position - beginning of year</b>				<b>585,762</b>	<b>704,345</b>	<b>1,290,107</b>
<b>Net Position - end of year</b>				<b>\$ 669,941</b>	<b>\$ 695,030</b>	<b>\$ 1,364,971</b>

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

**CITY OF FALLS CITY, OREGON**  
**BALANCE SHEET (MODIFIED CASH BASIS) - GOVERNMENTAL FUNDS**  
**JUNE 30, 2019**

	Special Revenue					Total
	General	Street Fund	Community Development Revolving Loan Fund	Other Governmental Funds		
<b>ASSETS</b>						
Cash and cash equivalents	\$ 298,527	\$ 218,277	\$ 113,691	\$ 41,065	\$	\$ 671,560
Due from other funds	2,507	-	-	-	-	2,507
<i>Total Assets</i>	<u>\$ 301,034</u>	<u>\$ 218,277</u>	<u>\$ 113,691</u>	<u>\$ 41,065</u>	<u>\$</u>	<u>\$ 674,067</u>
<b>LIABILITIES AND FUND BALANCE</b>						
<b>Liabilities:</b>						
Payroll withholdings	\$ 1,619	\$ -	\$ -	\$ -	\$	\$ 1,619
Due to other funds	-	-	-	2,507	-	2,507
<i>Total Liabilities</i>	1,619	-	-	2,507	-	4,126
<b>Fund Balance:</b>						
Restricted for:						
Community development Streets	-	218,277	-	38,558	-	38,558
Committed to:						
Community development Unassigned	-	-	113,691	-	-	113,691
	299,415	-	-	-	-	299,415
<i>Total Fund Balance</i>	<u>299,415</u>	<u>218,277</u>	<u>113,691</u>	<u>38,558</u>	<u>\$</u>	<u>669,941</u>
<i>Total Liabilities and Fund Balance</i>	<u>\$ 301,034</u>	<u>\$ 218,277</u>	<u>\$ 113,691</u>	<u>\$ 41,065</u>	<u>\$</u>	<u>\$ 674,067</u>

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

**CITY OF FALLS CITY, OREGON**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**(MODIFIED CASH BASIS) - GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2019**

	Special Revenue				Total
	General Fund	Street Fund	Community Development Revolving Loan Fund	Other Governmental Funds	
<b>REVENUES</b>					
Taxes and assessments	\$ 123,494	\$ -	\$ -	\$ 40,627	\$ 164,121
Licenses and permits	71,272	-	-	-	71,272
Charges for services	100	-	-	-	100
Intergovernmental	48,455	119,364	-	-	167,819
Miscellaneous	37,837	-	26,884	-	64,721
<b>Total Revenues</b>	<b>281,158</b>	<b>119,364</b>	<b>26,884</b>	<b>40,627</b>	<b>468,033</b>
<b>EXPENDITURES</b>					
General government	238,943	-	-	28,124	267,067
Community development	-	-	4,899	-	4,899
Fire service	74,498	-	-	-	74,498
Parks	8,836	-	-	-	8,836
Streets	-	27,711	-	-	27,711
Debt payments	3,707	5,586	-	18,961	28,254
Principal interest	1,054	583	-	-	1,637
Capital acquisitions	-	30,952	-	-	30,952
<b>Total Expenditures</b>	<b>327,038</b>	<b>64,832</b>	<b>4,899</b>	<b>47,085</b>	<b>443,854</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(45,880)</b>	<b>54,532</b>	<b>21,985</b>	<b>(6,458)</b>	<b>24,179</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	-	10,000	-	-	10,000
Transfers out	65,000	-	-	(15,000)	50,000
<b>Total Other Financing Sources (Uses)</b>	<b>65,000</b>	<b>10,000</b>	<b>-</b>	<b>(15,000)</b>	<b>60,000</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>19,120</b>	<b>64,532</b>	<b>21,985</b>	<b>(21,458)</b>	<b>84,179</b>
<b>FUND BALANCE, beginning of year</b>	<b>280,295</b>	<b>153,745</b>	<b>91,706</b>	<b>60,016</b>	<b>585,762</b>
<b>FUND BALANCE, end of year</b>	<b>\$ 299,415</b>	<b>\$ 218,277</b>	<b>\$ 113,691</b>	<b>\$ 38,558</b>	<b>\$ 669,941</b>

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

**CITY OF FALLS CITY, OREGON**

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

**JUNE 30, 2019**

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	<u>Sewer</u>	<u>Water</u>	<u>City Utility Reserve</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 170,735	\$ 160,543	\$ 363,752	\$ 695,030
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>LIABILITIES</b>	\$ -	\$ -	\$ -	\$ -
<b>NET POSITION</b>				
Restricted for:				
Debt service	-	63,513	-	63,513
Unrestricted	170,735	97,030	363,752	631,517
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
<i>Total Liabilities and Net Position</i>	<u>\$ 170,735</u>	<u>\$ 160,543</u>	<u>\$ 363,752</u>	<u>\$ 695,030</u>

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

**CITY OF FALLS CITY, OREGON**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
(MODIFIED CASH BASIS) - PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2019

