

**KLAMATH FALLS
URBAN RENEWAL AGENCY**

**A Component Unit of the
City of Klamath Falls, Oregon**

FINANCIAL STATEMENTS

**For the Fiscal Year Ended
June 30, 2014**

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KLAMATH FALLS URBAN RENEWAL AGENCY
 FINANCIAL STATEMENTS
 June 30, 2014

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INTRODUCTORY SECTION

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KLAMATH FALLS URBAN RENEWAL AGENCY
 GENERAL INFORMATION
 LISTING OF PRINCIPAL DISTRICT OFFICIALS AND STAFF
 June 30, 2014

Elected Officials

		<u>Length of Service</u>
Mayor	Todd L. Kellstrom	21 yrs. 6 mos.
City Council Member	Irving "Bud" Hart	25 yrs. 6 mos.
City Council Member	William Adams	11 yrs. 6 mos.
City Council Member	Trish Seiler	13 yrs. 6 mos.
City Council Member	Dan Tofell	3 yrs. 6 mos.
City Council Member	Matt Dodson	1 yr. 10 mos.

Appointed Officials

		<u>Time in Position</u>	<u>Length of Employment</u>
City Manager	Nathan Cherpeski	1 yr. 5 mos.	1 yr. 5 mos.
City Attorney	Joanna Lyons-Antley	4 yrs. 3 mos.	4 yrs. 3 mos.

Appointed Directors

		<u>Time in Position</u>	<u>Length of Employment</u>
Community Development Director	Sandra Fox	8 yrs. 10 mos.	15 yrs. 10 mos.

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INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

Agency Officials
Klamath Falls Urban Renewal Agency
Klamath Falls, Oregon

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Klamath Falls Urban Renewal Agency, a component unit of the City of Klamath Falls, Oregon, (the Agency), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Agency'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 accounting principles generally accepted in the United States of America; this includes 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 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 entity'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 entity'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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency, as of June 30, 2014, and, the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to management's discussion and analysis, 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 management's 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 any assurance.

The schedules of revenues, expenditures, and changes in fund balance – budget and actual, as listed in the table of contents under required supplementary information, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The introductory section and other supplementary schedule, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary schedules, as listed in the table of contents, is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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.

The introductory section 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 also issued our report dated January 30, 2015, on our consideration of the Agency'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.

A handwritten signature in cursive script that reads "Merina & Company".

Merina & Company, LLP
West Linn, Oregon
January 30, 2015

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MANAGEMENT DISCUSSION AND ANALYSIS

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Management's Discussion and Analysis

As management of the Klamath Falls Urban Renewal Agency (the Agency), a component unit of the City of Klamath Falls (City), we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal years ended June 30, 2014 and June 30, 2013. The analysis focuses on significant financial issues, major financial activities, and resulting changes in financial position, budget changes and variances from the budget and specific issues related to funds and the economic factors affecting the Agency, composed of three urban renewal districts, downtown, lakefront and town center. The organization as a whole is referred to as the Agency. Individual districts are referred to as the district or the fund.

Financial Highlights

- The assets of the Agency exceeded its liabilities at the close of the most recent fiscal year by \$1,027,779 (*net position*). Unrestricted net position, related to outstanding debt, was (\$1,173,416.) This was a net decrease from the prior year net position of \$1,212,472 as the Agency donated assets to the primary government and recorded a liability to Timbermill Shores for work done in prior years on the lakefront of Lake Ewauna. See the notes to the financial statements for more information.
- At the close of the current fiscal year, the Agency's three governmental funds reported combined fund balances of \$1,075,022, an increase of \$284,747 in comparison with the prior year. Approximately 98.5% of this amount (\$1,058,788) is restricted for urban renewal capital projects and debt service.

Overview of the Financial Statements

The discussion and analysis provided here is intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements and 3) the notes to the financial statements. This report also contains required supplementary information and other supplementary information intended to furnish additional detail to support 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 Agency's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Agency's assets and liabilities with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The statement of activities presents information showing how the Agency's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

The Agency is principally supported by property taxes. The purpose of an urban renewal is to improve specific areas of a city that are poorly developed or underdeveloped. These areas can have

old deteriorated buildings and bad streets and utilities or the areas can lack streets and utilities altogether.

The government-wide financial statements include three legally separate districts for which the City is financially accountable. The Agency, although legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government in addition to being reported separately in these statements.

The government-wide financial statements can be found on pages 25-26 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Agency are governmental funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Agency maintains three funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances of each fund, which are considered to be major funds. All of the districts are funded by property taxes collected on the incremental value of properties located within each of the districts. The value of the properties in a district are "frozen" at the time the district is formed, and taxes assessed on the increased value of the properties over time are distributed to the district to implement the Urban Renewal Plan by funding projects identified in the plan. As property values increase or decrease, revenues to the districts will adjust accordingly.

The Agency adopts an annual appropriated budget for all its funds. A budgetary comparison statement has been provided for each fund in the required supplementary information to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 27-28 of this report.

Notes to Financial Statements – The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 32-46 of this report.

Other Supplementary Schedules – A schedule with pertinent property tax information can be found on page 53 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government’s financial position. In the case of the Agency, assets exceeded liabilities by \$1,027,779, at the close of the most recent fiscal year.

Klamath Falls Urban Renewal Agency’s Net Position

The largest portion of the Agency’s net position reflects its investment in capital assets (e.g., land, construction in progress, buildings and system, and infrastructure), less any related outstanding debt that was used to acquire those assets. The only assets kept in the Agency are in the downtown urban renewal district and construction in progress in the lakefront urban renewal district. The capital assets built or acquired in the lakefront and town center urban renewals are either contributed to the City or remain property of the developer when projects are complete, and any debt related to those assets is not included in net investment in capital assets.

At the end of the current fiscal year, the Agency reported negative net position as unrestricted net position. The lakefront and town center urban renewal districts have outstanding debt of \$3,980,409, which exceeds or is unrelated to any assets the districts own (primarily due to contributing assets to the primary government and developers). This causes a deficit that will continue unless debt is paid off. The same held true for the prior fiscal year.

