

**City of Klamath Falls
Oregon**

**Comprehensive Annual
Financial Report**

**For the Fiscal Year Ended
June 30, 2015**

**Prepared by the
Finance Department
of the City of Klamath Falls**

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CITY OF KLAMATH FALLS, OREGON
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 June 30, 2015

TABLE OF CONTENTS

INTRODUCTORY SECTION

Letter of Transmittal..... 1
 Certificate of Achievement for Excellence in Financial Reporting..... 7
 Organizational Chart..... 9
 General Information - Listing of Principal City Officials and Staff..... 10

FINANCIAL SECTION

Independent Auditor’s Report..... 15

Management’s Discussion and Analysis..... 21

Basic Financial Statements

Government-wide Financial Statements
 Statement of Net Position.....38
 Statement of Activities..... 40

Fund Financial Statements
 Governmental Funds
 Balance Sheet..... 44
 Reconciliation of the Balance Sheet to the Statement of Net Position.....44
 Statement of Revenues, Expenditures, and Changes in Fund Balances..... 45
 Reconciliation of the Statement of Revenues, Expenditures, and Changes in
 Fund Balances to the Statement of Activities.....46

Proprietary Funds
 Statement of Net Position..... 48
 Statement of Revenues, Expenses, and Changes in Fund Net Position..... 50
 Statement of Cash Flows..... 51

Fiduciary Fund
 Statement of Fiduciary Net Position.....55

Notes to the Basic Financial Statements.....59

Required Supplementary Information

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual
 General Fund (A-1).....101
 Airport Fund (A-2)..... 102
 Lakefront Urban Renewal Fund (A-3)..... 103
 Street Fund (A-4).....104

Schedule of Funding Progress for Post-Employment Health Care Plan (A-5).....105
 Schedule of Proportionate Share of Net Pension Liability (A-6)..... 106
 Schedule of Pension Contributions (A-7)..... 106

Notes to the Required Supplementary Information..... 107

CITY OF KLAMATH FALLS, OREGON
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 June 30, 2015

TABLE OF CONTENTS

FINANCIAL SECTION: (continued)

Other Supplementary Information

Non-Major Governmental Funds Combining Schedules	
Combining Balance Sheet (B-1).....	112
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (B-2)...	113
Non-Major Special Revenue Funds	
Combining Balance Sheet (C-1).....	116
Combining Statement of Revenues, Expenditures and Changes in Fund Balance (C-2).....	118
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual	
Parks Fund (C-3).....	120
Downtown Urban Renewal Fund (C-4).....	121
Town Center Urban Renewal Fund (C-5).....	122
Off Street Parking Fund (C-6).....	123
Street Lighting Fund (C-7).....	124
Downtown Maintenance District (C-8).....	125
Economic Development/Property Fund (C-9).....	126
Cogeneration Fund (C-10).....	127
Capital Projects Funds	
Combining Balance Sheet (D-1).....	130
Combining Statement of Revenues, Expenditures and Changes in Fund Balances (D-2)...	131
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual	
Footpaths/Bicycle Trails Fund (D-3).....	132
Technology Reserve Fund (D-4).....	133
Building Reserve Fund (D-5).....	134
Escrow Reserve Fund (D-6).....	135
Debt Service Fund	
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual	
Debt Service Fund (E-1).....	136
Trust and Agency Fund	
Statement of Changes in Assets and Liabilities	
Veteran’s Memorial Fund (F-1).....	137
Enterprise Funds	
Schedule of Revenues, Expenditures and Changes in Fund Net Position – Budget and Actual	
Wastewater Fund (G-1).....	140
Water/Geothermal Fund (G-2).....	141
Other Supplementary Schedules	
Capital Assets Used in the Operation of Governmental Funds	
Schedule by Function and Activity (H-1).....	145
Schedule of Changes by Function and Activity (H-2).....	146

CITY OF KLAMATH FALLS, OREGON
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 June 30, 2015

TABLE OF CONTENTS

STATISTICAL SECTION:

Financial Trends

Net Position by Component (I-1)..... 151
 Changes in Net Position (I-2)..... 152
 Fund Balance of Governmental Funds (I-3)..... 154
 Changes in Fund Balances of Governmental Funds (I-4).....155

Revenue Capacity

Assessed Value & Estimated Actual Value of Taxable Property (I-5).....157
 Property Tax Rates (per thousand) Direct & Overlapping Governments (I-6).....158
 Principal Property Taxpayers (I-7)..... 159
 Property Tax Levies & Collections (I-8).....160

Debt Capacity

Ratios of Outstanding Debt by Type (I-9)..... 161
 Ratios of General Bonded Debt Outstanding (I-10)..... 162
 Direct and Overlapping Governmental Activities Debt (I-11)..... 163
 Legal Debt Margin Information (I-12)..... 164
 Pledged-Revenue Coverage (I-13)..... 165

Demographic and Economic Information

Demographics & Economic Statistics (I-14)..... 166
 Principal Employers (I-15)..... 167

Operating Information

Full-Time Equivalent City Governmental Employees by Function (I-16)..... 168
 Operating Indicators by Function (I-17)..... 169
 Capital Asset Statistics by Function (I-18)..... 170
 Top Ten Water & Wastewater Customers (I-19)..... 171

AUDIT COMMENTS AND GOVERNMENT AUDITING STANDARDS SECTIONS

Government Auditing Standards

Independent Auditor’s Report on Internal Control over Financial Reporting and on
 Compliance and Other Matters Based on an Audit of Financial Statements
 Performed in Accordance with *Government Auditing Standards*.....175

Passenger Facility Charges Audit Section

Independent Auditor’s Report on Compliance for the Major Passenger Facility
 Charge Program and on Internal Control Over Compliance Required by
 Passenger Facility Charge Audit Guide for Public Agencies.....181
 Passenger Facility Charge Schedule of Findings and Questioned Costs..... 184
 Schedule of Passenger Facility Charges Collected, Held and Used.....185

CITY OF KLAMATH FALLS, OREGON
COMPREHENSIVE ANNUAL FINANCIAL REPORT
June 30, 2015

TABLE OF CONTENTS

AUDIT COMMENTS AND GOVERNMENT AUDITING STANDARDS SECTIONS (continued)

State of Oregon Compliance Section

Audit Comments and Disclosures Required By State Regulation	
Independent Auditor's Report Required by Oregon State Regulation.....	191

BOND COMPLIANCE SECTION

Independent Auditor's Report on Compliance for Schedules of Compliance with the Rate and Revenue Covenants of the Water Revenue Refunding Bonds, Series 2001, the Wastewater Revenue Refunding Bonds, Series 2005, and the Airport Revenue Bonds, Series 1996.....	195
Schedule of Compliance with the Rate Covenants of the Water Revenue Refunding Bonds, Series 2001.....	196
Schedule of Compliance with the Rate Covenants of the Wastewater Revenue Refunding Bonds, Series 2005.....	197
Schedule of Compliance with the Gross Revenue Covenant of the Airport Revenue Bonds, Series 1996.....	198

INTRODUCTORY SECTION

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CITY OF KLAMATH FALLS, OREGON
500 KLAMATH AVENUE – P.O. BOX 237
KLAMATH FALLS, OREGON 97601



December 14, 2015

To the Honorable Mayor, City Council and Citizens of Klamath Falls:

We are pleased to submit the Comprehensive Annual Financial Report for the City of Klamath Falls for the fiscal year ended June 30, 2015. State law requires that every general purpose local government publish, within six months of the close of each fiscal year, a complete set of audited financial statements.

Management assumes full responsibility for both completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Merina & Co., LLP, a firm of licensed certified public accountants, has issued an unmodified (clean) opinion on the City's financial statements for the year ended June 30, 2015. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the government

The City of Klamath Falls, incorporated in 1905, is located in the south central portion of Oregon, approximately 275 miles southeast of Portland and 300 miles north of Sacramento, California. The City of Klamath Falls has a land area of about 20.7 square miles and an approximate population of 21,580. Although the population within the City limits is only 21,500, the entire urban growth boundary consists of approximately 42,000 people.

The City of Klamath Falls operates under the council-manager form of government. Policy-making and legislative authorities are vested in the City Council, which consists of a mayor and a five-member council. The City Council is responsible, among other things, for passing ordinances, adopting resolutions, adopting the budget, appointing committees, and hiring the City Manager, City Attorney, and Municipal Judge. The City Manager is responsible for carrying out the policies and ordinances of the governing council, appointing City department heads and staff, and overseeing the day-to-day operations of the government.

The City Council is elected on a non-partisan basis. The Mayor and Council members are elected to four-year staggered terms with three members elected every two years. All five council members are elected within their respective areas or wards. The mayor is elected at large.

The City of Klamath Falls has a permanent tax rate of \$5.4423 per \$1,000 of assessed valuation. Property values increased at a 3% per year level until the current recession when they began to fall off. This revised value is called the real value and taxes are assessed on the real value. The City is subject to compression, which limits the combined total of all taxes assessed on a property to \$10 per \$1,000 as established by Ballot Measure 5, which was passed in 1990. In addition, the Downtown Urban Renewal receives taxes that would otherwise go to the City and other taxing districts. The City's actual tax revenues therefore do not equal the \$5.4423 permanent tax rate. The rate received in fiscal year 2015 was approximately \$5.0344 per \$1,000 of assessed value. The City of Klamath Falls collected about \$469,878 more in property taxes, including delinquent taxes, during the 2015 fiscal year than it did in 2014.

The City provides a full range of services, including police protection, code enforcement, a municipal court, airport, the construction and maintenance of streets and other infrastructure; as well as a pool and other recreational facilities. Wastewater, water, geothermal and street lighting services are also provided by the City of Klamath Falls on a fee for services basis.

The City is also financially responsible for a legally separate urban renewal agency that includes three urban renewal areas: downtown, town center and lakefront. The agency functions, in essence, as a department of the City and therefore is included in the financial statements of the City, in addition to being reported separately.

The Council is required to adopt a budget for the fiscal year no later than June 30 preceding the beginning of the fiscal year on July 1. This annual budget serves as the foundation for the City's financial planning and control. The budget is adopted by fund, department/division and category (e.g., personnel services or materials & services). Transfers between departments or funds need special approval from City Council.

Local economy

Although economic growth for the City of Klamath Falls is slowly recovering, it is not recovering as quickly as other cities in the nation. The base economic elements of the City of Klamath Falls are agriculture, transportation, tourism, manufacturing, wood products, medical, military and other services. The progressive nature of planned economic development reflects a continued effort to diversify these elements.

Because of its location in a region with a limited economic base, the unemployment rate has traditionally exceeded that of the state and the nation. During the past ten years, the rate fluxed from an initial 9.3 percent in 2003, to a decade low of 6.7 percent in 2007, while the nation average was closer to 4.4 percent at this time. In 2010 it jumped to 13.4 percent and has slowly gone down ever since. At June 30, 2015 the rate was approximately 7.64 percent, 2.1 percent higher than the national average. A positive sign of recovery this year was the improving housing prices, which rose approximately 8% in average selling price over the year before.

The Klamath basin prides itself on its use of alternative energy sources. With the sun shining much of the year, the Klamath Basin has several solar facilities installed or in the works. Our geothermal heating system has been highlighted as one of the most impressive in the country. The sidewalks downtown have a geothermal snowmelt system installed and many of the downtown buildings are heated by geothermal energy.

The Klamath Falls area has been attempting to attract high-tech industries. Any success in that area would be tied directly to the presence of the Oregon Institute of Technology (OIT), located within the City of Klamath Falls. OIT offers computer science and engineering degrees so their graduates are sought around the country. Many technology companies are in competition to hire OIT graduates.

With the City's airport, access to fiber optic cable, major highway system, technical college, recreational opportunity and good quality of life, Klamath Falls is an attractive place to live.

The City and County, along with other stakeholders in the community continue to work diligently to try and attract new commercial and industrial businesses to Klamath Falls. We are looking forward to a Klamath Falls that is even stronger with a more diverse economy.

Long-term financial planning and major initiatives

The City of Klamath Falls guided by the City Manager looks at a 10 year sustainability model for the City. The initial model in 2014 determined that the City could not operate at status quo without resulting fund deficits 10 years out. Consequently, restructuring was initiated in several departments. With the retirement of the Finance Director and a removal of that position, the Support Services department was formed. In December 2014 it was determined that more changes would be required to remain sustainable. The Community Development department was dissolved and the divisions within that department were absorbed by Support Services, Public Works and the Police Department.

Council's Goals and Objectives include citizen safety, customer service, economic viability, integrity of infrastructure to ensure the City can meet long-term stability, and efficiency in delivery of services. It is up to staff to ensure the goals and objectives are met. In order to meet the goal of customer service and service efficiency, the City began a major Enterprise Resource Planning conversion in fiscal year 2014. When complete, this will allow citizens to pay their bills online, see the status of their permits, and reserve a park, in addition to many more online City services. Continued work to meet the goals and objectives show the commitment of Council and staff to provide a safe environment with a high quality of life for its citizens.

During fiscal year 2014 the Airport lost commercial air service and subsequently a new Director was hired in July 2015. The new director, John Baraslou will focus on airport tenant relations, economic development and the re-establishment of commercial air service. In July 2015, Penair announced they would bring air service back to Klamath Falls with two flights per day to Portland. At this time we are waiting a solution to the required airport screening before the service can be fully operational. TSA is unwilling to bring the full screening services back to Klamath Falls and is suggesting a solution of "forward screening" at the Portland International Airport. PenAir, the Port of Portland, and the City are working towards a solution. The Airport continues with the regulatory approval process for construction of Taxiway J and for the successful establishment of the Modoc Wetland Mitigation Site.

The lakefront urban renewal district has a development agreement with Timbermill Shores who laid the infrastructure for development of several commercial lots with plans to later construct some residential condominiums. The City paid off the outstanding debt associated with the project in August 2013 and Council approved a \$900,000 payment to the developer. The amount was borrowed from the Escrow Reserve fund and will be paid back with property tax increments over the next ten years. The City owes the developer an additional \$2.48 million for work done in prior years.