	<u>Sewer</u>	<u>Water</u>	<u>City Utility Reserve</u>	<u>Total</u>
<b>OPERATING REVENUES</b>				
Charges for services	\$ 113,375	\$ 314,457	\$ 52,139	\$ 479,971
Miscellaneous	-	205	-	205
<i>Total Operating Revenues</i>	113,375	314,662	52,139	480,176
<b>OPERATING EXPENSES</b>				
Personal services	61,419	156,454	-	217,873
Materials and services	64,060	64,101	375	128,536
<i>Total Operating Expenses</i>	125,479	220,555	375	346,409
<b>OPERATING INCOME (LOSS)</b>	(12,104)	94,107	51,764	133,767
<b>NONOPERATING ITEMS</b>				
Intergovernmental	61,584	-	-	61,584
Capital acquisitions	(73,104)	(6,099)	(1,950)	(81,153)
Debt payments				
Principal	-	(35,000)	-	(35,000)
Interest	-	(28,513)	-	(28,513)
<i>Total Nonoperating Items</i>	(11,520)	(69,612)	(1,950)	(83,082)
<b>NET INCOME (LOSS) BEFORE TRANSFERS</b>	(23,624)	24,495	49,814	50,685
Transfers in	15,000	-	-	15,000
Transfers out	-	(75,000)	-	(75,000)
<b>CHANGE IN NET POSITION</b>	(8,624)	(50,505)	49,814	(9,315)
<b>NET POSITION, beginning of year</b>	179,359	211,048	313,938	704,345
<b>NET POSITION, end of year</b>	<u>\$ 170,735</u>	<u>\$ 160,543</u>	<u>\$ 363,752</u>	<u>\$ 695,030</u>

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

**CITY OF FALLS CITY, OREGON**

**STATEMENT OF CASH FLOWS (MODIFIED CASH BASIS) - PROPRIETARY FUNDS**  
**YEAR ENDED JUNE 30, 2019**

	<i>Sewer</i>	<i>Water</i>	<i>City Utility Reserve</i>	<i>Total</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 113,375	\$ 314,457	\$ 52,139	\$ 479,971
Cash received from other sources	-	205	-	205
Cash paid to employees and others for salaries and benefits	(61,419)	(156,454)	-	(217,873)
Cash paid to suppliers and others	(64,060)	(64,101)	(375)	(128,536)
<i>Net Cash Provided by (Used for) Operating Activities</i>	(12,104)	94,107	51,764	133,767
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
Intergovernmental	61,584	-	-	61,584
Transfers in	15,000	-	-	15,000
Transfers out	-	(75,000)	-	(75,000)
<i>Net Cash Provided by (Used for) Non-Capital Financing Activities</i>	76,584	(75,000)	-	1,584
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchase of capital assets	(73,104)	(6,099)	(1,950)	(81,153)
Principal paid on debt	-	(35,000)	-	(35,000)
Interest paid on debt	-	(28,513)	-	(28,513)
<i>Net Cash (Used for) Capital and Related Financing Activities</i>	(73,104)	(69,612)	(1,950)	(144,666)
<i>Increase (Decrease) in Cash and Investments</i>	(8,624)	(50,505)	49,814	(9,315)
<b>CASH AND INVESTMENTS, Beginning of year</b>	<b>179,359</b>	<b>211,048</b>	<b>313,938</b>	<b>704,345</b>
<b>CASH AND INVESTMENTS, End of year</b>	<b>\$ 170,735</b>	<b>\$ 160,543</b>	<b>\$ 363,752</b>	<b>\$ 695,030</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ (12,104)	\$ 94,107	\$ 51,764	\$ 133,767
<i>Net Cash Provided by (Used for) Operating Activities</i>	<b>\$ (12,104)</b>	<b>\$ 94,107</b>	<b>\$ 51,764</b>	<b>\$ 133,767</b>

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

**CITY OF FALLS CITY, OREGON**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2019**

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

As discussed further under *Measurement Focus and Basis of Accounting*, these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

*Basic Financial Statements*

Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

*Government-wide financial statements* display information about the reporting government as a whole. For the most part, the effect of interfund activity has been removed from these statements. These statements focus on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. These aggregated statements consist of the Statement of Net Position (Modified Cash Basis) and the Statement of Activities (Modified Cash Basis).

The Statement of Net Position (Modified Cash Basis) presents the assets and liabilities of the City. Net position, representing assets less liabilities, is shown in two components: Restricted for special purposes, amounts which must be spent in accordance with legal restrictions, and unrestricted, the amount available for ongoing City activities.

The Statement of Activities (Modified Cash Basis) demonstrates the degree to which the direct expenditures of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

**CITY OF FALLS CITY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2019

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

*Basis of Presentation*

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

Government accounting standards set forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures / expenses of either fund category or the government and enterprise combined) for the determination of major funds. The City may electively add funds as major funds, which either have debt outstanding or specific community focus. Non-major funds are combined in a column in the fund financial statements and detailed in the combining section.