Klamath Falls Urban Renewal Agency’s Changes in Net Position

	2014	2013
Revenues:		
Program revenues		
Charges for services	72,515	71,350
General revenues:		
Property taxes	617,404	896,608
Other	16,563	14,286
Total revenues	706,482	982,244
Expenses:		
General government	1,235,805	236,682
Interest on long-term debt	64,624	56,550
Total expenses	1,300,429	293,232
Increase (decrease) in net position	(593,947)	689,012
Net position - beginning	2,240,251	1,551,239
Prior period adjustment	(618,525)	
Net position - ending	1,027,779	2,240,251

The Agency’s overall net position decreased \$1,212,472 from the prior fiscal year. This is due to a prior period adjustment for a payable owed to Timbermill Shores for work completed in prior years for lakefront urban renewal district. See the notes to the financial statements for more information.

Downtown urban renewal district was expected to end in the current year, but only spent \$70,088 of the \$1,052,725 budgeted for capital projects. Town center urban renewal district has a new developer agreement as of May 2014, however, the district did not give financial support until fiscal year 2015 as it is strictly reimbursement based.

Financial Analysis of the Government's Funds

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

Governmental funds

The focus of the Agency's *governmental funds* is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Agency's financing requirements.

At June 30, 2014, the Agency's governmental funds reported combined fund balances of \$1,075,022, an increase of \$284,747 in comparison with the prior year. Because the Agency is comprised of urban renewal districts, there are legal restrictions on how the funds are spent. Unlike other local governments that have *unassigned fund balance*, which is available for spending at the government's discretion, the most important aspect of the Agency is how much is restricted for capital projects and debt service within the districts. Restricted fund balance for the Agency for the current year was \$1,058,788. The remaining was nonspendable as it related to inventory.

Budgetary Highlights

Original budget compared to final budget

The only difference in the original budget compared to the final budget was in the lakefront urban renewal district. The district paid off a loan and was able to borrow an additional \$900,000 from the City of Klamath Falls' escrow reserve fund to reimburse the developer for work done on the lakefront of Lake Ewauna. The district increased capital outlay, debt service and other financing sources for that reason.

Final budget compared to actual results

Downtown urban renewal fund: The most significant variance in the fund was in capital outlay. The district only spent \$70,088 of the \$1,052,725 budgeted for capital outlay. The district hopes to complete the projects prior to the close of the district in fiscal year 2016. Any funds remaining at the close of the district will be returned to Klamath County for redistribution to the City and other taxing districts. Any unfinished projects will become the responsibility of the City.

Lakefront urban renewal fund: No significant variances.

Town center urban renewal fund: Materials & services came in significantly less than expected. Knowing there was a new owner of the property, the district budgeted the remaining projects under the Urban Renewal Plan. The district did not give financial support to the new developer until fiscal year 2015.

Capital Asset and Debt Administration

Capital assets

The Agency's investment in capital assets as of June 30, 2014, amounts to \$3,855,664 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and system, and infrastructure. The total increase in capital assets for the current fiscal year was approximately 66% due to booking the construction in progress for work on the lakefront of Lake Ewauna.

Klamath Falls Urban Renewal Agency's Capital Assets (net of depreciation)

	2014	2013
Land	261,167	261,167
Construction in progress	1,687,391	84,609
Buildings & system	1,634,889	1,699,692
Infrastructure	272,217	280,830
Total	3,855,664	2,326,298

Major capital asset events during the fiscal year included the following:

- Demolition of a building at 200 Main St. for \$61,375
- Reimbursement to the developer for infrastructure on the lakefront of Lake Ewauna for \$900,000 and an additional booked into CIP for \$1,654,469

Additional information on the Agency's capital assets can be found in note 3 on page 41 of this report.

Long-term debt

At the end of the current fiscal year, the Agency had outstanding debt totaling \$3,980,409. Of this amount, \$921,845 is a loan with Washington Federal to be paid back over ten years, \$810,000 is a loan from the City to be paid back over ten years and \$2,248,564 is a contract payable to Timbermill Shores after the \$810,000 loan from the City is paid off.

The Agency's total debt increased by \$2,876,043 (260%) during the current fiscal year. The Agency issued \$1,314,721 additional debt and repaid \$687,242. \$2,248,564 was added as a prior period adjustment (contract payable to Timbermill shores for work done in previous years).

Additional information on the Agency's long-term debt can be found in note 3, pages 43-44.

Economic Factors

The following economic factors currently affect the Klamath Falls Urban Renewal Agency:

The downtown urban renewal fund is nearing completion and reached its maximum indebtedness in fiscal year 2014. Therefore no more property taxes are being assessed or collected in the district. The only activity will be completing projects with funds received in prior years.

The Agency paid off all outstanding debt related to lakefront urban renewal fund in August of 2014. The City loaned the district \$900,000 which went to the developer for reimbursement of work completed. The district will repay the debt over 10 years unless property values increase. In that case, the debt can be paid down sooner and more money given to the developer. \$2,248,564 was booked as a contract payable to the developer for work performed in prior years.

The new property owners in the town center urban renewal district signed an agreement to complete the necessary projects under the Urban Renewal Plan in May 2014. Bealls department store was the first addition to the town center and the district reimbursed the developer \$300,000 in October 2014 for the work performed.

Requests for Information

This financial report is designed to provide a general overview of the Agency's finances for all those with an interest in the Agency's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Finance Officer, City of Klamath Falls, 500 Klamath Avenue, Klamath Falls, OR 97601. The City's financial statements are also available upon request.