The town center urban renewal district has reached a development agreement with Argo Klamath Two, LLC., The district gave the developer \$300,000 that was borrowed from Washington Federal and will be paid back with property tax increments. Bealls was the first store added as part of the new development and Sportsman's Warehouse is soon to follow.

The downtown urban renewal district is slowly coming to an end. The district reached maximum indebtedness during fiscal year 2014 and no more taxes will be assessed or given to the district. Delinquent taxes associated with the district will be redistributed to the City and other taxing districts. The district has until fiscal year 2016 to complete projects and exhaust all funds and is working on two major projects. Any remaining funds must be given back to Klamath County for redistribution and the City will be responsible for incomplete projects. A feasibility study is underway for a possible new Urban Renewal Area. The study should conclude sometime in late February 2016

The Street division completed the grind and overlay of Oregon Avenue, between Upham Street and Siskiyou Street, Biehn Street, and between Oregon Avenue and Lake Port Boulevard. They also completed the chip seal of North Biehn Street and Campus Drive and the overlay of Hillside Avenue between Crater Lake Parkway to the end. The bigger issue still facing the Street division is the lack of funding and amount of deferred maintenance. .

The City's Parks department takes pride in maintaining our approximately 700 acres of parks, keeping them well groomed and beautiful. Since Klamath Falls has long winters, they also keep busy in the winter plowing the snow from City parking lots and sidewalks. The City is also responsible for the Ella Redkey Pool. This outdoor swimming pool is geothermally heated and open to the public year-round. The pool offers a variety of aquatic programming for children and adults, open swim and private pool rentals. The City receives grants for parks projects, including the Lake Ewauna Trail project.

The City is gearing up for a major overhaul to the front end of the wastewater treatment plant to replace facilities and equipment that are in excess of 50 years old. The nature of this work is complex in that there are several options for constructing the improvements and the existing plant must remain operational while construction moves forward. The City is proposing an alternative delivery process known as progressive design build. The first step is to secure the services of a consultant that will serve as the City's representative during the process and will assist the City in writing the RFQ and RFP for the progressive design build process. The City will have the owners representative on board during the 2015/16 fiscal year and will likely have a firm on board to start the design process as well. Over the past two years the City and South Suburban Sanitary District conducted a joint operations study that looked at the potential for operational and capital savings once we are confronted with the Total Maximum Daily Loads that will be associated with our new permit. The first phase of the study showed the potential for significant savings so the City and SSSD embarked on a second phase of the study that looked at governance options and the impact to rates for both entities. The second phase of the study is essentially complete and showed that there is a scenario that benefits both entities in regards to rates. It appears that it makes the most sense for each entity to retain control over its respective process. However, nothing further will likely be done until actually confronted with a notice from DEQ.

The City continues the project of upgrade our water meters and has completed approximately 2/3 of the radio read meter installations. These new meters increase the efficiency of meter reads

and provide access to the meters during snowy weather. A listing of capital projects can be found on page 38-39 of the MD&A.

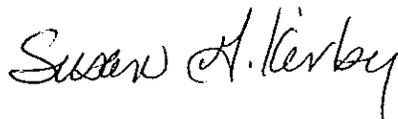
Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Klamath Falls for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2014. This was the twenty-third year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the skill, effort and dedication of the entire staff of the Finance department. We wish to thank all government departments for their assistance in providing the data necessary to prepare this report. Credit also is due to the Mayor and City Council for establishing policies in a fiscally responsible and progressive manner and to the City Manager for his leadership in developing strategies to achieve those goals.

Respectfully submitted,



Susan G. Kirby, Support Services Director

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

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Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

City of Klamath Falls
Oregon

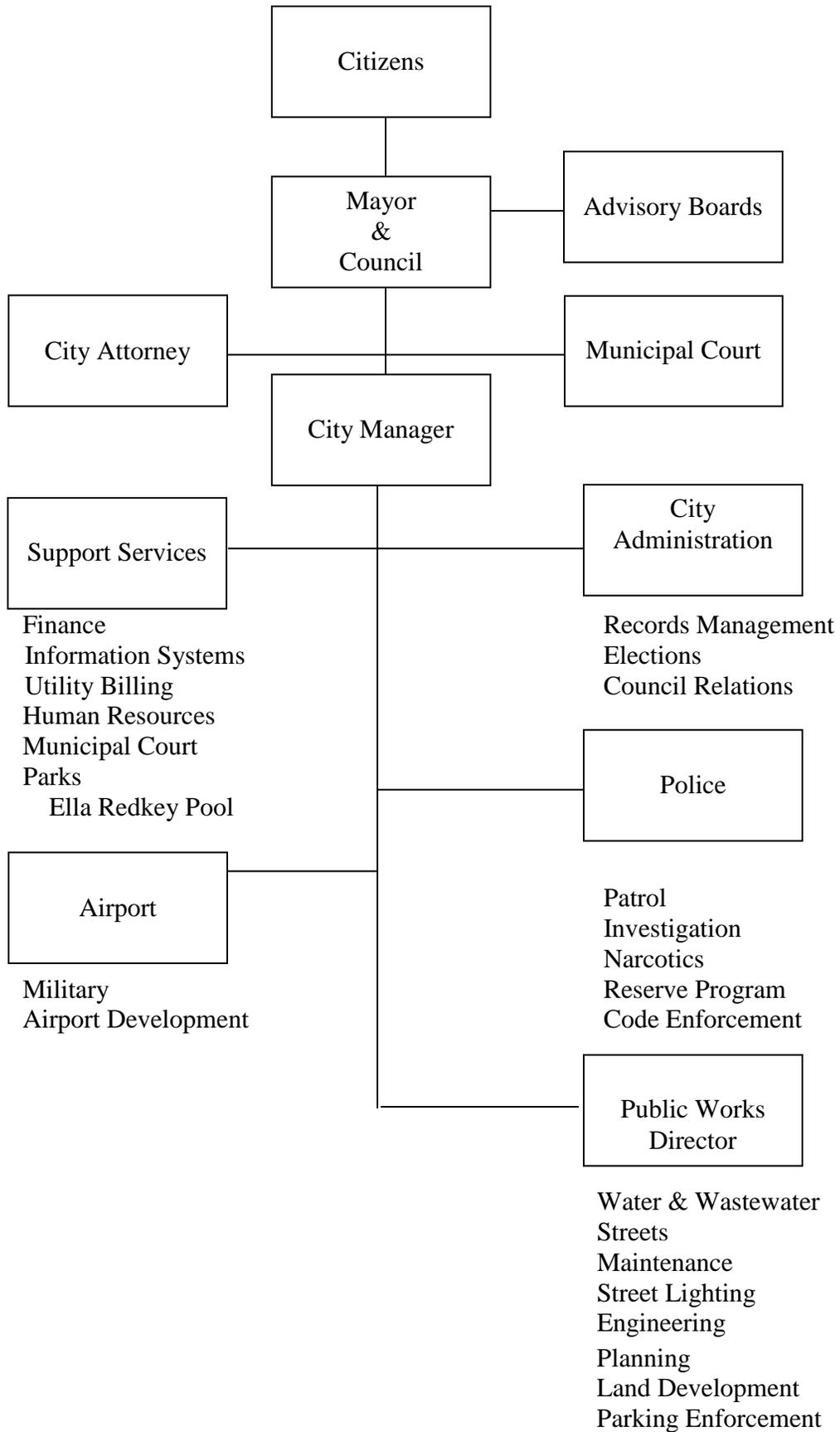
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

Executive Director/CEO

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CITY OF KLAMATH FALLS
ORGANIZATIONAL CHART



City of Klamath Falls
 Klamath County, Oregon
 General Information
 Listing of Principal City Officials and Staff
 June 30, 2015

		<u>Length of Service</u>
Mayor	Todd L. Kellstrom	22 yrs. 6 mos.
City Council Member	Irving "Bud" Hart	26 yrs. 6 mos.
City Council Member	William Adams	12 yrs. 6 mos.
City Council Member	Trish Seiler	14 yrs. 6 mos.
City Council Member	Dan Tofell	4 yrs. 6 mos.
City Council Member	Matt Dodson	2 yrs. 10 mos.

Appointed Officials

		<u>Time in Position</u>	<u>Length of Employment</u>
City Manager	Nathan Cherpeski	2 yrs. 5 mos.	2 yrs. 5 mos.
City Attorney	Joanna Lyons- Antley	5 yrs. 3 mos.	5 yrs. 3 mos.
Municipal Court Judge	Jim Uerlings	30 yrs. 9 mos.	30 yrs. 9 mos.

Appointed Directors

		<u>Time in Position</u>	<u>Length of Employment</u>
Airport Director	Open		
Support Services Director	Sue Kirby	2 yrs. 1 mos.	5 yrs. 8 mos.
Police Chief	David Henslee	3 mos.	3 mos.
Public Works Director	Mark Willrett	9 yrs. 3 mos.	16 yrs. 10 mos.
City Recorder	Elisa Olson	28 yrs. 9 mos.	29 yrs. 9 mos.

FINANCIAL SECTION

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**REPORT OF
INDEPENDENT AUDITORS**

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Klamath Falls, Oregon
Klamath Falls, Oregon

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 6 to the financial statements, the City adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to these matters.

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, schedule of funding progress post-employment health care plan, schedule of the proportionate share of the net pension liability, and schedule of contributions, as listed in the table of contents under required supplementary information, 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 budgetary comparison schedules, as listed in the table of contents under required supplementary information, are the responsibility of management and were 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, this 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 City's basic financial statements. The introductory section, other supplementary information, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information, as listed in the table of contents, is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. 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 and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Reports on Other Legal and Regulatory Requirements

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and

grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Other Reporting Required by Oregon Minimum Standards

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report dated December 14, 2015, on our consideration of the City's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

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

Merina & Company, LLP
West Linn, Oregon
December 14, 2015

MANAGEMENT DISCUSSION AND ANALYSIS

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Management's Discussion and Analysis

As management of the City of Klamath Falls (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal years ended June 30, 2015 and June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the introductory section of this report.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities at the close of the most recent fiscal year by \$203,540,161 (*net position*). Of this amount, \$33,246,034 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net position decreased by \$862,020 due to decreases in governmental activities and partially offset by increases in business type activities. Also see note 5 - changes in accounting principle that discusses the negative impact of the prior period adjustment.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$22,725,148, an increase of \$2,050,192 in comparison with the prior year. Approximately 10.3% of this amount (\$2,345,800) is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,246,947, or approximately 27% of total general fund expenditures.
- The City's total outstanding long-term debt decreased by \$2,614,424 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis provided here are intended to serve as an introduction to the 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) 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 City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets and liabilities, and deferred inflows/outflows of resources, 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 City is improving or deteriorating.

The statement of activities presents information showing how the City'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 and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, airport, culture and recreation, public safety, and highways and streets. The business-type activities of the City include wastewater, water and geothermal operations.

The government-wide financial statements include not only the City itself, (known as the *primary government*) but also three legally separate districts for which the City is financially accountable. The Klamath Falls Urban Renewal 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.

The government-wide financial statements can be found on the pages immediately following this Management's Discussion and Analysis in the Basic Financial Statements of the Financial Section.

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 City, 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 City can be divided into three categories: governmental funds, proprietary funds, and fiduciary 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 City maintains fifteen individual governmental funds (plus three funds for the Klamath Falls Urban Renewal Agency). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, airport fund, lakefront urban renewal fund and street fund, which are considered to be major funds. The airport fund accounts for the operation of the Crater Lake Klamath Regional Airport and receives property taxes, rental revenue, landing fees, and FAA grants. The lakefront urban renewal fund accounts for capital projects and receipts from the property tax increment for property located along the Timbermill Shores subdivision of Lake Ewauna. The street fund accounts for the operations, maintenance and repairs and capital improvements to the City's street system. Street fund revenues consist of motor fuel taxes, franchise fees and intergovernmental grants and revenues. In the Fiscal Year 2015-2016 budget,

the Street fund has been consolidated into the General Fund. The escrow reserve fund is a major capital project fund whose primary source of revenue is proceeds from the sale of the Cogeneration Plant that are held by a trustee in a 3rd party claims account. Expenditures include projects outside the scope of normal business approved by City Council. Data from the other fourteen governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

The City adopts an annual appropriated budget for all its funds. A budgetary comparison statement has been provided for the general fund, the airport fund, the lakefront urban renewal fund and the street fund in the required supplementary information. All other budgetary comparisons have been included in the other supplementary information to demonstrate compliance with this budget.

The basic governmental fund financial statements follow the government-wide financial statements in the financial section of this report.

Proprietary Funds

The City maintains one type of proprietary fund called an enterprise fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its wastewater, water and geothermal operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the wastewater and water funds, both of which are considered to be major funds of the City.

The basic proprietary fund financial statements follow the governmental fund statements in the financial section's basic financial statements.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are *not* reported in the government-wide financial statements because the resources of those funds *are not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City maintains one type of fiduciary fund called an *Agency fund*. The *Agency fund* reports resources held by the City in a custodial capacity for individuals, private organizations and other governments.

The fiduciary fund financial statements follow the proprietary fund statements.

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 at the end of the financial section's basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's major fund budgetary comparisons and

progress in funding its obligation to provide OPEB benefits to its employees. New this year are schedules A-6 & A-7 for pension liability and contributions. Required supplementary information statements A-1 through A-7 can be found in the financial section following the notes to the financial statements.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on major fund budgetary comparisons and information on OPEB. Combining and individual fund statements and schedules B-1 and B-2 can be found in the financial section's other supplementary information.

Other Supplementary Schedules – Other schedules C-1 through H-2 contain pertinent information that round out the financial section 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 City, assets exceeded liabilities by \$203,540,161, at the close of the most recent fiscal year.