The City reports the following major governmental funds:

*General Fund* – This fund is the City’s primary operating fund. It accounts for all financial resources of the general government, except for those requiring separate accounting in another fund. Principal sources of revenues are property taxes, franchise fees, and State shared revenues. Expenditures are primarily for general government.

*Street Fund* – Expenditures of this fund are restricted under Article IX of the Constitution of the State of Oregon for construction, reconstruction, improvement, repair, maintenance, operation and use of public highways, roads, and streets within the City. Principal revenues include state gas tax apportionments and federal and state grants. Expenditures are for construction and maintenance of public streets.

*Community Development Revolving Loan Fund* – This fund accounts for rehabilitation housing loan repayments received from Polk CDC. At June 30, 2019, Polk CDC had \$444,296 of loans outstanding. Collections from these loans will either be remitted to the City or loaned to qualified applicants.

The City reports all three of its proprietary funds as major funds. These funds are used to account for the acquisition, operation, and maintenance of the sewer and water systems. These funds are entirely or predominantly self-supported through user charges to customers.

*Sewer* – This fund accounts for the operations, maintenance, debt service, and capital construction projects for the City’s sewer system, which is funded through utility fees, construction fees, and debt proceeds.

*Water* – This fund accounts for the operations, maintenance, debt service, and capital construction projects for the City’s water system, which is funded through utility fees, construction fees, and debt proceeds.

*City Utility Reserve* – This fund accounts for funds reserved for capital improvements and repairs for water and sewer and is funded by utility capital improvement fees.

*Fund Balance*

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

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

*Fund Balance (Continued)*

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

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

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

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

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

*Definitions of Governmental Fund Types*

The General Fund is used to account for all financial resources not accounted for in another fund.

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. The City does not have any capital projects funds in the current fiscal year.

*Measurement Focus and Basis of Accounting*

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

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

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

*Measurement Focus and Basis of Accounting (Continued)*

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

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

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

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

The modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses or expenditures (such as accounts payable and expenses for goods and services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value. Additionally, long-term liabilities such as debt are only reported in the notes to the financial statements.

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

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

**CITY OF FALLS CITY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2019

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

*Measurement Focus and Basis of Accounting (Continued)*

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

*Cash and Cash Equivalents*

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

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

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

Investments are stated at cost, which approximates fair value.

*Property Taxes*

Property taxes are levied by the County Assessor and collected by the County Tax Collector. The taxes are levied and become a lien as of July 1. They may be paid in three installments payable in equal payments due November 15, February 15, and May 15. The City's property tax collection records show that most of the property taxes due are collected during the year of levy and delinquent taxes are collected in the next few years.

*Capital Assets*

The City does not maintain historical cost or depreciation records for capital assets. Therefore, capital assets are not reported on the government-wide Statement of Net Position or the Enterprise Funds Statement of Net Position or in the notes to the financial statements.

*Long-Term Debt*

Long-term debt is presented only in the notes to the financial statements. Payments of principal and interest are recorded as expenditures / expenses when paid.

*Accrued Compensated Absences*

Accumulated unpaid vacation pay is not accrued. Earned but unpaid vacation pay is recorded as an expenditure when paid. The amount payable for accumulated vacation time as of June 30, 2019 was not available.

**CITY OF FALLS CITY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2019

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

*Budgets and Budgetary Accounting*

The City adopts the budget on a department basis for the General fund and a program basis (equivalent to a fund), for all other funds. Therefore, cash expenditures of a fund may not legally exceed that object's appropriations for cash expenditures. The City Council may amend the budget to expend unforeseen revenues by supplemental appropriations. All supplemental appropriations are included in the budget comparison statements. Appropriations lapse at year-end and may not be carried over. The City does not use encumbrance accounting.

*Use of Estimates*

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect reporting amounts of certain assets, liabilities, revenues and expenditures as of June 30, 2019. Actual results may differ from those estimates.

**CASH AND CASH EQUIVALENTS**

Cash and cash equivalents are comprised of the following at June 30, 2019:

	<i>Carrying Value</i>	<i>Fair Value</i>
<b>Cash</b>		
Cash on hand	\$ 306	\$ 306
Deposits with financial institutions	(5,587)	(5,587)
Cash held by fiscal agents	113,691	113,691
<b>Investments</b>		
Local Government Investment Pool	1,258,180	1,258,180
	<u>\$ 1,366,590</u>	<u>\$ 1,366,590</u>

*Deposits*

The book balance of the City's bank deposits (checking accounts) was \$(5,587) and the bank balance was \$27,769 at year end. The difference is due to transactions in process. Bank deposits are secured to legal limits by federal deposit insurance. The remaining amount is secured in accordance with ORS295 under a collateral program administered by the Oregon State Treasurer.

*Custodial Credit Risk - Deposits*

This is the risk that in the event of a bank failure, the City's deposits may not be returned. The Federal Depository Insurance Corporation (FDIC) provides insurance for the City's deposits with financial institutions for up to \$250,000 each for the aggregate of all demand deposits and the aggregate of all time deposit and savings accounts at each financial institution. Deposits in excess of FDIC coverage are with institutions participating in the Oregon Public Funds Collateralization Program (PFCP). The PFCP is a shared liability structure for participating bank depositories, better protecting public funds though still not guaranteeing that all funds are 100% protected.