BASIC FINANCIAL STATEMENTS

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KLAMATH FALLS URBAN RENEWAL AGENCY
STATEMENT OF NET POSITION
June 30, 2014

	Governmental Activities
ASSETS	
Current Assets:	
Accounts receivable	\$ 5,675
Taxes receivable	34,871
Interest receivable	837
Loans receivable	68,577
Inventories	16,234
Temporarily restricted assets	
Cash and cash equivalents	1,065,916
Total Current Assets	1,192,110
Noncurrent Assets:	
Capital assets (net of accumulated depreciation)	
Land	261,167
Construction in progress	1,687,391
Buildings and system	1,634,889
Infrastructure	272,217
Total Noncurrent Assets	3,855,664
Total Assets	5,047,774
LIABILITIES	
Current Liabilities:	
Accounts payable	19,741
Accrued interest payable	19,520
Unearned revenue	325
Current Liabilities (payable from restricted assets):	
Leases / loans payable	182,220
Total Current Liabilities	221,806
Noncurrent Liabilities:	
Leases / Loans / Contracts payable	3,798,189
Total Noncurrent Liabilities	3,798,189
Total Liabilities	4,019,995
NET POSITION	
Net investment in capital assets	2,201,195
Unrestricted	(1,173,416)
Total Net Position	\$ 1,027,779

The notes to the financial statements are an integral part of this statement.

KLAMATH FALLS URBAN RENEWAL AGENCY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
General government	\$ 1,235,805	\$ 72,515	\$	\$ (1,163,290)
Interest on long-term debt	64,624			(64,624)
Total Government Activities	\$ 1,300,429	\$ 72,515	\$ -	\$ (1,227,914)

General Revenues:

Property taxes	617,404
Unrestricted investment earnings	16,563
Total General Revenues	633,967
 Change in Net Position	 (593,947)
 Net Position - Beginning	 2,240,251
 Prior period adjustment	 (618,525)
 Net Position - Beginning as adjusted	 1,621,726
 Net Position - Ending	 <u>\$ 1,027,779</u>

The notes to the financial statements are an integral part of this statement.

KLAMATH FALLS URBAN RENEWAL AGENCY
BALANCE SHEET
GOVERNMENT FUNDS
June 30, 2014

	Downtown Urban Renewal Fund	Lakefront Urban Renewal Fund	Town Center Urban Renewal Fund	Total Governmental Funds
ASSETS				
Receivables				
Accounts	\$ 5,675	\$	\$ 21,044	\$ 5,675
Taxes		13,827		34,871
Loans	68,577			68,577
Interest		320	516	836
Inventories	16,234			16,234
Temporarily restricted assets				
Cash and cash equivalents	1,006,387	10,446	49,083	1,065,916
Total Assets	\$ 1,096,873	\$ 24,593	\$ 70,643	\$ 1,192,109
LIABILITIES				
Liabilities:				
Accounts payable	\$ 19,741	\$	\$	\$ 19,741
Unearned revenue	325			325
Total Liabilities	20,066	-	-	20,066
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes		11,298	17,147	28,445
Unavailable revenue - loans receivable	68,576			68,576
Total Deferred Inflows of Resources	68,576	11,298	17,147	97,021
Total Liabilities and Deferred Inflows of Resources	88,642	11,298	17,147	117,087
FUND BALANCES				
Nonspendable - Inventory	16,234			16,234
Restricted - Urban Renewal	991,997	13,295	53,496	1,058,788
Total Fund Balances	1,008,231	13,295	53,496	1,075,022
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,096,873	\$ 24,593	\$ 70,643	
Amounts reported for governmental activities in the statement of net position are different because:				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				3,855,664
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.				97,021
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore not reported in the funds.				(3,999,928)
Net position of governmental activities				\$ 1,027,779

The notes to the financial statements are an integral part of this statement.

KLAMATH FALLS URBAN RENEWAL AGENCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	Downtown Urban Renewal Fund	Lakefront Urban Renewal Fund	Town Center Urban Renewal Fund	Total Governmental Funds
Revenues				
Taxes	\$ 401,657	\$ 118,472	\$ 176,161	\$ 696,290
Charges for services	72,455			72,455
Investment income	13,174	1,432	1,958	16,564
Miscellaneous revenues	60			60
Total Revenues	<u>487,346</u>	<u>119,904</u>	<u>178,119</u>	<u>785,369</u>
Expenditures				
Current:				
General government	140,372	121	121	140,614
Capital outlay:				
General government	70,088	900,000		970,088
Debt service:				
Principal	414,721	136,175	136,346	687,242
Interest	569	22,347	22,189	45,105
Total Expenditures	<u>625,750</u>	<u>1,058,643</u>	<u>158,656</u>	<u>1,843,049</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(138,404)</u>	<u>(938,739)</u>	<u>19,463</u>	<u>(1,057,680)</u>
Other Financing Sources (Uses)				
Issuance of debt	414,721	900,000		1,314,721
Proceeds from sale of asset	27,706			27,706
Total Other Financing Sources and Uses	<u>442,427</u>	<u>900,000</u>	<u>-</u>	<u>1,342,427</u>
Net Change in Fund Balances	<u>304,023</u>	<u>(38,739)</u>	<u>19,463</u>	<u>284,747</u>
Fund Balances - Beginning	<u>704,208</u>	<u>52,034</u>	<u>34,033</u>	<u>790,275</u>
Fund Balances - Ending	<u>\$ 1,008,231</u>	<u>\$ 13,295</u>	<u>\$ 53,496</u>	<u>\$ 1,075,022</u>

The notes to the financial statements are an integral part of this statement.

KLAMATH FALLS URBAN RENEWAL AGENCY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Amounts reported for governmental activities in the statement of activities (page 24) are different because:

Net change in fund balances - total governmental funds (page 26)	\$	284,747
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.		896,669
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to decrease net assets.		(1,021,775)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(106,589)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(627,479)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(19,520)
Change in net position of governmental activities (page 24)	\$	<u>(593,947)</u>

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NOTES TO THE FINANCIAL STATEMENTS

KLAMATH FALLS URBAN RENEWAL AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of government-wide financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary Agency and its component units. *Governmental activities*, which normally are 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.

B. Reporting entity

The Klamath Falls Urban Renewal Agency (Agency), was organized in 1989 under the provisions of ORS Chapter 457 as the urban renewal agency in the City of Klamath Falls, Oregon (City), responsible for implementing various public improvement projects as identified in the revitalization plan of the City.

The “tax increment financing” method is being used to provide funds for the Agency. Under this method, a base year value within the urban renewal area is established for the duration of the urban renewal program. Any increase in the assessed value over the base year cannot be used by the assessor to compute tax rates for the local taxing bodies. The assessor computes the tax rate on the base year value of the area then applies that rate to the increase in assessed value. The tax on the increased value can be used by the Agency only to pay indebtedness incurred to finance the urban renewal projects.