City of Klamath Falls' Net Position

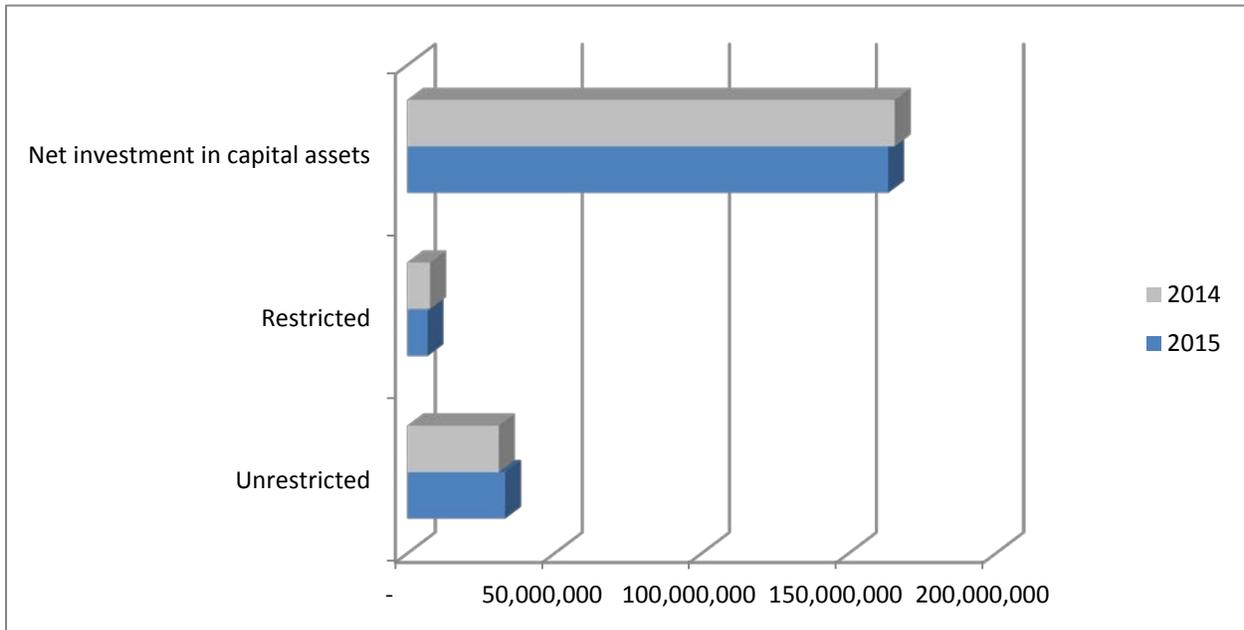
	Governmental activities		Business-type activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 24,722,609	\$ 22,642,840	\$ 21,328,414	\$ 20,742,922	\$ 46,051,023	\$ 43,385,762
Capital assets	118,333,464	122,835,889	63,846,465	62,544,812	182,179,929	185,380,701
Total assets	143,056,073	145,478,729	85,174,879	83,287,734	228,230,952	228,766,463
Deferred outflow of resources - pension related	541,266	-	94,435	-	635,701	-
Long-term liabilities outstanding	10,879,154	10,974,024	7,308,297	9,118,681	18,187,451	20,092,705
Other liabilities	1,727,262	1,587,763	1,958,959	2,683,814	3,686,221	4,271,577
Total liabilities	12,606,416	12,561,787	9,267,256	11,802,495	21,873,672	24,364,282
Deferred inflows of resources - pension related	2,939,897	-	512,923	-	3,452,820	-
Net position:						
Net investment in capital assets	107,962,108	113,684,484	55,458,635	51,934,040	163,420,743	165,618,524
Restricted	1,832,112	2,324,012	5,041,272	5,402,198	6,873,384	7,726,210
Unrestricted	18,256,806	16,908,446	14,989,228	14,149,001	33,246,034	31,057,447
Total net position	\$128,051,026	\$132,916,942	\$ 75,489,135	\$ 71,485,239	\$ 203,540,161	\$ 204,402,181

By far, the largest portion of the City's net position (80.0%) reflects its investment in capital assets (e.g., land, construction in progress, intangible assets, buildings and system, machinery and equipment, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide services to citizens. Accordingly, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City’s net position (3.4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$33,246,034 is unrestricted and may be used to meet the government’s ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all reported categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same held true for the prior fiscal year.

**City of Klamath Falls’ Net Position
June 30, 2014 and 2015**

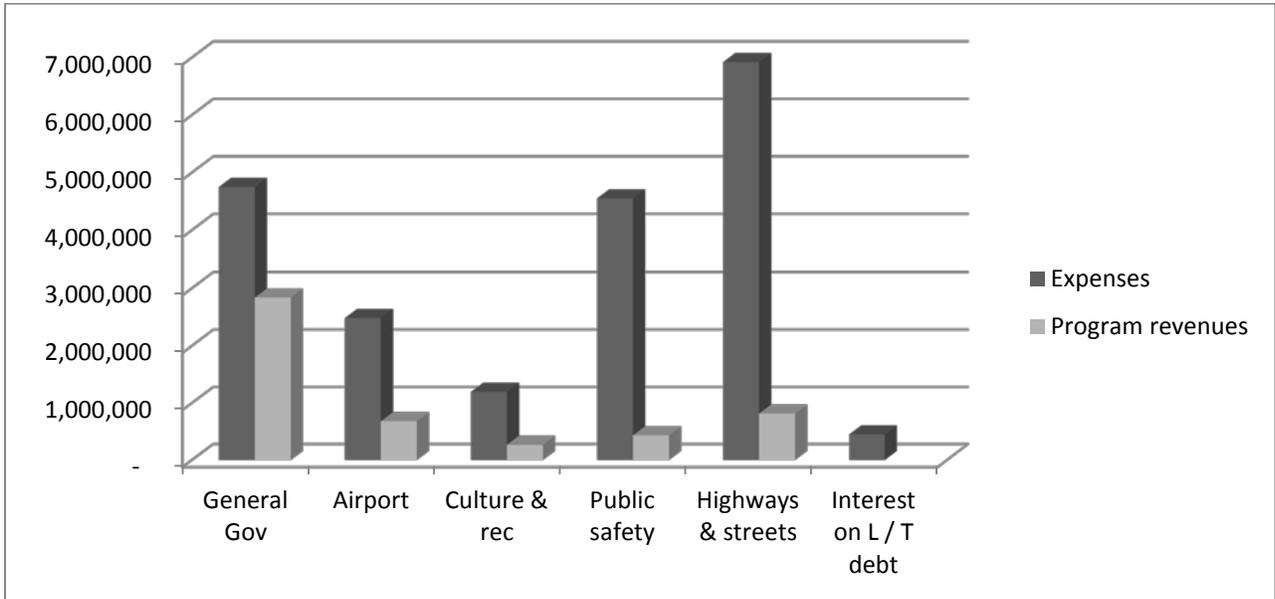


The City’s overall net position decreased \$862,020 from the prior fiscal year. The reasons for this overall decrease are discussed in the following sections for governmental activities and business-type activities.

Governmental Activities

During the current fiscal year, net position for governmental activities decreased by \$4,865,916. Of that amount \$2,873,466 was due to prior period adjustments and a restatement – see the notes to the financial statements for detailed information. The decrease due to current year activity was \$1,992,450. Property taxes, the City’s main governmental revenue source, continue to decline, while healthcare, PERS and other costs steadily increase. To combat rising costs, the City has restructured and eliminated director and other positions. By making these changes, the operating expenditures were over \$759,000 less than the prior year for governmental activities.

Expenses and Program Revenues Governmental Activities



Business-type activities

For the City’s business-type activities, the results for the current fiscal year were positive in that overall net position increased to reach an ending balance of \$75,489,135. The total increase in net position for business-type activities (wastewater and water funds) was \$4,003,893 or 5.6% from the prior fiscal year. A decrease of \$492,799 was due to a restatement due to the implementation of GASB 68 - see the notes to the financial statements for more information. The current year activity was an increase of \$4,496,692. Each year there is a rate increase in water and wastewater in accordance with a designated consumer price index (CPI). In addition, rates were raised several years ago in the wastewater fund in anticipation of building a treatment plant and complying with environmental regulations. This allows a fairly predictable \$1.5 million increase to net position annually. Water rates were also designed to keep up with capital maintenance and allow for an increase of approximately \$2.2 - \$2.5 million annually.

City of Klamath Falls' Changes in Net Position

	Governmental activities		Business-type activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues						
Charges for services	\$ 4,101,893	\$ 1,955,703	\$ 14,721,249	\$ 13,959,418	\$ 18,823,142	\$ 15,915,121
Operating grants & contributions	108,891	117,860	-	-	108,891	117,860
Capital grants & contributions	831,469	2,236,523	339,176	864,767	1,170,645	3,101,290
General revenues:					-	-
Property taxes	6,999,271	6,801,445	-	-	6,999,271	6,801,445
Other taxes	5,778,900	4,546,374	-	-	5,778,900	4,546,374
Other	265,114	311,487	142,631	104,507	407,745	415,994
Total revenues	18,085,538	15,969,392	15,203,056	14,928,692	33,288,594	30,898,084
Expenses:						
General government	4,750,011	1,117,501	-	-	4,750,011	1,117,501
Airport	2,483,308	2,979,505	-	-	2,483,308	2,979,505
Culture & recreation	1,198,095	1,429,718	-	-	1,198,095	1,429,718
Public safety	4,551,499	6,392,398	-	-	4,551,499	6,392,398
Highways & streets	6,920,863	5,376,296	-	-	6,920,863	5,376,296
Interest on long-term debt	450,287	409,176	-	-	450,287	409,176
Wastewater	-	-	4,893,634	5,045,680	4,893,634	5,045,680
Water	-	-	5,536,655	5,682,323	5,536,655	5,682,323
Total expenses	20,354,063	17,704,594	10,430,289	10,728,003	30,784,352	28,432,597
Increase (decrease) in net position before transfers & other sources	(2,268,525)	(1,735,202)	4,772,767	4,200,689	2,504,242	2,465,487
Special & extraordinary items	-	-	-	-	-	-
Transfers	276,075	385,189	(276,075)	(385,189)	-	-
Increase (decrease) in net	(1,992,450)	(1,350,013)	4,496,692	3,815,500	2,504,242	2,465,487
Net position - beginning	132,916,942	135,134,219	71,485,242	67,945,404	204,402,184	203,079,623
Restatement	(2,873,466)	(867,264)	(492,799)	(275,665)	(3,366,265)	(1,142,929)
Net position - ending	\$ 128,051,026	\$ 132,916,942	\$ 75,489,135	\$ 71,485,239	\$ 203,540,161	\$ 204,402,181

Financial Analysis of the Government's Funds

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

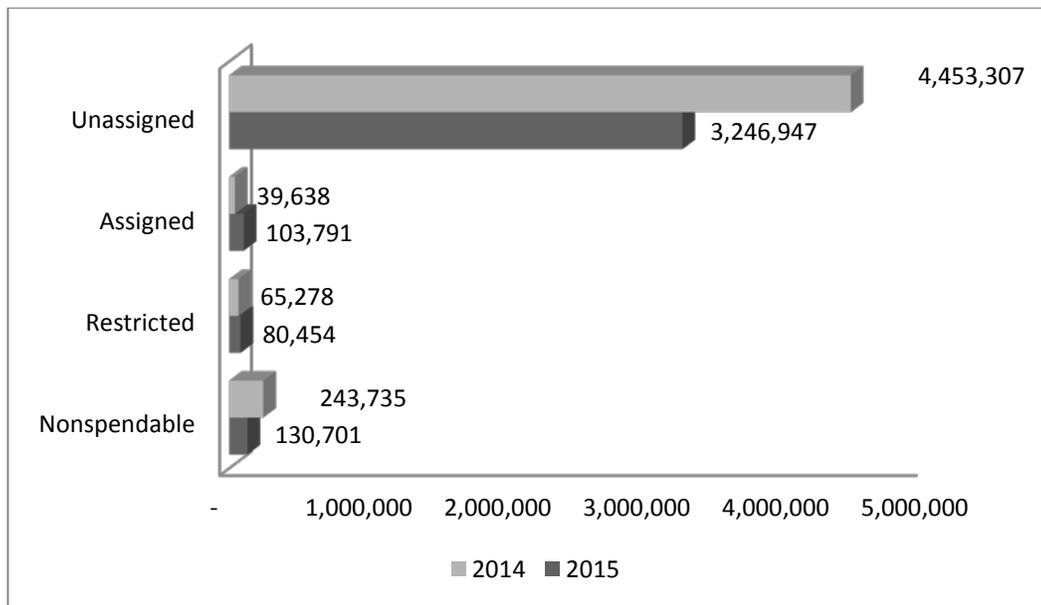
Governmental funds

The focus of the City's *governmental funds* is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party,

the City itself, or a group or individual that has been delegated authority to assign resources for particular purposes by the City’s Council.

At June 30, 2015, the City’s governmental funds reported combined fund balances of 22,725,148, an increase of \$2,050,192 in comparison with the prior year. Approximately 10.3% of this amount (\$2,345,800) constitutes *unassigned fund balance*, which is available for spending at the government’s discretion. The remainder of the fund balance is either nonspendable, restricted or assigned to indicate that it is 1) not in spendable form (\$256,008), 2) legally required to be maintained intact or restricted for particular purposes (\$1,776,761), 3) or assigned for particular purposes (\$18,346,579).