**CITY OF FALLS CITY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2019

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**CASH AND CASH EQUIVALENTS**

*Custodial Credit Risk – Deposits (Continued)*

Barring any exceptions, a bank depository is required to pledge collateral valued at least 10% of their quarter-end public fund deposits if they are well capitalized, 25% of their quarter-end public fund deposits if they are adequately capitalized or 110% of their quarter-end public fund deposits if they are undercapitalized or assigned to pledge 110% by the Office of the State Treasurer. In the event of a bank failure, the entire pool of collateral pledged by all qualified Oregon public funds bank depositories is available to repay deposits of public funds of government entities. As of June 30, 2019, all of the City's bank balances were covered by FDIC insurance.

*Local Government Investment Pool*

The State Treasurer of the State of Oregon maintains the Oregon Short-Term Fund, of which the Local Government Investment Pool is part. Participation by local governments is voluntary. The State of Oregon investment policies are governed by statute and the Oregon Investment Council. In accordance with Oregon Statutes, the investment funds are invested as a prudent investor would do, exercising reasonable care, skill and caution. The Oregon Short-Term Fund is the LGIP for local governments and was established by the State Treasurer. It was created to meet the financial and administrative responsibilities of federal arbitrage regulations.

The investments are regulated by the Oregon Short-Term Fund Board and approved by the Oregon Investment Council (ORS 294.805 to 294.895). At June 30, 2019, the fair value of the position in the Oregon State Treasurer's Short-Term Investment Pool was approximately equal to the value of the pool shares. The investment in the Oregon Short-Term Fund is not subject to risk evaluation. LGIP is not rated for credit quality.

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

*Interest Rate Risk*

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

*Custodial Risk – Investments*

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

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

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.

**CITY OF FALLS CITY, OREGON**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2019**

**CASH AND CASH EQUIVALENTS (Continued)**

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. The LGIP is not rated for credit quality. 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 Polk Community Development Corporation. Information on collateralization of this cash is contained in the annual financial report of the corporation. The corporation is subject to the same regulations regarding collateralization as the City.

**LONG-TERM DEBT**

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

	<u>Outstanding July 1, 2018</u>	<u>Issued</u>	<u>Matured/ Redeemed During Year</u>	<u>Outstanding June 30, 2019</u>	<u>Due Within One Year</u>
<i>Governmental activities</i>					
Fire truck lease	\$ -	\$ 85,170	\$ (18,961)	\$ 66,209	\$ 15,210
Polk County CDC loan	49,405	-	(2,025)	47,380	2,042
Public works truck loan	11,456	-	(5,586)	5,870	5,870
Park expansion loan	55,973	-	(1,682)	54,291	1,699
	<u>\$ 116,834</u>	<u>\$ 85,170</u>	<u>\$ (28,254)</u>	<u>\$ 173,750</u>	<u>\$ 24,821</u>
<i>Business-type activities</i>					
Full Faith and Credit Refunding Obligations	<u>\$ 875,000</u>	<u>\$ -</u>	<u>\$ (35,000)</u>	<u>\$ 840,000</u>	<u>\$ 35,000</u>

*Notes from Direct Borrowings – Governmental Activities*

**Fire Truck Lease:** On May 7, 2019 the City entered into a lease-purchase agreement with GM Financial to acquire a fire truck. The loan was for \$ 85,170 and calls for annual payments of \$18,961 including interest at 5.66% through May 7, 2023. In the event of default, the lender may declare all amounts immediately due and payable or may take possession of the vehicle.

**Polk County CDC Loan:** On May 1, 2010 the City entered into a loan agreement with Polk County Community Development Corporation in the amount of \$65,000 with annual payments of \$2,519 which include interest at 1% through May 1, 2040. The purpose of the loan was for capital improvements. In the event of default, the lender may exercise any remedy available at law or in equity.

**CITY OF FALLS CITY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2019

**LONG-TERM DEBT (Continued)**

*Notes from Direct Borrowings -- Governmental Activities (Continued)*

Public Works Truck Loan: On June 2, 2017 the City entered into a loan agreement with GM Financial to acquire a truck used in the public works department. The loan was for \$22,941 and calls for annual payments of \$6,169 including interest at 5.09% through June 2, 2020. In the event of default, the lender may declare all amounts immediately due and payable or may take possession of the vehicle.

Park Expansion Loan: On October 1, 2017 the City entered into a loan agreement with Polk County Community Development Corporation in the amount of \$57,856 with annual payments of \$2,242 which include interest at 1% through October 1, 2046. The purpose of the loan was for capital improvements to Michael Harding park. In the event of default, the lender may exercise any remedy available at law or in equity.

*Loan payable -- Business Type Activities*

Full Faith and Credit Obligation: On October 11, 2017 the City borrowed \$925,000 through the Oregon Cities Financing Pool to refinance USDA water revenue bonds that had been issued in 2003. The note calls for semiannual payments at coupon rates ranging from 2% to 4%. Annual debt service requirements range from \$61,263 to \$65,287. The note is secured by the full faith and credit of the City. In the event of default, the note becomes immediately due and payable.