The Agency’s governing body is identical to that of the City, and because the services of the Agency are for the benefit of the City, the Agency has been determined under accounting standards generally accepted in the United States of America to be a blended component unit of the City. As a result, the Agency’s financial statements are blended with those of the City by including them in the appropriate statements and schedules of the City’s Comprehensive Annual Financial Report. Copies of which may be obtained from the City’s Finance Officer, City of Klamath Falls, 500 Klamath Avenue, Klamath Falls, OR 97601.

C. Basis of presentation – government-wide financial statements

While separate government-wide and fund financial statements are presented, they are interrelated. All activities of the Agency are categorized as governmental activities.

The government-wide financial statements display information about the Agency as a whole. The focus is on its sustainability. As such, the reporting presents the change in the aggregate financial position of the Agency, resulting from the activities of the fiscal period. These aggregate statements consist of the Statement of Net Position and the Statement of Activities.

The Statement of Net Position demonstrates the entity’s financial position by displaying the difference between its total assets and total liabilities. The net position is further subdivided into two categories: net investment in capital assets and unrestricted.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses and revenues* are clearly identifiable with a specific function or segment. The majority of costs are supported by general revenues which include property taxes and interest earnings.

There is no interfund activity among the Agency.

KLAMATH FALLS URBAN RENEWAL AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of presentation – fund financial statements

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 and fiduciary activities. Currently the Agency has only governmental fund types.

The emphasis of the fund financial statements is on the major governmental funds, each displayed in a separate column. There are no nonmajor funds in the Agency.

The Agency reports the following major governmental funds:

The *downtown urban renewal fund* accounts for public improvement projects in a district encompassing downtown Klamath Falls.

The *lakefront urban renewal fund* accounts for public improvement projects in a district encompassing the old Modoc Mill site and future Timber Mill Shores development.

The *town center urban renewal fund* accounts for public improvement projects in a district encompassing the old Klamath Mall site and future Town Center development.

The Agency is responsible for certain indirect expenses, which include support services and administrative costs the City incurs while managing the Agency.

E. Measurement focus and basis of accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisition under capital leases are reported as other financing sources.

Property taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

KLAMATH FALLS URBAN RENEWAL AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Budgetary information

City Council adopts annual budgets and authorizes appropriations for all funds. The level of control established by the adopted budget is at the fund, department/division and category (e.g., materials & services, debt service, capital outlay, etc.) level. Supplemental budgets and transfers of appropriations between departments/divisions or between categories of appropriations need special approval from City Council, as described below. The detail budget document is required to contain more specific, detailed information for the above mentioned expenditure categories. All annual appropriations lapse at fiscal year end. If a project is not complete within the current budget year, it must be re-appropriated and become part of the subsequent year's budget.

Unexpected additional resources or appropriations may be added to the budget through the use of a supplemental budget. A supplemental budget requires hearings before the public, publications in newspapers, and approval by the City Council. Original and supplemental budgets may be modified by the use of appropriation transfers between the levels of control. Such transfers require approval by passing a Council resolution authorizing the transfer. All budget amendments are subject to the limitations put forth in the Oregon Revised Statutes Chapters 294.305 through 294.565 (Oregon Budget Law). Supplemental appropriations, permitted by Oregon Budget Law, were authorized by the City Council during the fiscal year.

Annual budgets are adopted generally following the modified accrual basis of accounting. The nature and amount of all significant adjustments necessary are noted on the budget to actual statements included in the financial statements.

1. Noncompliance with Oregon Budget Law

The Agency brought a supplemental budget to be authorized by City Council but failed to hold a public hearing as required by Oregon Revised Statutes Chapter 294.473. The Agency discovered the error and held a public hearing at a subsequent meeting, at which time no citizen spoke.

G. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance

1. Cash and cash equivalents

The Agency participates in the City's cash and investment pool.

The Agency's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2. Investments

Investments for the Agency are reported at fair value. The Agency participates in the Oregon State Treasurer's Local Government Investment Pool (LGIP), an open-ended, no-load diversified portfolio created under ORS 294.805 to 294.895. The LGIP is administered by the State Treasurer and the Oregon Investment Council with the advice of the Oregon Short-Term Bond Fund Board. The Oregon State Treasurer's Office has calculated the fair value of the underlying investments of the LGIP and the Government's share of fair value is the same as the reported value. The individual funds' portion of the pool's fair value are presented as "Cash and Cash Equivalents" in the basic financial statements as these are demand deposits.

KLAMATH FALLS URBAN RENEWAL AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. *Receivables*

All trade and property tax receivables are shown at full value as there is no need for an allowance for uncollectibles.

4. *Inventories and prepaid items*

All inventories are valued at cost using the first-in/first-out (FIFO) method, and certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The City uses the consumption method for inventory and prepaid items, meaning the cost of such inventories is recorded as expenditures when consumed rather than when purchased.

5. *Restricted assets*

Cash and cash equivalents, investments, interest and loan receivables that are constrained for specific purposes by external providers, creditors and enabling legislation are classified as restricted assets.

6. *Capital assets*

Capital assets include land, construction in progress, buildings and system, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), and are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Agency as assets with an initial, individual cost of more than \$5,000 and an estimated useful life extending beyond a single reporting period. The Agency reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

In the case of the initial capitalization of general infrastructure assets, (i.e., those reported by the governmental activities) the Agency chose to include all such items regardless of their acquisition date or amount. The Agency was able to estimate historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to acquisition year or estimated acquisition year). As the Agency constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. In the case of donations the Agency values these capital assets at the estimated fair value of the item at the date of its donation.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate.

Land and construction in progress are not depreciated. Buildings and their improvements and infrastructure of the Agency are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	25
Public domain infrastructure	25-50

KLAMATH FALLS URBAN RENEWAL AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7. Deferred outflows/inflows of resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Agency does not have any items that can be classified as deferred outflows of resources.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Agency has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and loans receivable. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

8. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. The Agency's debt consists of loans, lines of credit and a contract payable to a developer.