**General Fund - Components of Fund Balance
June 30, 2014 and 2015**

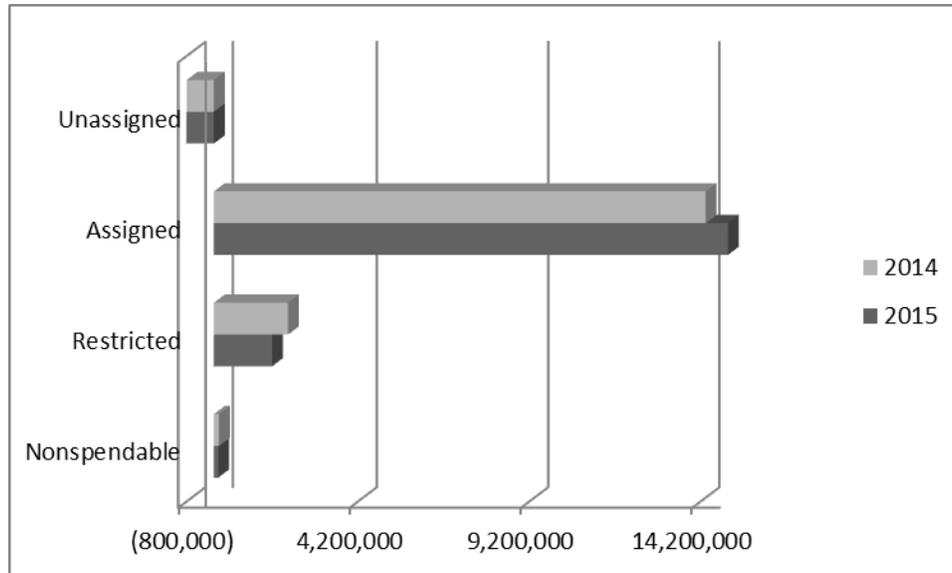


The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$3,246,947, while total fund balance decreased to \$3,561,893. As a measure of the general fund’s liquidity, it may be useful to compare both unassigned fund balance and fund balance to total general fund expenditures. Unassigned fund balance represents approximately 32% of total general fund expenditures, while total fund balance represents approximately 35% of that same amount. The City’s fund balance policies are located in Note 1.13.

The fund balance of the City’s general fund decreased by \$1,240,065 during the current fiscal year. Expenditures and other financing uses were \$1,300,455 higher in the current year compared to the prior year, and revenues and other financing sources were down \$388,217 primarily due to a property sale and a transfer in from the Cemetery Fund which occurred in the last fiscal year. Property taxes, the general fund’s primary revenue source, increased by \$633,059. Overall property taxes were up by \$197,826. Much of that increase would be from the ending of the Downtown Urban Renewal Area. The increase in property taxes in the general fund was largely due to a reallocation of the revenue between funds. Charges for services (comprised of administrative, maintenance & engineering charges) were down \$808,637 due to no longer charging police and certain other administrative charges. Overall revenues exceeded expenditures by \$824,766 before transfers and a property sale. Transfers out included a transfer out to the

Building Reserve Fund in the amount of \$2,000,000 for future building improvements for the City Hall and \$60,000 to the technology services fund to help pay for the implementation of a new ERP system beginning in FY 2015.

**Other Governmental Funds - Components of Fund Balance
June 30, 2014 and 2015**



The airport fund, a major fund, had an increase in fund balance of \$130,593. The City reduced the percentage of property taxes allocated to the airport fund and it received \$105,997 less in the current fiscal year. To supplement the airport, the City Council adopted a resolution to transfer in a portion of water receipts (from customers who live outside the City) as a way to fund their use of the airport (which is fully funded by the City). The fund received a transfer in of \$215,290 from the water fund in the current year. Overall revenues and transfers in decreased \$712,565 (with a significant decrease in intergovernmental revenue) and the expenditures also decreased \$913,469. The majority of these changes result from capital project timing.

The lakefront urban renewal district became a major fund in FY 2014 due to a \$900,000 increase in capital outlay as a final loan payment made in FY 2014 allowed the City the ability to pay the developer for previous development. The fund borrowed \$900,000 from the escrow reserve fund in order to make the payment possible.

The street fund, another major fund, had an increase in fund balance of \$1,246,230. Overall revenue and transfers in was up \$1,394,453 over the prior year (mainly from intergovernmental receipts including gas tax from the State of Oregon and other grant sources). Expenditures were \$564,829 higher in the current year as more capital projects were completed. The Street fund was merged into the General Fund for FY 2016.

The final major governmental fund, the escrow reserve fund, had an increase in fund balance of \$218,067. The fund receives an annual transfer in from the cogeneration fund from the sale of the cogeneration plant (held in 3rd party escrow). The fund made a \$425,000 interfund loan to the Technology reserve fund for the purchase of a new ERP system. The City will receive the final distribution in 2017.

Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The wastewater and water funds are both major funds.

Unrestricted net position of the wastewater fund at the end of the year was \$7,724,478. The fund received a rate increase of 4% plus a 1.7% CPI increase. Operating expenses were down \$129,426. Total growth in net position was \$1,896,535 prior to the (\$180,330) restatement due to implementation of GASB 65. The fund is preparing for extensive renovations to the wastewater treatment plant.

Unrestricted net position of the water fund was \$7,264,750. The water fund also had a 1.7% rate increase in line with the CPI. Water charges brought in \$456,033 more in the current year compared to the FY2014 which was lower than FY2013. Geothermal charges brought in \$30,612 less than in the prior year as the winter was warmer. Operating expenses were \$106,692 less in the current year. The total growth in net position was \$2,600,157 prior to the (\$312,469) restatement due to implementation of GASB 65.

General Fund Budgetary Highlights

Original budget compared to final budget

During the year there was an \$80,150 net increase in appropriations between the original and final amended budget. Expenditures in 5 divisions increased (ranging from \$3,750 - \$47,900) and 3 divisions decreased (ranging from \$1,800 to \$29,825). There was an increase in budgeted miscellaneous revenue due to a worker's compensation dividend from SAIF Corporation in the amount of \$45,150.

*Final budget compared to actual results (revenue variances and departmental expenditure variances of at least \$100,000 **and** 10% or more are discussed below):*

Revenues: There were two significant differences between estimated and actual revenue for fiscal year 2015. The City budgeted to receive \$2,781,650 in intergovernmental revenue, but actually received \$2,668,758 for a difference of \$112,892. The City also saw an additional \$109,599 in property tax beyond that originally budgeted. Much of this is from the return of monies previously captured by the Downtown Urban Renewal area.

Expenditures: The only significant variances between estimated expenditures and actual expenditures occurred in planning, public works engineering, Code Enforcement, Legislative, and the other general fund program department. Planning's expenditures were \$39,366 less than anticipated, or just over 10% due to staffing changes made mid-year and a delay to the completion of the Community Development Ordinance. Public Works Engineering was \$147,937 below budgeted expenses due to a continued vacancy in the City Engineer position. Code enforcement's expenditures were \$35,765 less than budgeted as the department continued to make efforts for residents to clean up their properties prior to the City abating the property and the zero costs for snow removal due to the minimal snow fall. Police were \$438,814 less than budgeted due to several position vacancies and lower fuel costs. Legislative expenditures were \$25,528 less than budgeted as the citizen survey was accomplished for significantly less than originally anticipated. Other General Fund programs materials and services was \$43,272 below budgeted expenditures due to a project completing at the end of FY 2014 when it had been anticipated it would be completed in FY 2015. Other General Fund Programs capital outlay was \$20,153 less than anticipated mainly due to a capital purchase being deferred to a future year.

Capital Asset and Debt Administration

Capital assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2015, amounts to \$180,425,393 (net of accumulated depreciation). This investment in capital assets includes land, intangible assets, construction in progress, buildings and system, machinery and equipment and infrastructure. The total decrease in capital assets after disposals and depreciation for the current fiscal year was approximately 2.7%.

City of Klamath Falls' Capital Assets (net of depreciation)

	Governmental activities		Business-type activities		Total	
	2015	2014	2015	2014	2014	2013
Land	\$ 13,663,352	\$ 13,465,701	\$ 1,559,094	\$ 1,545,876	\$ 15,222,446	\$ 15,011,577
Intangible assets	536,842	757,384	167,492	167,492	704,334	924,876
Construction in progress	328,287	2,983,377	326,691	200,456	654,978	3,183,833
Buildings & system	13,142,544	13,484,724	3,643,833	3,780,265	16,786,377	17,264,989
Machinery & equipment	3,336,401	2,999,275	6,735,348	6,889,545	10,071,749	9,888,820
Infrastructure	85,832,142	89,145,428	51,153,367	49,961,178	136,985,509	139,106,606
Total	\$ 116,839,568	\$ 122,835,889	\$ 63,585,825	\$ 62,544,812	\$ 180,425,393	\$ 185,380,701

Major capital asset events during the fiscal year 2014-2015 included the following:

- Various street projects around the City in the amount of \$1,230,962
- Police vehicles and equipment in the amount of \$203,127
- Parks equipment and other improvements in the amount of \$152,894
- Airport vehicles and equipment in the amount of \$136,141
- Airport runway improvements in the amount of \$149,494
- Parking lots at 200 Main St. and 1100 Main St. in the amount of \$244,019
- Street lighting upgrades in the amount of \$211,710
- Enterprise Resource Planning (ERP) system in the amount \$250,194
- Oregon Ave. and Biehn St. sanitary sewer improvement in the amount of \$330,137
- Water meter replacements in the amount of \$410,517
- Water main replacement on Delta street in the amount of \$176,388
- Water main replacement on Laverne avenue in the amount of \$612,419

Additional information on the City's capital assets can be found in Note 3-D in the financial section's notes to the financial statements.

Long-term debt

At the end of the current fiscal year, the City had outstanding debt totaling \$18,663,691. Of this amount, \$7,574,235 is bonded debt secured by revenue from the City's applicable funds, \$4,024,150 is general obligation bonded debt that will be paid from ad valorem taxes levied on all taxable property within the city boundaries, and \$3,036,526 is full faith and credit bonds that the City has pledged all general unrestricted revenues to repay. There is a \$1,087,262 loan for economic growth that is secured by the revenues derived from that growth and another \$692,954 are loans and leases for acquisition of capital assets which are secured by the revenues of the applicable funds owning those assets.

City of Klamath Falls' Outstanding Debt (net of unamortized discounts)

	Governmental activities		Business-type activities		Total	
	2015	2014	2015	2014	2015	2014
Leases/loans payable	\$ 3,335,826	\$ 3,184,068	\$ 692,954	\$ 1,462,795	\$ 4,028,780	\$ 4,646,863
General obligation bonds	4,024,150	4,025,204	-	-	4,024,150	4,025,204
Full faith and credit bond	3,036,526	3,188,072	-	-	3,036,526	3,188,072
Revenue bonds	140,000	270,000	7,434,235	9,147,976	7,574,235	9,417,976
Total	\$ 10,536,502	\$ 10,667,344	\$ 8,127,189	\$ 10,610,771	\$ 18,663,691	\$ 21,278,115

The City's total debt decreased \$2,614,424 or 12.3% during the current fiscal year. The City issued \$1,417,262 additional governmental debt (see note K.) and repaid \$1,548,105 (includes short-term and long-term debt). The City repaid \$2,483,582 in business-type debt. The City paid the 2001 Water Revenue Refunding Bond late as the invoice received by the City asked for interest only (due in June 2014). Once the City realized the mistake, the payment was made in August of 2014. Proper individuals and agencies were notified of the error. See the notes to the financial statements for more information.

Standard & Poor's rated the City of Klamath Falls general obligation bonds AA- with a stable outlook (rated A+ in prior year). The following bond ratings are based on the insurer of the bonds: Water Revenue Refunding Bonds, Series 2001 are rated AA with a stable outlook (rated AA- in prior year), the Full Faith and Credit Bonds, Series 2008 are rated AA- with a stable outlook (rated A+ in prior year) and the Airport Revenue Bonds, Series 1996 are rated AA with a stable outlook (rated AA- in the prior year). Finally, the Wastewater Revenue Refunding Bonds, Series 2005 are not rated.

State statutes limit the amount of general obligation debt a government entity may issue to 3% of its total assessed valuation. The current debt limitation for the City is approximately \$40,105,000 which is significantly in excess of the City's outstanding general obligation debt of \$4,024,150.

Additional information on the City's long-term debt can be found in Note 3-J in the financial section's notes to the financial statements.

Economic Factors and Next Year's Rates

The following economic factors currently affect the City of Klamath Falls and were considered in developing the 2015-2016 fiscal year budget.

- The unemployment rate for Klamath County at June 30, 2015 was 7.6% which is a decrease from a rate of 9.7% a year ago as our economy is slowly picking up. Although there have been five straight years of decline in unemployment, the rate is still significantly higher than the national average of 5.3% as of June 30, 2015.
- On February 1, 2015, sewer and water rates increased by 1.7% as well as a 4% increase in sewer rates due to current and future expenditure increases with additional state and federal water quality mandates and a sewer infrastructure in need of repair. Sewer rates will increase by 2% plus CPI in 2016 and 2017.
- The City continues to invest \$6,500,000 in unallocated funds in riskier yet higher yielding investments in FY 2015. Veteran's Memorial fund also elected to invest \$100,000.