Future debt service requirements are as follows:

*Governmental Activities*

<i>Fiscal Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2020	\$ 24,821	\$ 5,070	\$ 29,891
2021	19,850	3,872	23,722
2022	20,800	2,922	23,722
2023	21,800	1,922	23,722
2024	3,836	925	4,761
2025-2029	20,002	3,803	23,805
2030-2034	21,087	2,718	23,805
2035-2039	22,161	1,644	23,805
2040-2044	13,077	652	13,729
2044-2047	6,316	124	6,440
	<u>\$ 173,750</u>	<u>\$ 23,652</u>	<u>\$ 197,402</u>

**CITY OF FALLS CITY, OREGON**  
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)  
 YEAR ENDED JUNE 30, 2019

**LONG-TERM DEBT (Continued)**

*Business-type Activities*

<i>Fiscal Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2020	\$ 35,000	\$ 27,812	\$ 62,812
2021	35,000	26,762	61,762
2022	35,000	25,712	60,712
2023	40,000	24,662	64,662
2024	40,000	23,062	63,062
2025-2029	225,000	90,560	315,560
2030-2034	265,000	50,828	315,828
2035-2038	165,000	9,790	174,790
	<u>\$ 840,000</u>	<u>\$ 279,188</u>	<u>\$ 1,119,188</u>

**PENSION PLAN**

Plan Description – City employees are provided pension benefits through the Oregon Public Employees Retirement System (PERS). PERS is a cost-sharing multiple-employer defined benefit pension plan for units of state and local government in Oregon, containing multiple actuarial pools. Benefits are established and amended by the Oregon State Legislature pursuant to ORS Chapters 238 and 238A. The legislature has delegated the authority to administer and manage PERS to the Public Employees Retirement Board. PERS issues a publicly available financial report that can be found at: <https://www.oregon.gov/pers/Pages/Financials/Actuarial-Financial-Information.aspx>

Benefits Provided - PERS provides retirement, disability, and death benefits which vary based on a qualified employee’s hiring date and employment class (general service or police/fire). All City employees are eligible to participate after six months of covered employment. Details applicable to police/fire employees are noted in [square brackets] where different.

The Tier One/Tier Two Retirement Plan applies to qualifying employees hired before August 29, 2003 and is closed to new members.

Monthly retirement benefits are based on final 3-year average salary multiplied by years of service and a factor of 1.67% [2.00%]. Benefits may also be based on a money match computation, or formula plus annuity (for members contributing before August 21, 1981), if a greater benefit results. Employees are fully vested after making contributions in each of five calendar years, and are eligible to retire at age 55 [50]. Tier One benefits are reduced if retirement occurs prior to age 58 [55] with less than 30 [25] years of service; Tier Two benefits are reduced for retirement prior to age 60.

Employees are eligible for service-related disability benefits regardless of length of service; 10 years of service is required for nonservice-related benefits. Disability benefits are determined in the same manner as retirement benefits with service time computed to age 58 [55].

## **CITY OF FALLS CITY, OREGON**

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

YEAR ENDED JUNE 30, 2019

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### **PENSION PLAN (Continued)**

Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance. The beneficiary may also receive a matching lump-sum payment from employer funds if the member was in covered employment at the time of death, or if the member died less than 120 days after termination, while on official leave of absence, or as a result of a job-related injury.

Monthly benefits are subject to annual cost-of-living adjustments (COLA). For benefits earned after the relevant effective dates, the COLA is subject to a cap of 1.25% on the first \$60,000 of annual benefits and 0.15% thereafter (ORS 238.360).

The Oregon Public Service Retirement Plan (OPSRP) applies to qualifying employees hired on or after August 29, 2003.

Monthly retirement benefits are based on final 3-year average salary multiplied by years of service and a factor of 1.50% [1.80%]. Employees are fully vested after completing 600 hours of service in each of five calendar years, and are eligible to retire at age 58 [53] with 30 [25] years of service, or at age 65 [60] otherwise.

Employees are eligible for service-related disability benefits regardless of length of service; 10 years of service is required for nonservice-related benefits. The benefit is 45% of the employee's salary during the last full month of employment before the disability occurred.

Upon the death of a non-retired member, the beneficiary receives a monthly benefit equal to 50% of the retirement benefit that would have been paid to the member.

Monthly benefits are subject to annual cost-of-living adjustments (COLA). For benefits earned after the relevant effective dates, the COLA is subject to a cap of 1.25% on the first \$60,000 of annual benefits and 0.15% thereafter (ORS 238A.210).

Contribution Requirements – As a participating employer, the City is required to make monthly contributions to PERS based on actuarially determined percentages of covered payroll. Rates in effect for fiscal year 2018 were 17.05% for Tier One/Tier Two employees, 10.19% for OPSRP general service employees, and 14.96% for OPSRP police/fire employees. The City's total contributions to PERS were \$24,836, for fiscal year ended June 30, 2019.