In the fund financial statements, the debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Net position flow assumption

Sometimes the Agency will fund outlays for a particular purpose from both restricted (e.g, restricted debt payments) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Agency's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

10. Fund balance flow assumptions

Sometimes the Agency will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Agency's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

KLAMATH FALLS URBAN RENEWAL AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

11. Fund balance policies

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Agency classifies governmental fund balances as follows:

- Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the Agency through formal action of the highest level of decision making authority (ordinance) and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the City Manager or his/her designee per the Financial Policies amended and adopted by Council resolution 14-05 on February 3, 2014.
- Unassigned includes positive fund balance which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.
- The Agency assumes funds are spent in the following order when amounts in more than one classification are available for a particular purpose: restricted, committed, assigned, and unassigned.

H. Revenues and expenditures/expenses

Property taxes

Property taxes attach as an enforceable lien on real property and are levied as of July 1. Taxes are billed in October and payments are due on November 15 of the same calendar year. Under the partial payment schedule, the first one-third of taxes is due on November 15, the second one-third on February 15, and the remaining one-third on May 15. A discount of 3 percent is allowed if full payment is made by November 15; a 2 percent discount is allowed for a two-thirds payment made by November 15. Taxes unpaid and outstanding on May 16 are considered delinquent and are subject to lien, and penalties and interest are assessed.

I. Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

KLAMATH FALLS URBAN RENEWAL AGENCY
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net position – governmental-activities* as reported in the government-wide statement of net position.

One element of the reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore are not reported in the fund.” The details of this \$3,855,664 difference are as follows:

Cost of capital assets	\$ 4,226,029
Accumulated depreciation	<u>(370,365)</u>
 Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	 <u>\$ 3,855,664</u>

Another element of the reconciliation explains that “other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.” The detail of this \$97,021 difference is as follows:

Property taxes	\$ 68,576
Loans receivables	<u>28,445</u>
 Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	 <u>\$ 97,021</u>

The final element of the reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$(3,999,928) difference are as follows:

Notes payable	\$(1,751,364)
Contracts payable	\$(2,248,564)
 Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	 <u>\$(3,999,928)</u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balance – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities.

One element of the reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of these assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$896,669 difference are as follows:

KLAMATH FALLS URBAN RENEWAL AGENCY
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS
 (continued)

Capital outlay	\$ 970,085
Depreciation expense	<u>(73,416)</u>

Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ 896,669</u>
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Another element of that reconciliation states that “The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net position.” The details of this \$(1,021,775) difference is as follows:

Capital assets contributed to primary government:	\$ <u>(1,021,775)</u>
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Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i> .	<u>\$ (1,021,775)</u>
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Another element of that reconciliation states that “revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds”. The detail of this \$(106,589) difference is as follows:

Property taxes	\$ (78,883)
Loans receivable	<u>(27,706)</u>

Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ (106,589)</u>
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Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effects of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.” The details of this \$(627,479) difference are as follows:

Debt issued or incurred:	
Issuance of notes payable	\$ (1,314,721)
Principal repayments:	
Notes payable repayments	<u>687,242</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ (627,479)</u>

The final element of that reconciliation states some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. The details of this \$(19,520) difference is:

KLAMATH FALLS URBAN RENEWAL AGENCY
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

(continued)

Interest payable	<u>\$ (19,520)</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ (19,520)</u>

NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash, cash equivalents and investments

At June 30, 2014 the Agency’s cash, cash equivalents and investments were comprised of the following:

Deposits with financial institutions	\$ 3,856
Investments:	
Oregon State Treasurer’s Local Investment Pool	<u>\$ 1,062,060</u>
	<u>\$ 1,065,916</u>

Deposits with financial institutions. In the case of deposits, this is the risk that in the event of a bank failure, the Agency’s deposits may not be returned to it. The Agency’s deposit policy is in accordance with ORS 295. All deposits are collateralized with eligible securities in amounts determined by the Office of the State Treasurer (OST). The Agency’s deposit policy requires that all deposits are covered by the Federal Deposit Insurance Corporation (FDIC), and/or are collateralized as required by compliance with ORS 295. As of June 30, 2014 the Agency’s deposits were fully insured.

Interest Rate Risk. In accordance with its investment policy, the Agency manages its exposure to declines in fair values by limiting the duration of its investments for operating purposes to eighteen months and nonoperating investments may be invested for up to ten years. Management has elected to maintain shorter durations except where directed to longer term investments by bond indentures.

Credit Risk. The Agency has adopted the policies as described in Oregon Revised Statutes, Chapter 294, as it pertains to credit risk. Oregon Revised Statutes, Chapter 294, authorizes the Agency to invest in obligations of the U.S. Treasury, U.S. Government agencies and instrumentalities, bankers’ acceptances guaranteed by an Oregon financial institution, repurchase agreements, State of Oregon Local Government Investment Pool, certain high grade commercial paper, and various interest bearing bonds of Oregon municipalities, among others.

The Agency’s investment portfolio as of June 30, 2014 is representative of the types of investments made throughout the year. The Agency’s investments in the state treasurer’s investment pool are unrated. Investments in the LGIP are included in the Oregon Short-Term Fund, which is not registered with the U.S. Securities and Exchange Commission as an investment company. The fair value of the LGIP is the same amount as the value of the pool shares. Investments in the Short-Term Fund are governed by ORS 294.135, Oregon Investment Council, and portfolio guidelines issued by the Oregon Short-Term Fund Board.

Concentration of credit risk. The Agency has adopted the policies as described in the Oregon Revised Statutes, Chapter 294, as it pertains to investments. The policy does not allow for an investment in any one issuer that is in excess of five percent of the Agency’s total investments.

KLAMATH FALLS URBAN RENEWAL AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3 –DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

Custodial credit risk. For an investment, this is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. None of the Agency’s investments are subject to custodial credit risk.

B. Lease receivables

The Agency leases land and buildings under non-cancelable operating leases to other parties. The cost of the leased asset was \$1,031,638 and the carrying value was \$866,490. Payments received in the current year were \$72,352.