- The Teamsters union agreed to a three year contract with no significant changes. The contract included a COLA of 1.7% for year 1 and future COLA's of 0% to 3% based on CPI. The contract will expire on June 30, 2018.
- The AFSCME union did not initiate bargaining in 2015. The automatic extension expires June 30, 2016.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government'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.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT WIDE FINANCIAL STATEMENTS

CITY OF KLAMATH FALLS, OREGON
STATEMENT OF NET POSITION
June 30, 2015

ASSETS	Governmental Activities	Business-Type Activities	Total
Current Assets:			
Cash and cash equivalents	\$ 17,933,743	\$ 8,965,530	\$ 26,899,273
Investments	-	125,021	125,021
Accounts receivable (net of uncollectables)	1,092,615	2,373,784	3,466,399
Taxes receivable	815,796	-	815,796
Loans receivable	220,420	3,152	223,572
Interest receivable	33,331	21,258	54,589
Inventories	36,797	277,814	314,611
Prepaid items	219,211	55,763	274,974
Temporarily restricted assets			
Cash and cash equivalents	1,095,219	5,041,272	6,136,491
Investments	192,683	-	192,683
Loans receivable	4,820	-	4,820
Interest receivable	-	-	-
Total Current Assets	21,644,635	16,863,594	38,508,229
Noncurrent Assets:			
Investments	2,570,201	4,425,948	6,996,149
Prepaid bond insurance	9,827	38,872	48,699
Temporarily restricted assets			
Investments	497,946	-	497,946
Capital assets not being depreciated			
Land	13,663,352	1,559,094	15,222,446
Intangible assets	37,420	167,492	204,912
Construction in progress	328,287	326,691	654,978
Capital assets (net of accumulated depreciation)			
Buildings and system	13,142,544	3,643,833	16,786,377
Intangible assets	499,422	-	499,422
Machinery, equipment and vehicles	3,336,401	6,735,348	10,071,749
Infrastructure	85,832,142	51,153,367	136,985,509
Net pension asset	1,493,896	260,640	1,754,536
Total Noncurrent Assets	121,411,438	68,311,285	189,722,723
Total Assets	143,056,073	85,174,879	228,230,952
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflow of resources - pension related	541,266	94,435	635,701
Total Deferred Outflows of Resources	\$ 541,266	\$ 94,435	\$ 635,701

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

LIABILITIES	Governmental Activities	Business-Type Activities	Total
Current Liabilities (payable from unrestricted assets):			
Accounts payable	\$ 637,221	\$ 353,978	\$ 991,199
Retainage payable	22,315	-	22,315
Accrued interest payable	28,137	-	28,137
Compensated Absences	417,128	109,758	526,886
Customer deposits	113,319	261,468	374,787
Unearned revenues	79,955	95,363	175,318
Leases / loans payable	124,187	-	124,187
Bonds payable	165,000	-	165,000
Current Liabilities (payable from restricted assets):			
Accrued interest payable	-	39,865	39,865
Leases / loans payable	-	35,870	35,870
Bonds payable	140,000	1,062,657	1,202,657
Total Current Liabilities	<u>1,727,262</u>	<u>1,958,959</u>	<u>3,686,221</u>
Noncurrent Liabilities:			
Compensated absences	417,127	109,757	526,884
Leases / Loans / Contracts payable	3,211,639	657,084	3,868,723
Bonds payable (net of unamortized discounts and premiums)	6,895,676	6,371,579	13,267,255
Post employment benefits	354,712	169,877	524,589
Total Noncurrent Liabilities	<u>10,879,154</u>	<u>7,308,297</u>	<u>18,187,451</u>
Total Liabilities	<u>12,606,416</u>	<u>9,267,256</u>	<u>21,873,672</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - pension related	<u>2,939,897</u>	<u>512,923</u>	<u>3,452,820</u>
NET POSITION			
Net investment in capital assets	107,962,108	55,458,635	163,420,743
Restricted for:			
Community loans	-	139,103	139,103
Outside Legal Authority	802,132	-	802,132
System development	28,934	179,316	208,250
Capital outlay	89,548	-	89,548
Debt service	204,881	1,673,402	1,878,283
Environmental	-	3,049,451	3,049,451
Outside Third Party Claims	706,617	-	706,617
Unrestricted	<u>18,256,806</u>	<u>14,989,228</u>	<u>33,246,034</u>
Total Net Position	<u>\$ 128,051,026</u>	<u>\$ 75,489,135</u>	<u>\$ 203,540,161</u>

CITY OF KLAMATH FALLS, OREGON
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government	\$ 4,750,011	\$ 2,837,399	\$ 1,776	\$ -
Airport	2,483,308	524,083	71,770	86,335
Culture and recreation	1,198,095	184,357	15,323	69,707
Public safety	4,551,499	404,376	20,022	11,478
Highways and streets	6,920,863	151,678	-	663,949
Interest on long-term debt	450,287	-	-	-
Total Government Activities	20,354,063	4,101,893	108,891	831,469
Business-Type Activities:				
Wastewater	4,893,634	7,018,141	-	178,042
Water	5,536,655	7,703,108	-	161,134
Total Business-Type Activities	10,430,289	14,721,249	-	339,176
Total	\$ 30,784,352	\$ 18,823,142	\$ 108,891	\$ 1,170,645

General Revenues:

- Property taxes
- Franchise taxes
- Motor fuel taxes
- Alcoholic beverage taxes
- Cigarette taxes
- Transient room taxes
- State revenue sharing
- Federal forest receipts
- Unrestricted investment earnings
- Gain on sale of capital assets
- Insurance recoveries
- Transfer of capital asset
- Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning

Restatement and prior period adjustments

Net Position - Beginning as restated/adjusted

Net Position - Ending

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

Net (Expense) Revenue and Changes in Net Position

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (1,910,836)	\$ -	\$ (1,910,836)
(1,801,120)	-	(1,801,120)
(928,708)	-	(928,708)
(4,115,623)	-	(4,115,623)
(6,105,236)	-	(6,105,236)
(450,287)	-	(450,287)
<u>(15,311,810)</u>	<u>-</u>	<u>(15,311,810)</u>
-	2,302,549	2,302,549
-	<u>2,327,587</u>	<u>2,327,587</u>
-	4,630,136	4,630,136
<u>(15,311,810)</u>	<u>4,630,136</u>	<u>(10,681,674)</u>
6,999,271	-	6,999,271
2,400,513	-	2,400,513
1,229,155	-	1,229,155
309,693	-	309,693
28,698	-	28,698
507,012	-	507,012
199,962	-	199,962
1,103,867	-	1,103,867
247,792	142,631	390,423
2,199	-	2,199
15,123	-	15,123
(1,293,837)	1,293,837	-
<u>1,569,912</u>	<u>(1,569,912)</u>	<u>-</u>
<u>13,319,360</u>	<u>(133,444)</u>	<u>13,185,916</u>
(1,992,450)	4,496,692	2,504,242
132,916,942	71,485,242	204,402,184
<u>(2,873,466)</u>	<u>(492,799)</u>	<u>(3,366,265)</u>
<u>130,043,476</u>	<u>70,992,443</u>	<u>201,035,919</u>
<u>\$ 128,051,026</u>	<u>\$ 75,489,135</u>	<u>\$ 203,540,161</u>

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FUND FINANCIAL STATEMENTS

CITY OF KLAMATH FALLS, OREGON
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015

	General Fund	Airport Fund	Lakefront Urban Renewal Fund	Street Fund	Escrow Reserve Fund	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and cash equivalents	\$ 1,144,987	\$ 1,279,327	\$ -	\$ 3,870,709	\$ 5,774,865	\$ 5,863,855	\$ 17,933,743
Accounts receivable	511,203	217,251	-	200,645	-	163,516	1,092,615
Taxes receivable	637,795	38,823	12,777	-	-	126,401	815,796
Loans receivable	220,420	-	-	-	-	-	220,420
Interest receivable	26,199	1,457	322	1,970	-	3,383	33,331
Advances to other funds	-	-	-	-	1,415,605	-	1,415,605
Inventories	-	-	-	5,218	-	31,579	36,797
Prepaid items	130,701	4,574	-	67,614	-	16,322	219,211
Temporarily restricted assets							
Cash and cash equivalents	80,454	158,623	1,314	9,530	-	845,298	1,095,219
Investments	-	-	-	-	-	192,683	192,683
Interest receivable	-	-	-	-	-	4,820	4,820
Long-term assets							
Investments	2,059,093	-	-	511,108	-	-	2,570,201
Temporarily restricted investments	-	-	-	-	-	497,946	497,946
Total Assets	\$ 4,810,852	\$ 1,700,055	\$ 14,413	\$ 4,666,794	\$ 7,190,470	\$ 7,745,803	\$ 26,128,387
LIABILITIES							
Liabilities:							
Accounts payable	\$ 220,461	\$ 168,332	\$ -	\$ 90,041	\$ -	\$ 138,572	\$ 617,406
Retainage payable	-	22,315	-	-	-	-	22,315
Advances from other funds	-	275,000	730,790	-	-	409,815	1,415,605
Deposits payable	96,759	13,030	-	-	-	3,530	113,319
Unearned revenue	30,250	17,214	-	-	-	32,491	79,955
Total Liabilities	347,470	495,891	730,790	90,041	-	584,408	2,248,600
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue - property taxes	492,511	27,737	10,146	-	-	95,848	626,242
Unavailable revenue - transient room tax	-	-	-	-	-	48,916	48,916
Unavailable revenue - downtown maint. district fees	-	-	-	-	-	1,161	1,161
Unavailable revenue - loans receivable	220,420	-	-	-	-	-	220,420
Unavailable revenue - accounts receivable	-	51,721	-	-	-	2,314	54,035
Unavailable revenue - municipal court fines	173,250	-	-	-	-	-	173,250
Unavailable revenue - parking fines	-	-	-	-	-	15,307	15,307
Unavailable revenue - code enforcement fines	15,308	-	-	-	-	-	15,308
Total Deferred Inflows of Resources	901,489	79,458	10,146	-	-	163,546	1,154,639
Total Liabilities and Deferred Inflows of Resources	1,248,959	575,349	740,936	90,041	-	747,954	3,403,239
FUND BALANCES (DEFICITS)							
Nonspendable	130,701	4,574	-	72,832	-	47,901	256,008
Restricted	80,454	158,623	-	9,530	-	1,528,154	1,776,761
Assigned	103,791	961,509	-	4,494,391	7,190,470	5,596,418	18,346,579
Unassigned	3,246,947	-	(726,523)	-	-	(174,624)	2,345,800
Total Fund Balances	3,561,893	1,124,706	(726,523)	4,576,753	7,190,470	6,997,849	22,725,148
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 4,810,852	\$ 1,700,055	\$ 14,413	\$ 4,666,794	\$ 7,190,470	\$ 7,745,803	

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. 116,839,568

Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as deferred inflows of resources in the funds. 1,154,639

Pension related asset and deferred outflows and inflows of resources. (904,735)

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore not reported in the funds. In addition, governmental funds report the effect of prepaid insurance when debt is first issued, whereas these amounts are amortized and shown net of the amortization in the statement of net position.

(11,763,594)

\$ 128,051,026

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

CITY OF KLAMATH FALLS, OREGON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

	General Fund	Airport Fund	Lakefront Urban Renewal Fund	Street Fund	Escrow Reserve Fund	Other Governmental Funds	Total Governmental Funds
Revenues							
Taxes	\$ 5,494,574	\$ 338,283	\$ 105,980	\$ -	\$ -	\$ 1,093,653	\$ 7,032,490
Intergovernmental	555,259	538,363	-	2,435,400	-	214,216	3,743,238
Licenses, fees and permits	137,648	-	-	-	-	40,851	178,499
Franchise fees	1,466,238	-	-	635,530	-	298,745	2,400,513
Charges for services	68,395	524,083	-	4,702	-	485,873	1,083,053
Internal charges for services	2,668,758	-	-	268,004	-	-	2,936,762
Fines and forfeits	404,326	-	-	-	-	55,825	460,151
Investment income	86,716	11,614	1,297	16,175	84,568	47,422	247,792
Miscellaneous revenues	76,577	9,938	-	22,212	-	37,792	146,519
System development charges	-	-	-	2,722	-	-	2,722
Total Revenues	10,958,491	1,422,281	107,277	3,384,745	84,568	2,274,377	18,231,739
Expenditures							
Current:							
General government	4,332,225	-	6,720	-	-	567,706	4,906,651
Airport	-	1,055,989	-	-	-	-	1,055,989
Culture and recreation	-	-	-	-	-	1,167,304	1,167,304
Public safety	5,243,094	-	-	-	-	-	5,243,094
Highways and streets	-	-	-	1,628,970	-	356,734	1,985,704
Debt service:							
Principal	150,000	130,000	-	-	-	1,265,504	1,545,504
Interest	135,882	28,725	30,375	-	-	277,737	472,719
Capital outlay:							
General government	69,397	-	-	-	-	597,172	666,569
Airport	-	294,464	-	-	-	-	294,464
Culture and recreation	-	-	-	-	-	152,894	152,894
Public safety	203,127	-	-	-	-	-	203,127
Highways and streets	-	-	-	1,298,497	-	213,183	1,511,680
Total Expenditures	10,133,725	1,509,178	37,095	2,927,467	-	4,598,234	19,205,699
Excess (Deficiency) of Revenues Over (Under) Expenditures	824,766	(86,897)	70,182	457,278	84,568	(2,323,857)	(973,960)
Other Financing Sources (Uses)							
Proceeds from sale of asset	-	2,200	-	-	-	68,571	70,771
Transfers in	-	215,290	-	784,545	133,499	2,644,032	3,777,366
Transfers out	(2,073,955)	-	-	-	-	(133,499)	(2,207,454)
Issuance of debt	-	-	-	-	-	1,417,262	1,417,262
Insurance recoveries	9,124	-	-	4,407	-	1,592	15,123
Total Other Financing Sources (Uses)	(2,064,831)	217,490	-	788,952	133,499	3,997,958	3,073,068
Net Change in Fund Balances	(1,240,065)	130,593	70,182	1,246,230	218,067	1,674,101	2,099,108
Fund Balance - Beginning	4,801,958	994,113	(796,705)	3,330,523	6,972,403	5,372,664	20,674,956
Prior Period Adjustment	-	-	-	-	-	(48,916)	(48,916)
Fund Balance - Beginning (Adjusted)	4,801,958	994,113	(796,705)	3,330,523	6,972,403	5,323,748	20,626,040
Fund Balance - Ending	\$ 3,561,893	\$ 1,124,706	\$ (726,523)	\$ 4,576,753	\$ 7,190,470	\$ 6,997,849	\$ 22,725,148

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

CITY OF KLAMATH FALLS, OREGON
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, 2015

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$	2,099,108
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 depreciation expense exceeded capital outlay in the current period.		(4,967,059)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to decrease net position.		(1,029,262)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		26,133
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 position. Also, governmental funds report the effect of 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.		2,049,951
The net effect of various pension related transactions		
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.		<u>(171,321)</u>
 Change in net position of governmental activities	 \$	 <u><u>(1,992,450)</u></u>

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

PROPRIETARY FUNDS

CITY OF KLAMATH FALLS, OREGON
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2015

	Business-Type Activities - Enterprise Funds		
	Wastewater	Water	Totals
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 7,123,723	\$ 1,841,807	\$ 8,965,530
Investments	-	125,021	125,021
Accounts receivable (net of uncollectables)	952,358	1,421,426	2,373,784
Loans receivable	-	3,152	3,152
Interest receivable	-	21,258	21,258
Inventories	29,661	248,153	277,814
Prepaid items	20,986	34,777	55,763
Temporarily restricted assets			
Cash and cash equivalents	4,147,420	893,852	5,041,272
Total Current Assets	12,274,148	4,589,446	16,863,594
Long-term Assets:			
Investments		4,425,948	4,425,948
Prepaid bond insurance	37,369	1,503	38,872
Capital assets (net of accumulated depreciation)			
Land	1,322,899	236,195	1,559,094
Intangible assets	39,136	128,356	167,492
Construction in progress	223,600	103,091	326,691
Buildings and system	2,675,520	968,313	3,643,833
Machinery and equipment	3,742,541	2,992,807	6,735,348
Infrastructure	21,814,458	29,338,909	51,153,367
Net pension asset	95,376	165,264	260,640
Total Noncurrent Assets	29,950,899	38,360,386	68,311,285
Total Assets	42,225,047	42,949,832	85,174,879
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflow of resources - pension related	34,557	59,878	94,435
Total Assets & Deferred Outflows of Resources	\$ 42,259,604	\$ 43,009,710	\$ 85,269,314