Contribution requirements are established by Oregon statute and may be amended by an act of the Oregon State Legislature. Employer contribution rates for fiscal year 2019 were based on the December 31, 2016 actuarial valuation using the entry age normal actuarial cost method. It is important to note that the actuarial valuations used for rate setting are based on different methods and assumptions than those used for financial reporting which are described later in this note.

Employee contributions are set by statute at 6% of salary and are remitted by participating employers, who may agree to make employee contributions on the employee's behalf. Prior to January 1, 2004, employee contributions were credited to the defined benefit pension plan. Beginning January 1, 2004, all employee contributions were placed in the OPSRP Individual Account Program (IAP), a defined contribution pension plan described further at the end of this note.

Pension Assets/Liabilities, Pension Expense, and Pension-Related Deferrals – At June 30, 2019, the City reported a net pension liability of \$233,299 as its proportionate share of the collective net pension liability for PERS, measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was based on a

**CITY OF FALLS CITY, OREGON**  
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)  
 YEAR ENDED JUNE 30, 2019

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**PENSION PLAN (Continued)**

December 31, 2016, actuarial valuation, rolled forward to the measurement date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to PERS relative to the projected contributions of all participating employers, as actuarially determined. The City's proportion was 0.00154006% as of the June 30, 2018 measurement date, compared to 0.00146853% as of June 30, 2017.

Actuarial Methods and Assumptions -- The total pension liability in the December 31, 2016, actuarial valuation was determined using the entry age normal method and the following actuarial assumptions, applied to all periods included in the measurement: inflation rate of 2.50%, projected salary increases of 3.50%, investment rate of return of 7.20%, and mortality rates based on the RP-2000 sex-distinct mortality tables, with generational adjustments per scale BB. These assumptions were based on the results of an actuarial experience study for the four-year period ending December 31, 2016.

The long-term expected rate of return on pension plan investments was developed by combining estimated rates of return for each major asset class weighted by target asset allocation percentages and adjusting for inflation.

Target allocations and estimated geometric rates of return for each major asset class are available in the PERS publicly available financial report previously mentioned.

The discount rate used to measure the total pension liability was 7.20%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following chart shows the sensitivity of the net pension liability (asset) to changes in the discount rate, based on calculations using discount rates of 6.20%, 7.20%, and 8.20%.

	<u>1% Decrease (6.20%)</u>	<u>Discount Rate (7.20%)</u>	<u>1% Increase (8.20%)</u>
Proportionate share of the net pension liability	\$ 389,886	\$ 233,299	\$ 104,049

Pension Plan Fiduciary Net Position – Detailed information about PERS' net position is available in its separately issued financial report.

Defined Contribution Plan – PERS-eligible employees are statutorily required to contribute 6% of their annual covered salary to the OPSRP Individual Account Program (IAP), a defined contribution pension plan. Benefits terms, including contribution requirements, are established by the Oregon Legislature. As permitted, the City has opted to pick-up the contributions on behalf of employees. Employees are fully vested after completing 600 hours of service in each of five calendar years. PERS contracts with VOYA Financial to administer the IAP. Total paid on behalf of employees for the fiscal year was \$12,247.

**CITY OF FALLS CITY, OREGON**  
**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2019**

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**INTERFUND TRANSACTIONS**

Interfund transactions during the current fiscal year were as follows.

	<u>Transfers in</u>	<u>Transfers out</u>
General	\$ 65,000	\$ -
Street	10,000	-
Fire Levy	-	15,000
Sewer	15,000	-
Water	-	75,000
	<u>\$ 90,000</u>	<u>\$ 90,000</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move revenues restricted to debt service from the funds collecting the revenues to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**OVEREXPENDITURES OF APPROPRIATIONS AND DEFICIT FUND BALANCES**

Oregon law prohibits expenditures in excess of Council approved appropriations. Overexpenditures of appropriations in the current year were as follows:

<u>Fund / Appropriation category</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Fire Equipment/Operations Levy</b>			
Debt Service			
Principal	\$ -	\$ 18,961	\$ (18,961)
<b>Water</b>			
Personal services	124,000	156,454	(32,454)
<b>Utility Reserve</b>			
Materials and services	-	375	(375)

At June 30, 2019 the Fire Equipment/Operations Levy fund had a deficit fund balance of \$2,507.

**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. No insurance claims settled in each of the prior three years have exceed policy coverage.

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

*SUPPLEMENTAL INFORMATION*

**CITY OF FALLS CITY, OREGON**

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

**JUNE 30, 2019**

	<i>Special Revenue</i>		
	<i>Wagner Library Reserve</i>	<i>Fire Equipment/ Operations Levy</i>	<i>Total</i>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 41,065	\$ -	\$ 41,065
<b>LIABILITIES AND FUND BALANCE</b>			
<i>Liabilities:</i>			
Due to other funds	\$ -	\$ 2,507	\$ 2,507
<i>Fund Balance:</i>			
Restricted for:			
Community development	41,065	(2,507)	38,558
<i>Total Liabilities and Fund Balance</i>	\$ 41,065	\$ -	\$ 41,065

**CITY OF FALLS CITY, OREGON**

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
(MODIFIED CASH BASIS) - NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2019