Future minimum rental payments to be received on leases are as follows for the years ended June 30:

2015	\$ 72,352
Total	<u>\$ 72,352</u>

Minimum future rentals do not include contingent rentals that may be received under certain leases of land and buildings, because payments are based upon usage, or increases based upon changes in the consumer price index.

C. Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Prior Period Adjustment	Beginning Balance Adjusted	Increases	Decreases	Ending Balance
Governmental activities:						
Capital assets, not being depreciated:						
Land	\$ 261,167	\$	\$ 261,167	\$	\$	\$ 261,167
Construction in progress	84,609	1,654,469	1,739,078	970,088	(1,021,775)	1,687,391
Total capital assets, not being depreciated	<u>345,776</u>	<u>1,654,469</u>	<u>2,000,245</u>	<u>970,088</u>	<u>(1,021,775)</u>	<u>1,948,558</u>
Capital assets, being depreciated:						
Buildings	1,946,486		1,946,486			1,946,486
Infrastructure	330,985		330,985			330,985
Total capital assets being depreciated	<u>2,277,471</u>		<u>2,277,471</u>	-	-	<u>2,277,471</u>
Less accumulated depreciation for:						
Buildings	(246,794)		(246,794)	(64,803)		(311,597)
Infrastructure	(50,155)		(50,155)	(8,613)		(58,768)
Total accumulated depreciation	<u>(296,949)</u>		<u>(296,949)</u>	<u>(73,416)</u>	-	<u>(370,365)</u>
Total capital assets being depreciated,	<u>1,980,522</u>		<u>1,980,522</u>	<u>(73,416)</u>	-	<u>1,907,106</u>
Governmental activities capital assets,	<u>\$ 2,326,298</u>	<u>\$ 1,654,469</u>	<u>\$ 3,980,767</u>	<u>\$ 896,672</u>	<u>\$ (1,021,775)</u>	<u>\$ 3,855,664</u>

Depreciation expense was charged to functions/programs of the Agency as follows:

Governmental activities:	
General Government	<u>\$ 73,416</u>

KLAMATH FALLS URBAN RENEWAL AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3 –DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

D. Construction and other significant commitments

The lakefront urban renewal district has an active development agreement with Timbermill Shores for development of the lakefront of Lake Ewauna. \$2,248,564 remains payable to Timbermill Shores for work done in prior years.

E. Risk management

The Agency is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Agency is covered under the City's insurance policies. The City carries commercial insurance for all risks of loss described. Settlements have not exceeded coverage for each of the past three fiscal years.

F. Long-Term Liabilities

The Agency does not sell receivables or future revenues. The Agency does however pledge revenues to collateralize debt until the debt is fully repaid. The following information discloses the Agency's pledged revenues:

Washington Federal – Lakefront Urban Renewal

The Agency has pledged future tax increment revenues to repay \$225,000 for a loan from Washington Federal (formerly South Valley Bank & Trust) received in February of 2011. Payments were to be made in two annual installments of \$82,105 and one irregular payment of \$77,181. The funds from the loan were used to finance storm drains, water system, sanitary sewer and geothermal heat for the Lakefront Urban Renewal District. The interest rate is subject to change annually based on prime plus 1.50% (currently 4.750%) in accordance with the highest prime rate as published in the West Coast Edition of the Wall Street Journal (the "Index"). The loan is payable solely from the property tax increment revenues of properties within the district boundaries. For the current year, principal and interest paid and total incremental property tax revenues were \$46,607 and \$118,472 respectively. Total principal and interest remaining on the loan at June 30, 2014 is \$0.

City of Klamath Falls, Escrow Reserve Fund – Lakefront Urban Renewal

The Agency has pledged future tax increment revenues to repay a \$900,000 loan with the City of Klamath Falls, Escrow Reserve Fund. The loan originated in fiscal year 2014 and was used to reimburse Timbermill Shores for work done on the lakefront of Lake Ewauna. The interest rate is 3.75%. Payments will be made over ten years. For the current year, principal and interest paid and total incremental property tax revenues were \$111,914 and \$118,472, respectively. Total principal and interest remaining on the loan at June 30, 2014 is \$966,200.

Timbermill Shores – Lakefront Urban Renewal

The Agency has pledged future tax increment revenues to repay \$2,248,564 for reimbursement of infrastructure constructed by Timbermill Shores on the lakefront of Lake Ewauna. There is no interest associated with this liability as it is strictly reimbursement to the developer. The district will begin making payments once the \$900,000 loan with the City of Klamath Falls is paid in full.

KLAMATH FALLS URBAN RENEWAL AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3 –DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

Washington Federal – Town Center Urban Renewal

The Agency has pledged future tax increment revenues to repay a \$1,178,500 loan with Washington Federal (formerly South Valley Bank & Trust) as of July 26, 2012. The original loan funds of \$1.825 million from 2009 were used to finance improvements to the Town Center Urban Renewal District. The loan is termed out over ten years with annual payments of \$143,535. The loan includes a variable interest of prime plus .875% (currently 4.125%) based on the lender’s Prime Rate (the “Index”) which will not change more than daily. For the current year, principal and interest paid and total incremental property tax revenues were \$158,535 and \$176,161, respectively. Total principal and interest remaining on the loan at June 30, 2014 is \$1,099,298.

Long-term liability activity for the year ended June 30, 2014:

Governmental Activities Notes/Contracts Payable

	Balance June 30, 2013	Prior Period Adjustment	Balance June 30, 2013 Adjusted	Additions	Reductions	Balance June 30, 2014	Due Within One Year
Lakefront Urban Renewal							
Washington Federal	\$ 46,175	\$	\$ 46,175	\$	\$ 46,175	\$ -	\$ -
Timbermill Shores		2,248,564	2,248,564			2,248,564	-
City of Klamath Falls				900,000	90,000	810,000	79,225
Town Center Urban Renewal							
Washington Federal	1,058,191		1,058,191		136,346	921,845	102,995
Governmental activities total	\$ 1,104,366	\$ 2,248,564	\$ 3,352,930	\$ 900,000	\$ 272,521	\$ 3,980,409	\$ 182,220

Long-term Liabilities

Other long-term liabilities debt service requirements to maturity are as follows:

	2015	2016	2017	2018	2019	2020-2024	2025-2029	2030-2034	2035-2039	2040-2044	Total
Lakefront Urban Renewal											
Timbermill Shores											
Principal	\$	\$	\$	\$	\$	140,600	575,000	575,000	575,000	382,964	2,248,564
City of Klamath Falls											
Principal	79,225	82,200	85,275	88,475	91,800	383,025					810,000
Interest	30,375	27,400	24,325	21,125	17,800	35,175					156,200
Town Center Urban Renewal											
Washington Federal											
Principal	102,995	109,288	113,778	118,618	123,579	353,587					921,845
Interest	40,540	34,247	29,757	24,917	19,956	28,036					177,453
Total	\$ 253,135	\$ 940,423	\$ 575,000	\$ 575,000	\$ 575,000	\$ 382,964	\$ 4,314,062				

KLAMATH FALLS URBAN RENEWAL AGENCY
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE 3 –DETAILED NOTES ON ALL ACTIVITIES AND FUNDS (continued)

G. Short-term Debt

Washington Federal – Downtown Urban Renewal

The government has pledged future tax increment revenues to repay a renewable loan (similar to a line of credit) of \$415,000 entered into with Washington Federal on July 10, 2013. Monthly payments of interest are required to be paid at a variable interest rate of prime (currently 3.250%) until maturity on July 1, 2014, at which time the principal is due in full. The interest rate is based on the Lender’s Prime Rate (the “Index”) and will not change more often than daily. The loan is payable solely from the property tax increment revenues of properties within the district boundaries. Principal and interest paid for the current year and total incremental property tax revenues were \$415,290 and \$401,657 respectively. The loan was paid in full.

In the current year, the City drew down \$414,721 on the line of credit. Under ORS 457.435 and 457.440, tax increment collections may only be spent to pay principal and interest on indebtedness. Tax increment collections are expected to be sufficient to meet debt service requirements for outstanding long-term debt. The City drew down the funds in order to release excess property tax collections for capital projects. The City drew down and paid off the funds in May of 2014. At June 30, 2014, there was no debt outstanding with Downtown Urban Renewal District.

Short-term debt activity of the fiscal year ended June 30, 2014 was as follows:

	Balance 7/01/13	Additions	Reductions	Balance 6/30/14
Washington Federal	-	414,721	414,721	-

H. Related party transactions

Transactions with the Agency and the City of Klamath Falls for the year ended June 30, 2014 are as follows:

Expenses:

Wastewater charges	\$ 552
Water charges	1,231
Street lighting charges	48
Administrative service charge	37,169
Maintenance service charge	15,876
Total Expenses	\$ 54,876

I. Net Position

Unrestricted net position is negative due to outstanding long term debt.

KLAMATH FALLS URBAN RENEWAL AGENCY
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE 4 – CONTINGENT LIABILITIES

The Agency does not have any contingent liabilities.

NOTE 5 – SUBSEQUENT EVENTS

In October of 2014, the town center urban renewal district borrowed \$300,000 from Washington Federal to reimburse a developer for development costs owed. Interest payments are due monthly using an interest rate of .500 percentage points under the prime index (3.250% at the time of the loan) for a rate of 2.750%. The principal balance will be due in full during June of 2015 (with the option to renew the loan).

NOTE 6 – PRIOR PERIOD ADJUSTMENTS

In 2012 the Agency recorded a prior period adjustment for their portion of Klamath County property tax interest receivable estimated by the County. After further review it has been decided that this is a contingent receivable and should not be recorded as revenue by the Agency. \$24,430 was recorded as a prior period adjustment.

During the current fiscal year, Timbermill Shores, a developer for the lakefront urban renewal district, became aware that the original loan taken out for development was paid off by the Agency. The developer requested reimbursement for additional work performed. The Agency required the developer to submit paid invoices to determine the amount of the reimbursement. The developer submitted invoices totaling \$3,863,314. Of that amount, the Agency determined that \$714,750 had already been recorded as assets and paid to the developer. An additional loan was budgeted in the current year for \$900,000 with the City of Klamath Falls (this amount was also recorded as assets and given to the developer). It was determined that the remaining balance of \$2,248,564 was due and payable to the developer for reimbursement for work done in prior years. \$1,654,469 was determined to be Agency assets (and were recorded as such), the remaining \$594,095 were determined to be assets that would be retained by the developer and were expensed.

Beginning net position	2,240,251
Prior Period Adjustment	
Prioperty tax receivable	(24,430)
Timbermill Shores	(594,095)
Beginning net position, restated	1,621,726

NOTE 7 – NEW PRONOUNCEMENTS

The Agency adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, required for fiscal periods beginning after December 15, 2012, in fiscal year 2014. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

The Agency plans to adopt GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*, required for fiscal periods beginning after December 15, 2012, in fiscal 2014.

KLAMATH FALLS URBAN RENEWAL AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7 – NEW PRONOUNCEMENTS (continued)

This Statement improves accounting and financial reporting by resolving conflicting guidance that resulted from the issuance of Statements No. 54 and No. 62.

The Agency plans to adopt GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, required for fiscal periods beginning after December 15, 2013, in fiscal 2015. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations.

The Agency plans to adopt GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, required for fiscal periods beginning after June 15, 2013, in fiscal 2014. This Statement enhances comparability of financial statements by requiring consistent reporting on nonexchange financial guarantees.