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

Business-Type Activities - Enterprise Funds			
	Wastewater	Water	Totals
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 200,084	\$ 153,894	\$ 353,978
Compensated absences	41,458	68,300	109,758
Customer deposits	375	261,093	261,468
Unearned revenue	-	95,363	95,363
Current Liabilities (payable from restricted assets):			
Accrued interest payable	22,698	17,167	39,865
Loans/leases payable	-	35,870	35,870
Revenue bonds payable	595,000	467,657	1,062,657
Total Current Liabilities	<u>859,615</u>	<u>1,099,344</u>	<u>1,958,959</u>
Long-term Liabilities:			
Compensated absences	41,457	68,300	109,757
Loans/Leases payable	-	657,084	657,084
Revenue bonds payable (net of unamortized discounts and premiums)	6,371,579	-	6,371,579
Post employment benefits	75,786	94,091	169,877
Total Noncurrent Liabilities	<u>6,488,822</u>	<u>819,475</u>	<u>7,308,297</u>
Total Liabilities	<u>7,348,437</u>	<u>1,918,819</u>	<u>9,267,256</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - pension related	<u>187,694</u>	<u>325,229</u>	<u>512,923</u>
NET POSITION			
Net investment in capital assets	22,851,575	32,607,060	55,458,635
Restricted for:			
Community loans	-	139,103	139,103
System development	121,522	57,794	179,316
Debt Service	976,447	696,955	1,673,402
Environmental	3,049,451	-	3,049,451
Unrestricted	7,724,478	7,264,750	14,989,228
Total Net Position	<u>34,723,473</u>	<u>40,765,662</u>	<u>75,489,135</u>
Total Liability, Deferred Inflows of Resources and Net Position	<u>\$ 42,259,604</u>	<u>\$ 43,009,710</u>	<u>\$ 85,269,314</u>

CITY OF KLAMATH FALLS, OREGON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2015

	Business-Type Activities - Enterprise Funds		
	Wastewater	Water	Totals
Operating revenues:			
Charges for sales and services:			
Wastewater charges (net of allowances)	\$ 6,966,252	\$ -	\$ 6,966,252
Geothermal charges (net of allowances)	-	248,957	248,957
Water charges (net of allowances)	-	7,321,192	7,321,192
Total operating revenues	<u>6,966,252</u>	<u>7,570,149</u>	<u>14,536,401</u>
Operating expenses:			
Costs of sales and services	3,039,814	3,471,717	6,511,531
Administration	466,459	597,234	1,063,693
Depreciation and amortization	1,087,140	1,391,910	2,479,050
Total operating expenses	<u>4,593,413</u>	<u>5,460,861</u>	<u>10,054,274</u>
Operating income	<u>2,372,839</u>	<u>2,109,288</u>	<u>4,482,127</u>
Nonoperating revenues (expenses):			
Capitalized personnel services	-	15,110	15,110
Investment earnings	56,267	86,364	142,631
Interest expense	(300,221)	(75,794)	(376,015)
System development charges	51,889	117,849	169,738
Total nonoperating revenue (expenses)	<u>(192,065)</u>	<u>143,529</u>	<u>(48,536)</u>
Income before contributions and transfers	2,180,774	2,252,817	4,433,591
Capital contributions	715,761	917,252	1,633,013
Transfers out	(1,000,000)	(569,912)	(1,569,912)
Change in net position	<u>1,896,535</u>	<u>2,600,157</u>	<u>4,496,692</u>
Total net position - beginning	<u>33,007,268</u>	<u>38,477,974</u>	<u>71,485,242</u>
Restatement	(180,330)	(312,469)	(492,799)
Total net position - beginning as restated	<u>32,826,938</u>	<u>38,165,505</u>	<u>70,992,443</u>
Total net position - ending	<u>\$ 34,723,473</u>	<u>\$ 40,765,662</u>	<u>\$ 75,489,135</u>

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

CITY OF KLAMATH FALLS, OREGON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2015

	Business-type Activities - Enterprise Funds		
	Wastewater	Water	Totals
Cash Flows from Operating Activities			
Receipts from customers and users	\$ 6,947,598	\$ 7,401,075	\$ 14,348,673
Receipts from interfund services provided	43,694	174,842	218,536
Payments to suppliers	(1,414,378)	(1,914,424)	(3,328,802)
Payments to employees	(1,331,550)	(1,388,829)	(2,720,379)
Payments for interfund services used	(921,857)	(951,544)	(1,873,401)
Net Cash Provided by Operating Activities	<u>3,323,507</u>	<u>3,321,120</u>	<u>6,644,627</u>
Cash Flows from Noncapital Financing Activities			
Transfer to/from other funds	(1,000,000)	(569,912)	(1,569,912)
Net Cash (Used) by Noncapital Financing Activities	<u>(1,000,000)</u>	<u>(569,912)</u>	<u>(1,569,912)</u>
Cash Flows from Capital and Related Financing Activities			
System development fees collected	51,889	117,849	169,738
Purchases and construction of capital assets	(543,371)	(1,328,569)	(1,871,940)
Principal paid on capital debt	(581,083)	(1,902,498)	(2,483,581)
Interest paid on capital debt	(301,942)	(105,492)	(407,434)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,374,507)</u>	<u>(3,218,710)</u>	<u>(4,593,217)</u>
Cash Flows from Investing Activities			
Purchases of investments	-	(2,103,020)	(2,103,020)
Proceeds from sales and maturities of investments	-	1,702,164	1,702,164
Interest and dividends received	56,267	81,299	137,566
Net Cash Provided (Used) by Investing Activities	<u>56,267</u>	<u>(319,557)</u>	<u>(263,290)</u>
Net Change in Cash and Cash Equivalents	1,005,267	(787,059)	218,208
Cash and Cash Equivalents - Beginning of Year	10,265,876	3,522,718	13,788,594
Cash and Cash Equivalents - End of Year	<u>\$ 11,271,143</u>	<u>\$ 2,735,659</u>	<u>\$ 14,006,802</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating income	\$ 2,372,839	\$ 2,109,288	\$ 4,482,127
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation and amortization expense	1,087,140	1,391,910	2,479,050
(Increase) decrease in assets and deferred outflows of resources			
Accounts receivable	(19,241)	(48,119)	(67,360)
Inventories	4,593	25,771	30,364
Prepaid items	45,568	30,065	75,633
Net pension asset	(310,100)	(537,329)	(847,429)
Deferred outflows related to pensions	(163)	(282)	(445)
Increases (decrease) in liabilities			
Accounts payable	(18,849)	(7,082)	(25,931)
Compensated absences	(30,763)	(240)	(31,003)
Customer deposits	(1,287)	(70,749)	(72,036)
Unearned revenue	-	94,571	94,571
Other post employment benefits	6,076	8,087	14,163
Deferred inflows related to pensions	187,694	325,229	512,923
Total Adjustments	<u>950,668</u>	<u>1,211,832</u>	<u>2,162,500</u>
Net cash provided by operating activities	<u>\$ 3,323,507</u>	<u>\$ 3,321,120</u>	<u>\$ 6,644,627</u>
Noncash Investing, Capital, and Financing Activities			
Capital assets, contributed by others	\$ 715,761	\$ 917,252	\$ 1,633,013

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

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FIDUCIARY FUND

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CITY OF KLAMATH FALLS, OREGON
STATEMENT OF FIDUCIARY NET POSITION
VETERAN'S MEMORIAL AGENCY FUND
June 30, 2015

	<u>Veterans Memorial Fund</u>
ASSETS	
Assets	
Cash and cash equivalents	\$ 47,782
Accounts receivable	111
Investments	<u>102,181</u>
Total Assets	<u>\$ 150,074</u>
LIABILITIES	
Liabilities	
Due to Veterans Associations	<u>\$ 150,074</u>
Total Liabilities	<u>\$ 150,074</u>

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NOTES TO THE FINANCIAL STATEMENTS

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CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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 nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support.

B. Reporting entity

The City of Klamath Falls, Oregon (located in Klamath County), was incorporated in 1905. The City Council, composed of the Mayor and Council members, forms the legislative branch of the government. Administration of the government is vested in the City Manager. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units are, in substance, part of the government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government.

Blended component unit. The Klamath Falls Urban Renewal Agency (Urban Renewal) is composed of one major special revenue fund, the lakefront urban renewal fund, and two non-major special revenue funds; the downtown urban renewal fund and the town center urban renewal fund. The Urban Renewal is governed by a board comprised of the government's elected council.

Any persons with an interest in the Klamath Falls Urban Renewal Agency's separately issued financial statements should send a request addressed to the 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. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the fiduciary funds are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of presentation – fund financial statements

The fund financial statements provide information about the government's funds, including its fiduciary funds and blended component units. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *airport fund* is a special revenue fund whose primary source of revenue is intergovernmental grants for capital construction and improvements to the airport runways and facilities. Other revenues consist of property taxes, transient room taxes, rental revenue, landing fees and passenger facility charges. Expenditures are assigned or restricted for airport operations and capital.

The *lakefront urban renewal fund* is a special revenue fund whose primary source of revenue is a property tax increment for property located on the lakefront of Lake Ewauna. Expenditures are capital outlay, payments to the developer or for debt service.

The *street fund* is a special revenue fund whose primary source of revenue is intergovernmental grants for capital construction and improvements to the street system. Other revenues consist of motor fuel taxes, franchise fees and charges for services. Expenditures are assigned or restricted to street operations and capital.

The *escrow reserve fund* is a capital projects fund whose primary source of revenue is proceeds from the sale of the Cogeneration Plant that are held by a trustee in a 3rd party claims account. Expenditures include projects outside the scope of normal business approved by City Council.

The government reports the following major enterprise funds:

The *wastewater fund* accounts for the expansion, operation and maintenance of the government's sanitary sewer system.

The *water fund* accounts for the expansion, operation and maintenance of the government's water supply system and its geothermal heating distribution system.

Additionally, government reports the following fiduciary fund:

The *veteran's memorial agency fund* accounts for monies held on behalf of the Veteran's Memorial Committee that uses donations to maintain the memorial at Veteran's Park.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Indirect expenses, which include general government, support services, and administrative costs, are allocated based on a full-cost allocation approach, thereby allocating indirect expenses among functions with the objective of allocating all expenses. This allocation is done through the General Fund and is included in direct program expenses for the various functional activities within individual funds.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The 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 government 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, as well as expenditures related to compensated absences and claims and judgments, 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, franchise fees, licenses, 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. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

F. Budgetary information

1. Budgetary basis of accounting

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

City Council adopts annual budgets and authorizes appropriations for all funds. The level of control established by the adopted budget is fund, department/division (which includes personnel services, materials & services and capital outlay categories), transfers, and debt service, unappropriated, contingency and reserved for future requirements. Equal transfers between personnel services, materials & services and capital outlay within a single department/division are approved by Finance or the City Manager. All other supplemental budgets and transfers of appropriations require special approval from City Council, as described below. The budget document is required to contain more specific, detailed information than the resolution adopting the budget. 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 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.

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

1. Cash and cash equivalents

The government'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 government are reported at fair value. The government 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' and blended component unit's portion of the pool's fair value are presented as "Cash and Cash Equivalents" in the basic financial statements as these are demand deposits.

3. Receivables

All trade and property tax receivables are shown net of an allowance for uncollectibles. Allowance for uncollectibles on trade accounts receivables is based on the government's expected net write-offs for the next year based upon past history. No allowance for uncollectibles has been provided for property taxes as the government considers all taxes fully collectible.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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/expenses 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 property (including right of way easements), plant, equipment (including computer software), and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), and are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an initial useful life extending beyond a single reporting period. All property, right of way easements and vehicles (rolling stock) are capitalized regardless of cost. The government 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 government chose to include all such items regardless of their acquisition date or amount. The government was able to estimate historical cost for the initial reporting of these assets through back trending (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 government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost.

In the case of the initial capitalization of computer software, the government chose to include commercially purchased software that was licensed by the government and modified using more than minimal incremental effort before being put into operation. These programs include financial accounting, geographic information system and engineering construction programs. The government set up the intangible assets at the actual historical cost. The cumulative effect of the capitalization of these assets is reported as a restatement of beginning net position for the period beginning July 1, 2009. The government deemed it impractical and non-cost effective to restate all prior periods.

The reported value excludes normal maintenance and repairs which essentially are 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. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed. The government had no capitalized interest during the year.

CITY OF KLAMATH FALLS, OREGON
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Land, construction in progress, and intangible assets are not depreciated. Property, plant, and equipment of the government are depreciated using the straight line method over the following estimated useful lives:

Capital asset classes	Lives
Buildings	40
Building improvements	25
Public domain infrastructure	25-50
Vehicles	3-5
Machinery and Equipment	5-25

The government’s computer software, an intangible asset, is deemed to have an indefinite useful life as there are no legal, contractual, regulatory, technological, or other factors that limit the useful life. If changes in factors and conditions arise that affect the indefinite life, the carrying value of the software will be amortized in subsequent reporting periods over the estimated remaining useful life.

7. *Deferred outflows/inflows of resources*

In addition to assets, the statement of financial 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.

In addition to liabilities, the statement of financial 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.