	<u>Special Revenue</u>		<u>Total</u>
	<u>Wagner Library Reserve</u>	<u>Fire Equipment/ Operations Levy</u>	
<b>REVENUES</b>			
Taxes and assessments	\$ -	\$ 40,627	\$ 40,627
<b>EXPENDITURES</b>			
General government	18,951	9,173	28,124
Debt Service			-
Principal	-	18,961	18,961
<i>Total Expenditures</i>	<u>18,951</u>	<u>28,134</u>	<u>47,085</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(18,951)	12,493	(6,458)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers out	-	(15,000)	(15,000)
<b>NET CHANGE IN FUND BALANCE</b>	(18,951)	(2,507)	(21,458)
<b>FUND BALANCE, beginning of year</b>	<u>60,016</u>	<u>-</u>	<u>60,016</u>
<b>FUND BALANCE (Deficit), end of year</b>	<u>\$ 41,065</u>	<u>\$ (2,507)</u>	<u>\$ 38,558</u>

**CITY OF FALLS CITY, OREGON**

*SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE*

*(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - GENERAL FUND*

*YEAR ENDED JUNE 30, 2019*

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>REVENUES</b>				
Taxes and assessments	\$ 109,000	\$ 109,000	\$ 123,494	\$ 14,494
Licenses and permits	46,300	46,300	71,272	24,972
Charges for services	50	50	100	50
Intergovernmental	23,600	70,799	48,455	(22,344)
Miscellaneous	15,350	15,350	37,837	22,487
<i>Total Revenues</i>	194,300	241,499	281,158	39,659
<b>EXPENDITURES</b>				
City Council	1,450	1,450	815	635
Court	19,450	19,450	1,228	18,222
Fire	76,800	78,999	74,498	4,501
Parks	10,450	10,450	8,836	1,614
Administration	276,000	321,000	236,901	84,099
Other/Debt	85,150	85,150	4,760	80,390
<i>Total Expenditures</i>	469,300	516,499	327,038	189,461
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(275,000)	(275,000)	(45,880)	229,120
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	65,000	65,000	65,000	-
<b>NET CHANGE IN FUND BALANCE</b>	(210,000)	(210,000)	19,120	229,120
<b>FUND BALANCE, beginning of year</b>	210,000	210,000	280,295	70,295
<b>FUND BALANCE, end of year</b>	\$ -	\$ -	\$ 299,415	\$ 299,415

**CITY OF FALLS CITY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**

**(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - STREET FUND**

**YEAR ENDED JUNE 30, 2019**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>REVENUES</b>				
Intergovernmental	\$ 363,000	\$ 363,000	\$ 119,364	\$ (243,636)
<b>EXPENDITURES</b>				
Materials and services	56,400	56,400	27,711	28,689
Debt Service				
Principal	19,400	19,400	5,586	13,814
Interest	600	600	583	17
Capital outlay	365,000	365,000	30,952	334,048
Contingency	21,600	21,600	-	21,600
<i>Total Expenditures</i>	<u>463,000</u>	<u>463,000</u>	<u>64,832</u>	<u>398,168</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(100,000)	(100,000)	54,532	154,532
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	10,000	10,000	10,000	-
<b>NET CHANGE IN FUND BALANCE</b>	(90,000)	(90,000)	64,532	154,532
<b>FUND BALANCE, beginning of year</b>	90,000	90,000	153,745	63,745
<b>FUND BALANCE, end of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 218,277</u>	<u>\$ 218,277</u>

**CITY OF FALLS CITY, OREGON**

*SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE*

*(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - COMMUNITY DEVELOPMENT REVOLVING LOAN FUND  
YEAR ENDED JUNE 30, 2019*

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>REVENUES</b>				
Miscellaneous	\$ 9,600	\$ 9,600	\$ 26,884	\$ 17,284
<b>EXPENDITURES</b>				
Materials and services	37,500	37,500	4,899	32,601
Contingency	52,100	52,100	-	52,100
<i>Total Expenditures</i>	89,600	89,600	4,899	84,701
<b>NET CHANGE IN FUND BALANCE</b>	(80,000)	(80,000)	21,985	101,985
<b>FUND BALANCE, beginning of year</b>	80,000	80,000	91,706	11,706
<b>FUND BALANCE, end of year</b>	\$ -	\$ -	\$ 113,691	\$ 113,691

**CITY OF FALLS CITY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**

**(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - WAGNER RESERVE LIBRARY #71 FUND**

**YEAR ENDED JUNE 30, 2019**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>REVENUES</b>	\$ -	\$ -	\$ -	\$ -
<b>EXPENDITURES</b>				
Personal services	24,000	24,000	18,951	5,049
Contingency	17,600	17,600	-	17,600
<i>Total Expenditures</i>	41,600	41,600	18,951	22,649
<b>NET CHANGE IN FUND BALANCE</b>	(41,600)	(41,600)	(18,951)	22,649
<b>FUND BALANCE, beginning of year</b>	41,600	41,600	60,016	18,416
<b>FUND BALANCE, end of year</b>	\$ -	\$ -	\$ 41,065	\$ 41,065