Unless otherwise noted, management is in the process of determining the effects that the adoption of these statements will have on the Agency's financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

KLAMATH FALLS URBAN RENEWAL AGENCY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
DOWNTOWN URBAN RENEWAL FUND
For the Year Ended June 30, 2014

Schedule A-1

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 421,500	\$ 421,500	\$ 401,657	\$ (19,843)
Charges for services	71,775	71,775	72,455	680
Investment income	11,725	11,725	13,174	1,449
Miscellaneous revenues	-	-	60	60
Total Revenues	505,000	505,000	487,346	(17,654)
Expenditures				
Downtown urban renewal agency				
Materials and services	124,075	145,400	140,372	5,028
Capital outlay	1,074,050	1,052,725	70,088	982,637
Debt service	422,500	422,500	415,290	7,210
Contingency	56,900	56,900	-	56,900
Total Expenditures	1,677,525	1,677,525	625,750	1,051,775
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,172,525)	(1,172,525)	(138,404)	1,034,121
Other Financing Sources (Uses)				
Issuance of debt	422,500	422,500	414,721	(7,779)
Proceeds from sale of capital assets	-	-	27,706	27,706
Total Other Financing Sources and (Uses)	422,500	422,500	442,427	19,927
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	(750,025)	(750,025)	304,023	1,054,048
Fund Balance - Beginning	750,025	750,025	704,208	(45,817)
Fund Balance - Ending	\$ -	\$ -	\$ 1,008,231	\$ 1,008,231

KLAMATH FALLS URBAN RENEWAL AGENCY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
LAKEFRONT URBAN RENEWAL FUND
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Schedule A-2 Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 114,150	\$ 114,150	\$ 118,472	\$ 4,322
Investment income	925	925	1,432	507
Total Revenues	115,075	115,075	119,904	4,829
Expenditures				
Lakefront urban renewal agency				
Materials and Services	125	125	121	4
Capital outlay	117,300	900,000	900,000	-
Debt service	126,250	163,550	158,522	5,028
Contingency	5,000	5,000	-	5,000
Total Expenditures	248,675	1,068,675	1,058,643	10,032
Excess (Deficiency) of Revenues Over (Under) Expenditures	(133,600)	(953,600)	(938,739)	14,861
Other Financing Sources (Uses)				
Issuance of Debt	80,000	900,000	900,000	-
Total Other Financing Sources and (Uses)	80,000	900,000	900,000	-
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	(53,600)	(53,600)	(38,739)	14,861
Fund Balance - Beginning	53,600	53,600	52,034	(1,566)
Fund Balance - Ending	\$ -	\$ -	\$ 13,295	\$ 13,295

KLAMATH FALLS URBAN RENEWAL AGENCY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
TOWN CENTER URBAN RENEWAL FUND
For the Year Ended June 30, 2014

Schedule A-3

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 178,500	\$ 178,500	\$ 176,161	\$ (2,339)
Investment income	1,250	1,250	1,958	708
Total Revenues	<u>179,750</u>	<u>179,750</u>	<u>178,119</u>	<u>(1,631)</u>
Expenditures				
Town Center urban renewal agency				
Materials and services	725,125	725,125	121	725,004
Debt service	178,500	178,500	158,535	19,965
Contingency	55,875	55,875	-	55,875
Total Expenditures	<u>959,500</u>	<u>959,500</u>	<u>158,656</u>	<u>800,844</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(779,750)	(779,750)	19,463	799,213
Other Financing Sources (Uses)				
Issuance of debt	725,000	725,000	-	(725,000)
Total Other Financing Sources and (Uses)	<u>725,000</u>	<u>725,000</u>	<u>-</u>	<u>(725,000)</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	(54,750)	(54,750)	19,463	74,213
Fund Balance - Beginning	<u>54,750</u>	<u>54,750</u>	<u>34,033</u>	<u>(20,717)</u>
Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53,496</u>	<u>\$ 53,496</u>

OTHER SUPPLEMENTARY INFORMATION

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KLAMATH FALLS URBAN RENEWAL AGENCY
SCHEDULE OF PROPERTY TAX TRANSACTIONS
For the Year Ended June 30, 2014

Schedule B-1

Fiscal Year	Assessor's Current Levy and Balances July 1, 2013	Discounts/ Adjustments	Taxes Collected	Balance Uncollected June 30, 2014	Interest Collected
2013-2014	\$ 741,374	\$ (70,952)	\$ 654,425	\$ 15,997	\$ 185
Prior years					
2012-13	52,711	(18,615)	26,030	8,066	1,194
2011-12	32,064	(15,831)	10,471	5,762	1,463
2010-11	22,161	(10,050)	9,032	3,079	2,012
2009-10	12,507	(2,838)	8,812	857	2,456
2008-09	2,466	(1,549)	543	374	239
2007-08	1,392	(936)	332	124	181
2006-07 and Prior	4,112	(3,198)	302	612	319
 Total - Prior Years	 127,413	 (53,017)	 55,522	 18,874	 7,864
 Total	 \$ 868,787	 \$ (123,969)	 \$ 709,947	 \$ 34,871	 \$ 8,049

Summary by Fund

Downtown Urban Renewal Fund				13,827	
Lakefront Urban Renewal Fund				21,044	
Town Center Urban Renewal Fund		417		<u> </u>	
 Total				 \$ 34,871	

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**AUDIT COMMENTS AND DISCLOSURES
REQUIRED BY STATE REGULATIONS**

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**INDEPENDENT AUDITOR'S REPORT
REQUIRED BY OREGON STATE REGULATION**

We have audited the basic financial statements of the Klamath Falls Urban Renewal Agency, a component unit of the City of Klamath Falls, Oregon, (the Agency), as of and for the year ended June 30, 2014 and have issued our report thereon dated January 30, 2015. 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 Agency'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 the 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 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.

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:

- Deposits of public funds with financial institutions (ORS Chapter 295).
- Indebtedness limitations, restrictions, and repayments.
- 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. The Agency does not receive highway revenues.
- Authorized investment of surplus funds. (ORS Chapter 294).
- Public contracts and purchasing (ORS Chapters 279A, 279B, and 279C).
- Accountability for collecting or receiving money by elected officials. The Agency does not have any elected officials collecting or receiving money.

In connection with our testing, nothing came to our attention that caused us to believe the Agency was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in the 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 Agency failed to hold a public hearing as required for a supplemental budget before adoption. The Agency discovered the error and held a public hearing at a subsequent meeting.

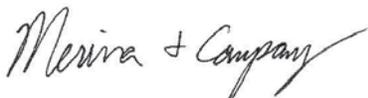
OAR 162-10-0230 Internal Control

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency as communicated in a separate letter to management dated January 30, 2015 to be a material weakness.

This report is intended solely for the information and use of the agency officials, the Secretary of State Audits Division, and management, and is not intended to be and should not be used by anyone other than these specified parties.



Merina & Company, LLP
West Linn, Oregon
January 30, 2015