8. *Pensions*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Oregon Public Employees Retirement System (OPERS) and additions to/deductions from OPERS's fiduciary net position have been determined on the same basis as they are reported by OPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

9. *Compensated absences*

Vacation

The government’s policy permits employees to accumulate up to 240 hours of earned but unused vacation benefits depending on the contract and years of service. These hours are eligible for payment upon separation from government service. The liability for such leave is reported as incurred in the government-wide and proprietary fund financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Sick Leave

The government's policy permits employees to accumulate earned but unused sick leave benefits. When AFSCME and Teamsters employees, hired before July 1, 2011, leave the government's employment, sick leave is paid at a graduated scale based on years employed but not to exceed 25% of 960 hours. AFSCME and Teamsters employees hired after July 1, 2011, will no longer qualify for a sick leave payout upon leaving the government. Exempt employees may have two sick leave banks. All sick leave accumulated prior to July 1, 2011 is tracked as frozen sick leave. Amounts remaining on the books upon termination are paid at a graduated scale based on years employed but not to exceed 25% of 960 hours. Leave amounts accrued after July 1, 2011 are tracked as current sick leave, which is no longer subject to a payout upon termination. Instead, the government will convert up to 32 hours of accrued current sick leave to cash and contribute the balance to a Voluntary Employee's Beneficiary Account (VEBA) on July 1st of each year. The liability for sick leave is reported as incurred in the government-wide and proprietary fund financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements.

Comparable Time Leave

The government's policy permits AFSCME represented employees to accumulate up to 80 hours, and Teamsters represented employees to accumulate up to 120 hours of earned but unpaid comparable time off. Straight overtime hours worked are accumulated at the straight rate for hours worked while overtime hours worked are accumulated at the rate of time and one-half. This accumulation is eligible for payment upon separation from government service. The government may compensate Teamsters represented employees at fiscal year-end for all accrued compensatory time in excess of 40 hours. All time over the allowed accumulation must be paid in full when earned. The liability for comp time is reported as incurred in the government-wide and proprietary fund financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements.

10. Other Postemployment Benefits Obligation

The City's net OPEB obligation is recognized as a long-term liability in the government-wide financial statements and in the proprietary fund statements, the amount of which is actuarially determined. More information on the City's postemployment benefits can be found in Note 3.F.

11. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Upon implementation of GASB 65, bond issuance costs (except for those related to prepaid insurance) were fully expensed and required restatement in the financial statements.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs associated with insurance, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

12. Net position flow assumption

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

13. Fund balance flow assumptions

Sometimes the government 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 government'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.

14. Fund balance policies

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the City 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 government through formal action of the highest level of decision making authority and does not lapse at year-end. The City's highest formal action is an ordinance approved by the City Council. There were no committed fund balances in fiscal year 2015.

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 within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

Minimum fund balance policies. The City Council annually adopts a reserve balance in the General Fund of at least 20% of the annual General Fund operating budget. If Council authorizes expenditure of reserves for any purpose identified in the previous section, which causes reserve balances to fall below 20%, reserves must begin to be restored in the fiscal year following their use.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The City Council annually adopts a reserve balance in the Water and Wastewater funds of at least 15% of the annual operating budget. The City Council annually adopts a reserve balance in other funds receiving property tax support at a minimum level of 10% of the annual operating budget. Other special revenue funds will be evaluated individually based on the type of service, potential for unexpected expenditures and purpose of the fund to determine the appropriate reserve. There may be some funds that require no reserve.

H. Revenues and expenditures/expenses

1. Program revenues

Amounts reported as *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 (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. 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.

3. Proprietary fund operating and nonoperating revenues and expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the wastewater and water funds are charges to customers for services provided. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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 for the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CITY OF KLAMATH FALLS, OREGON
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2015

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Revenue Diversion

The government was in compliance with the *Policies and Procedures Concerning the Generation and Use of Airport Revenue*, issued February 16, 1999 (64 FR 7695) that requires that all airport revenues generated by a public airport will be expended for the capital or operating costs of the airport, the local airport system, or other local facilities which are owned or operated by the owner or operator of the airport and are directly and substantially related to the actual air transportation of passengers or property.

B. Deficit fund equity

At June 30, 2015, the lakefront urban renewal fund, a major fund, has a deficit fund balance of \$726,523 and the technology reserve fund has a deficit fund balance of \$174,624. The reason for the deficits are the interfund loans. The interfund loans are reported as a fund liability in the lakefront urban renewal and technology reserve fund balance sheets (rather than an inflow on the statement of revenues, expenditures, and changes in fund balances). This deficit will be eliminated as the scheduled principal and interest payments on the loan are made.

C. Expenditures in excess of appropriations

Oregon state law requires disclosure of fund expenditures in excess of budgeted appropriations. However, local budget law exempts reporting of over appropriations for a variety of situations related to the issuance, repayment and refunding of bonds as defined in ORS 294.338(3-5).

For the fiscal year ended June 30, 2015 the town center urban renewal fund had expenditures for debt service payments for the refinance of their loans over appropriations that were exempt from supplemental budgetary requirements per ORS 294.338. Though the debt that was refinanced was not a bond; the City believes the refinance was exempt from reporting.

There were no other funds that exceeded budget at the legal level of appropriation other than those exempt as noted above.

NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES AND FUND

A. Cash, cash equivalents and investments

At June 30, 2015 the government’s cash, cash equivalents and investments were comprised of the following:

Cash on hand	\$	1,900
Deposits with financial institutions		903,360
Investments:		
Oregon State Treasurer’s Local Government Investment Pool		32,130,504
Certificates of deposit		756,187
U.S. agency obligations		3,499,984
Commercial paper and corporate bonds		3,555,628
Total cash and investments	\$	40,847,563

Cash, cash equivalents and investments are reflected on Statement of Net Position as follows:

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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

	Governmental Activities	Business-Type Activities	Total
Cash and cash equivalents	\$ 19,028,962	\$14,006,802	\$33,035,764
Investments	3,260,830	4,550,969	7,811,799
	<u>\$22,289,792</u>	<u>\$18,557,771</u>	<u>\$ 40,847,563</u>

Custodial credit risk-deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The government’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 government’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, 2015 the government’s bank balances were \$956,007 (\$860 of which belongs to the Veteran’s Memorial Fund).

As of June 30, 2015, the government had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Oregon State Treasurer’s Local Government Investment Pool	\$ 32,130,504	.48
Negotiable Certificates of Deposits	756,187	2.90
U.S. Agency Bonds	3,499,984	3.35
Commercial Paper and Corporate Bonds	3,555,628	4.03
Total Fair Value	<u>\$ 39,942,303</u>	
Portfolio Weighted Average Maturity		1.11

Interest rate risk. In accordance with its investment policy, the government manages its exposure to declines in fair values by limiting the duration of its investments for operating purposes to eighteen months. Reserve or capital improvement project monies may be invested in securities exceeding three years when the funds in question are being accumulated for an anticipated use that will occur more than 18 months after the funds are invested, then, upon the approval of the City Council, the maturity of the investment or investments made with the funds may occur when the funds are expected to be used.

Credit risk. The government has adopted the policies as described in the Oregon Revised Statutes, Chapter 294, as it pertains to credit risk. Oregon Revised Statutes, Chapter 294, authorizes the government 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 government’s investment portfolio as of June 30, 2015 is representative of the types of investments made throughout the year. The government’s investments in guaranteed investment contracts, negotiable certificates of deposits and 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.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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

At June 30, 2015, the government’s investments were rated by Standard & Poors as follows:

	Commercial Paper And Corporate Bonds	Municipal and US Agency Corporations	Certificates of Deposit	Local Government Investment Pool
AAA	412,348			
AA+	921,900	3,499,984		
AA	222,702			
AA-	456,574			
A+	451,395			
A	367,329			
A-	431,915			
BBB+	152,790			
BBB-	138,675			
Unrated			756,187	32,130,504
	<u>\$ 3,555,628</u>	<u>\$ 3,499,984</u>	<u>\$ 756,187</u>	<u>\$ 32,130,504</u>

Concentration of credit risk. The government 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 government’s total investments.

Custodial credit risk-investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Negotiable Certificates of Deposit have custodial credit risk exposure because the security is uninsured, unregistered, and held by the counterparty for the security. The government does not have a separate deposit policy for custodial credit risk, but has adopted the policies as described in the Oregon Revised Statutes, Chapter 294.

B. Receivables

Receivables as of year-end for the government's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

Governmental Activities

<u>General Fund</u>	<u>Municipal Court</u>	<u>Code Enforcement</u>	<u>Other</u>	<u>Total General Fund</u>
Gross Accounts				
Receivable	\$ 3,221,372	\$ 398,207	\$ 274,408	\$ 3,893,987
Uncollectibles	(3,002,379)	(380,405)		(3,382,784)
Net Accounts				
Receivable	<u>\$ 218,993</u>	<u>\$ 17,802</u>	<u>\$ 274,408</u>	<u>\$ 511,203</u>

CITY OF KLAMATH FALLS, OREGON
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2015

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

	<u>General Fund</u>	<u>Airport Fund</u>	<u>Street Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Activities</u>
Gross Accounts Receivable	\$ 3,893,987	\$ 217,251	\$ 200,645	\$ 195,547	\$ 4,507,430
Uncollectibles	<u>(3,382,784)</u>			<u>(32,031)</u>	<u>(3,414,815)</u>
Net Accounts Receivable	<u>\$ 511,203</u>	<u>\$ 217,251</u>	<u>\$ 200,645</u>	<u>\$ 163,516</u>	<u>\$ 1,092,615</u>

Business-type Activities

	<u>Wastewater Fund</u>	<u>Water Fund</u>	<u>Total Business-type Activities</u>
Gross Accounts Receivable	\$ 980,848	\$ 1,452,812	\$ 2,433,660
Uncollectibles	<u>(28,490)</u>	<u>(31,386)</u>	<u>(59,876)</u>
Net Accounts Receivable	<u>\$ 952,358</u>	<u>\$ 1,421,426</u>	<u>\$ 2,373,784</u>

C. Lease receivables

The government leases land and buildings under non-cancelable operating leases to other parties. The cost of the leased assets was \$31,297,742 and the carrying value was \$24,105,545. Payments received in the current year were \$472,048.

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

2016	\$ 411,926
2017	397,879
2018	393,046
2019	340,878
2020	309,666
2021-2025	1,301,958
2026-2030	916,303
2031-2035	323,923
2036-2040	32,593
2041-2045	12,538
Total	<u>\$ 4,440,710</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, a percentage of sales, or increases based upon changes in the consumer price index.

D. Capital Assets

Capital assets activity for the year ended June 30, 2015 was as follows:

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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

Governmental Activities:

	Balance July 1, 2014	Increases	Decreases & Transfers	Placed in Service	Balance June 30, 2015
Capital assets, not being depreciated:					
Land	\$ 13,465,701	\$ 91,661	\$ -	\$ 105,990	\$ 13,663,352
Construction in progress	2,983,377	141,030	(1,654,469)	(1,141,651)	328,287
Intangible assets	757,384	5,500	(725,464)	-	37,420
Total capital assets, not being depreciated	17,206,462	238,191	(2,379,933)	(1,035,661)	14,029,059
Capital assets, being depreciated:					
Buildings	17,453,979	84,594	-	142,997	17,681,570
Intangible assets	-	250,194	725,464	1,656	977,314
Machinery, equipment, and vehicles	11,032,178	715,355	(402,021)	28,409	11,373,921
Infrastructure	190,676,633	2,165,607	-	862,599	193,704,839
Total capital assets being depreciated	219,162,790	3,215,750	323,443	1,035,661	223,737,644
Less accumulated depreciation for:					
Buildings	(3,969,255)	(569,771)	-	-	(4,539,026)
Intangible assets	-	(264,479)	(213,413)	-	(477,892)
Machinery, equipment, and vehicles	(8,032,903)	(620,051)	615,434	-	(8,037,520)
Infrastructure	(101,531,205)	(6,341,492)	-	-	(107,872,697)
Total accumulated depreciation	(113,533,363)	(7,795,793)	402,021	-	(120,927,135)
Total capital assets, being depreciated, net	105,629,427	(4,580,043)	725,464	1,035,661	102,810,509
Government activities capital assets, net	\$ 122,835,889	\$ (4,341,852)	\$ (1,654,469)	\$ -	\$ 116,839,568

The increase column is used only to show the sum of the current fiscal year's capital outlay, donated capital assets, and current year's depreciation. The decreases and transfers column is used to show the sale and disposals of capital assets. The Placed in Service column shows transfers from CIP to the various asset categories.

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

Governmental activities:	
General government	\$ 393,464
Public safety	467,208
Highways and streets	5,156,578
Culture and recreation	159,342
Airport	1,619,201
Total depreciation expense – governmental activities	\$ 7,795,793

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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

Business-type Activities:

	Balance July 1, 2014	Increases	Decreases & Transfers	Placed in Service	Balance June 30, 2015
Capital assets, not being depreciated:					
Land	\$ 1,545,876	\$ 13,218	\$ -	\$ -	\$ 1,559,094
Construction in progress	200,456	221,958	-	(95,723)	326,691
Intangible assets	167,492	-	-	-	167,492
Total capital assets, not being depreciated	1,913,824	235,176	-	(95,723)	2,053,277
Capital assets, being depreciated:					
Buildings	7,476,408	-	-	-	7,476,408
Machinery and equipment	17,255,895	497,674	(27,054)	-	17,726,515
Infrastructure	77,197,651	2,787,213	-	95,723	80,080,587
Total capital assets being depreciated	101,929,954	3,284,887	(27,054)	95,723	105,283,510
Less accumulated depreciation for:					
Buildings	(3,696,143)	(136,432)	-	-	(3,832,575)
Machinery and equipment	(10,366,350)	(651,871)	27,054	-	(10,991,167)
Infrastructure	(27,236,473)	(1,690,747)	-	-	(28,927,220)
Total accumulated depreciation	(41,298,966)	(2,479,050)	27,054	-	(43,750,962)
Total capital assets, being depreciated, net	60,630,988	805,837	-	95,723	61,532,548
Business-type activities capital assets, net	\$ 62,544,812	\$ 1,041,013	\$ -	\$ -	\$ 63,585,825

Depreciation expense was charged to the functions of the business-type activities as follows:

Business-type activities:	
Water	\$ 1,391,910
Sewer	<u>1,087,140</u>
Total depreciation expense – business-type activities	\$ <u>2,479,050</u>

E. Pension Plan

General Information about the Pension Plan

Plan description

Employees of the City are provided with pensions through the Oregon Public Employees Retirement System (OPERS) a cost-sharing multiple-employer defined benefit pension plan, the Oregon Legislature has delegated authority to the Public Employees Retirement Board to administer and manage the system. All benefits of the System are established by the legislature pursuant to ORS Chapters 238 and 238A. Tier One/Tier Two Retirement Benefit plan, established by ORS Chapter 238, is closed to new members hired on or after August 29, 2003. The Pension Program, established by ORS Chapter 238A, provides benefits to members hired on or after August 29, 2003. OPERS issues a publicly available Comprehensive Annual Financial Report and Actuarial Valuation that can be obtained at http://www.oregon.gov/pers/Pages/section/financial_reports/financials.aspx.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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

Benefits provided

1. Tier One/Tier Two Retirement Benefit ORS Chapter 238

Pension Benefits

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

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

Death Benefits

Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance, provided one or more of the following conditions are met:

- the member was employed by a PERS employer at the time of death,
- the member died within 120 days after termination of PERS-covered employment,
- the member died as a result of injury sustained while employed in a PERS-covered job, or
- the member was on an official leave of absence from a PERS-covered job at the time of death.