**CITY OF FALLS CITY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**

**(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - FIRE EQUIPMENT OPERATIONS LEVY  
YEAR ENDED JUNE 30, 2019**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>REVENUES</b>				
Taxes and assessments	\$ 42,000	\$ 42,000	\$ 40,627	\$ (1,373)
<b>EXPENDITURES</b>				
Materials and services	27,000	27,000	9,173	17,827
Debt Service				
Principal	-	-	18,961	(18,961)
<i>Total Expenditures</i>	<u>27,000</u>	<u>27,000</u>	<u>28,134</u>	<u>(1,134)</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>				
	15,000	15,000	12,493	(2,507)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(15,000)	(15,000)	(15,000)	-
<b>NET CHANGE IN FUND BALANCE</b>				
	-	-	(2,507)	(2,507)
<b>FUND BALANCE, beginning of year</b>				
	-	-	-	-
<b>FUND BALANCE (Deficit), end of year</b>				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,507)</u>	<u>\$ (2,507)</u>

**CITY OF FALLS CITY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**

**(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - SEWER FUND**

**YEAR ENDED JUNE 30, 2019**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>REVENUES</b>				
Charges for services	\$ 110,000	\$ 110,000	\$ 113,375	\$ 3,375
Intergovernmental	330,000	330,000	61,584	(268,416)
<i>Total Revenues</i>	440,000	440,000	174,959	(265,041)
<b>EXPENDITURES</b>				
Personal services	85,000	85,000	61,419	23,581
Materials and services	99,000	99,000	64,060	34,940
Capital outlay	345,000	345,000	73,104	271,896
Contingency	61,000	61,000	-	61,000
<i>Total Expenditures</i>	590,000	590,000	198,583	391,417
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(150,000)	(150,000)	(23,624)	126,376
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	15,000	15,000	15,000	-
<b>CHANGE IN FUND BALANCE</b>	(135,000)	(135,000)	(8,624)	126,376
<b>FUND BALANCE, beginning of year</b>	135,000	135,000	179,359	44,359
<b>FUND BALANCE, end of year</b>	\$ -	\$ -	\$ 170,735	\$ 170,735

**CITY OF FALLS CITY, OREGON**

*SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE*

*(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - WATER FUND*

*YEAR ENDED JUNE 30, 2019*

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>REVENUES</b>				
Charges for services	\$ 291,000	\$ 291,000	\$ 314,457	\$ 23,457
Miscellaneous	-	-	205	205
<i>Total Revenues</i>	291,000	291,000	314,662	23,662
<b>EXPENDITURES</b>				
Personal services	124,000	124,000	156,454	(32,454)
Materials and services	116,100	116,100	64,101	51,999
Debt service				
Principal	50,000	50,000	35,000	15,000
Interest	15,000	15,000	28,513	(13,513)
Capital outlay	22,000	22,000	6,099	15,901
Contingency	78,900	78,900	-	78,900
<i>Total Expenditures</i>	406,000	406,000	290,167	115,833
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(115,000)	(115,000)	24,495	139,495
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(75,000)	(75,000)	(75,000)	-
<b>CHANGE IN FUND BALANCE</b>	(190,000)	(190,000)	(50,505)	139,495
<b>FUND BALANCE, beginning of year</b>	190,000	190,000	211,048	21,048
<b>FUND BALANCE, end of year</b>	\$ -	\$ -	\$ 160,543	\$ 160,543

**CITY OF FALLS CITY, OREGON**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**

**(MODIFIED CASH BASIS) - BUDGET AND ACTUAL - CITY UTILITY RESERVE FUND**

**YEAR ENDED JUNE 30, 2019**

	<i>Budget Amounts</i>		<i>Actual</i>	<i>Variance</i>
	<i>Original</i>	<i>Final</i>		
<b>REVENUES</b>				
Charges for services	\$ 48,000	\$ 48,000	\$ 52,139	\$ 4,139
<b>EXPENDITURES</b>				
Materials and services	-	-	375	(375)
Capital outlay	80,000	80,000	1,950	78,050
Contingency	248,000	248,000	-	248,000
<i>Total Expenditures</i>	<u>328,000</u>	<u>328,000</u>	<u>2,325</u>	<u>325,675</u>
<b>CHANGE IN FUND BALANCE</b>	(280,000)	(280,000)	49,814	329,814
<b>FUND BALANCE, beginning of year</b>	<u>280,000</u>	<u>280,000</u>	<u>313,938</u>	<u>33,938</u>
<b>FUND BALANCE, end of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 363,752</u>	<u>\$ 363,752</u>

*COMPLIANCE SECTION*



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

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

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the City of Falls City, Oregon as of and for the year ended June 30, 2019, and have issued our report thereon dated November 1, 2019.

#### *Compliance and Other Matters*

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

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

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

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

1. The City had overexpenditures and deficit fund balances as noted in the notes to the financial statements.
2. The City did not separately state principal and interest requirements in the adopted budget for debt service in a property tax revenue fund.

***Internal Control over Financial Reporting***

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

***Restriction on Use***

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

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

By:   
Devan W. Esch, A Shareholder  
November 1, 2019