Disability Benefits

A member with 10 or more years of creditable service who becomes disabled from other than duty-connected causes may receive a non-duty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member (including PERS judge members) for disability benefits regardless of the length of PERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 (55 for police members) when determining the monthly benefit.

Benefit Changes

After Retirement Members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in the market value of equity investments. Under ORS 238.360 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2015 and beyond will vary based on 1.25 percent on the first \$60,000 of annual benefit and 0.15 percent on annual benefits above \$60,000.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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

2. OPSRP Pension Program (OPSRP DB)

Pension Benefits

The Pension Program (ORS Chapter 238A) provides benefits to members hired on or after August 29, 2003. This portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age:

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

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

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

Death Benefits

Upon the death of a non-retired member, the spouse or other person who is constitutionally required to be treated in the same manner as the spouse, receives for life 50 percent of the pension that would otherwise have been paid to the deceased member.

Disability Benefits

A member who has accrued 10 or more years of retirement credits before the member becomes disabled or a member who becomes disabled due to job-related injury shall receive a disability benefit of 45 percent of the member's salary determined as of the last full month of employment before the disability occurred.

Benefit Changes After Retirement

Under ORS 238A.210 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2015 and beyond will vary based on 1.25 percent on the first \$60,000 of annual benefit and 0.15 percent on annual benefits above \$60,000.

3. OPSRP Individual Account Program (OPSRP IAP)

Pension Benefits

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

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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

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

Death Benefits

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

Recordkeeping

OPERS contracts with VOYA Financial to maintain IAP participant records.

Contributions

PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. This funding policy applies to the PERS Defined Benefit Plan and the Other Postemployment Benefit Plans. Employer contribution rates during the period were based on the December 31, 2011 actuarial valuation as subsequently modified by 2013 legislated changes in benefit provisions. The rates based on a percentage of payroll, first became effective July 1, 2013. Employer contributions for the year ended June 30, 2015 were \$635,700, excluding amounts to fund employer specific liabilities. The rates in effect for the fiscal year ended June 30, 2015 were 14.55 percent for Tier One/Tier Two General Service Member, 14.55 percent for Tier One/Tier Two Police, 7.36 percent for OPSRP Pension Program General Service Members, 11.46 percent for OPSRP Pension Program Police Members, and 6 percent for OPSRP Individual Account Program.

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

At June 30, 2015, the City reported an asset of \$1,754,536 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2012 rolled forward to June 30, 2014. The City's proportion of the net pension asset was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2014, the City's proportion was 0.0774 percent, which was unchanged from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the City's recognized pension expense (income) of (\$1,919,815). At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	3,385,544
Changes in proportion and differences between City contributions and proportionate share of contributions	-	67,276
City contributions subsequent to the measurement date	<u>635,700</u>	<u>-</u>
Total	<u><u>\$ 635,700</u></u>	<u><u>\$ 3,452,820</u></u>

\$635,700 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	
2016	\$ (861,011)
2017	(861,011)
2018	(861,011)
2019	(861,011)
2020	(8,776)
Thereafter	-

Actuarial assumptions

The employer contribution rates effective July 1, 2013, through June 30, 2015, were set using the projected unit credit actuarial cost method. For the Tier One/Tier Two component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (2) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 20 years. For the OPSRP Pension Program component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (a) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (b) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 16 years. The total pension liability in the December 31, 2012 actuarial valuation was determined using the following actuarial assumptions:

CITY OF KLAMATH FALLS, OREGON
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2015

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

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

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

Long-term expected rate of return

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

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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

Asset Class	Target Allocation	Compounded Annual Return (Geometric)
Core Fixed Income	7.20%	4.50%
Short-Term Bonds	8.00%	3.70%
Intermediate -Term Bonds	3.00%	4.10%
High Yield Bonds	1.80%	6.66%
Large Cap US Equities	11.65%	7.20%
Mid Cap US Equities	3.88%	7.30%
Small Cap US Equities	2.27%	7.45%
Developed Foreign Equities	14.21%	6.90%
Emerging Foreign Equities	5.49%	7.40%
Private Equities	20.00%	8.26%
Opportunity Funds/Absolute Return	5.00%	6.01%
Real Estate (Property)	13.75%	6.51%
Real Estate (REITS)	2.50%	6.76%
Commodities	1.25%	6.07%
Total	<u>100.00%</u>	
Assumed Inflation - Mean		2.75%

Discount rate

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

Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate

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

	<u>1% Decrease (6.75%)</u>	<u>Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
City's proportionate share of the net pension liability (asset)	\$ 3,715,473	\$ (1,754,536)	\$ (6,380,881)

CITY OF KLAMATH FALLS, OREGON
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2015

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

Pension plan fiduciary net position

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

Changes in Plan Provisions Subsequent to Measurement Date

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

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

This is a change in benefit terms subsequent to the measurement date of June 30, 2014, and has not been included in the net pension liability (asset) proportionate shares provided by OPERS.

F. Other postemployment benefit (OPEB) obligations

Plan Description. The government does not have a formal post-employment benefits plan for any employee groups; however the government is required by Oregon Revised Statutes 243.303 to provide retirees with group health and dental insurance from the date of retirement to age 65 at the same rate provided to current employees. GASB 45 is applicable to the government due only to the implicit rate subsidy. This “plan” is not a stand-alone plan and therefore does not issue its own financial statements.

Funding Policy. The government allows retirees to remain on the government’s insurance group policy until age 65. Retirees pay the insurance company directly. For fiscal year 2015, the government retirees paid 100% of their premium costs. The government has elected to not prefund the actuarially determined future cost amount of \$569,207.

The required monthly contributions of the plan members were as follows for the year ended June 30, 2015:

	<u>Contribution</u>
Employee	\$ 580.91
Employee + Child	1,063.69
Employee + Children	1,449.56
Employee + Spouse	1,213.08
Full Family	1,608.07

Annual OPEB and Net OPEB Obligation. The government’s annual other post-employment benefit cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of 10 years. The following table shows the components of the government’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the government’s OPEB obligation to the plan.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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

Employer’s Normal Cost	\$ 49,515
Amortization of UAAL	105,634
Annual Required Contribution (ARC)	<u>155,149</u>
Interest	16,788
Adjustment to ARC	(57,675)
Implicit Benefit Payments	<u>(69,334)</u>
Contribution Deficiency (ARC less current year payments)	44,928
OPEB Obligation at Beginning of Year (7/1/2014)	<u>479,661</u>
OPEB obligation at end of year (6/30/2015)	<u><u>\$ 524,589</u></u>

The government’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percent of Annual OPEB Cost Contribution	Net OPEB Obligation
6/30/13	148,765	33%	420,789
6/30/14	112,807	48%	479,661
6/30/15	114,262	61%	524,589

Funded Status and Funding Progress. The funded status of the plan as of August 1, 2014 (the date of the most recent actuarial valuation), was as follows:

Actuarial accrued liability (AAL)	\$ 569,207
Actuarial value of plan assets	<u>0</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 569,207</u>
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	\$ 6,079,986
UAAL as a percentage of covered payroll	9.36%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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

In the August 1, 2014 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 2.75 percent inflation rate, a 3.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 5.75 percent initially, and in future years a varying rate between 6.75% and 5.00% due to the timing of the excise tax scheduled to affect health care benefits beginning in 2018. The assumptions also included dental cost premium increases of 5.25 percent per year. Retirement and withdrawal rates are those adopted by the Oregon Public Employees Retirement System (PERS) for its 2013 actuarial valuation of retirement benefits. The UAAL is amortized over an open period of 10 years using the level percentage of projected pay.

Retirement Health Insurance Account (RHIA)

Plan Description. As a member of Oregon Public Employees Retirement System (OPERS) the government contributes to the Retirement Health Insurance Account (RHIA) for each of its eligible employees. RHIA is a cost-sharing multiple-employer defined benefits other postemployment benefit plan administered by OPERS. RHIA pays a monthly contribution toward the cost of Medicare companion health insurance premiums of eligible retirees. Oregon Revised Statute (ORS) 238.420 established this trust fund. Authority to establish and amend the benefit provisions of RHIA reside with the Oregon Legislature. The plan is closed to new entrants after January 1, 2004. OPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Oregon Public Employees Retirement System, P.O. Box 23700, Tigard, OR 97281-3700.

Funding Policy. Because RHIA was created by enabling legislation (ORS 238.420), contribution requirements of the plan members and the participating employers were established and may be amended only by the Oregon Legislature. ORS require that an amount equal to \$60 or the total monthly cost of Medicare companion health insurance premiums coverage, whichever is less, shall be paid from the Retirement Health Insurance Account established by the employer, and any monthly cost in excess of \$60 shall be paid by the eligible retired member in the manner provided in ORS 238.410. To be eligible to receive this monthly payment toward the premium cost the member must: (1) have eight years or more of qualifying service in PERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in PERS, (2) receive both Medicare Parts A and B coverage, and (3) enroll in a PERS-sponsored health plan. A surviving spouse or dependent of a deceased PERS retiree who was eligible to receive the subsidy is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died and the member retired before May 1, 1991.

Participating cities are contractually required to contribute to RHIA at a rate assessed bi-annually by the OPERB.

The OPERS Board of Trustees sets the employer contribution rate based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. A portion of the actuarially determined rate under the OPERF plan and the OPSRP plan goes to fund the retiree health insurance account, RHIA. The contribution rate is 0.59% of annual covered payroll for Tier 1/Tier 2, and 0.49% for OPSRP.

The government's contributions to RHIA for the years ending June 30, 2013, 2014 and 2015 were \$43,253, \$49,713, and \$48,407 which equaled the required contribution for the year.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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

Defined Contribution Plans

Plan Description. The government sponsors two defined contribution plans; a Section 457 Plan and a Section 401(k) Plan. Variable Annuity Life Insurance Company and Ameritas (formerly The Union Central Life Insurance) are fund providers for the City of Klamath Falls Deferred Compensation Plan which is adopted and amended by the City Council. ICMA-RC is an administrator and fund provider for plans that use their individual company plans. These entities have authority to change their plans per the City of Klamath Falls Deferred Compensation Plan as adopted by the City Council. ICMA-RC is also the administrator and the fund provider for the City's Section 401(k) Plan which uses ICMA-RC's standard plan.

Funding Policy. Under the plans, employees may make elective contributions and the authority to change the contributions remains with the employee. The government does not make any matching contributions to the plans and the plan assets are not included in the financial statements. Employees elected to contribute \$251,548 and \$55,438 to the section 457 and the section 401(k) plans in 2015, respectively.

G. Construction and other significant commitments

The government has active construction and professional service contracts as of June 30, 2015. The Airport airfield construction project has retainage to be released. The Wastewater construction project is a lift station back-up generator. Professional service contracts include: airport taxiway repair design, environmental mitigation and a land use study; pocket park design; swimming pool marketing; ERP software license and implementation; wastewater operations study; wastewater treatment design for methane recapture, effluent discharge legal fees; surface and ground water study; and water tank cleaning. At year-end the government's contract commitments were as follows:

<u>Project</u>	<u>Cost to date</u>	<u>Commitment</u>
General Fund professional service contracts	\$ 50	\$ 55,550
Downtown urban renewal professional service contract	-	7,745
Airport professional service contracts	330,815	549,012
Airport construction project	561,719	20,823
Parks professional service contract	576	3,824
Technology Services professional service contract	468,365	55,868
Wastewater professional service contracts	130,684	60,414
Wastewater construction contracts	31,850	9,600
Water professional service contract	66,818	30,812
Total	<u>\$ 1,590,877</u>	<u>\$ 793,648</u>

H. Risk management

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the government carries commercial insurance for all risks of loss except those discussed below. Settlements have not exceeded coverage for each of the past three fiscal years.

During fiscal year 1993, the government became self-insured for its uninsured risks of loss from unemployment claims by former employees. All pertinent funds and departments of the government participate in the program and charges are based on actual amounts needed to pay current year claims.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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

	Year Ended June 30, 2015	Year Ended June 30, 2014
Unpaid claims, beginning	\$ -	\$ -
Incurred claims (including IBNRs)	32,332	29,660
Claims paid	(32,332)	(29,660)
Unpaid claims, ending	<u>\$ -</u>	<u>\$ -</u>

During fiscal year 1993, the government became self-insured for its uninsured risks of loss from collisions involving government owned motor vehicles over two years old, having a value less than \$20,000. All pertinent funds and departments of the government participate in the program and charges are based on actual amounts needed to pay current year claims.

	Year Ended June 30, 2015	Year Ended June 30, 2014
Unpaid claims, beginning	\$ -	\$ -
Incurred claims (including IBNRs)	6,000	12,602
Claims paid	(6,000)	(12,602)
Unpaid claims, ending	<u>\$ -</u>	<u>\$ -</u>

I. Lease obligations

1. Operating lease

The government has operating lease agreements for building space, land lease, three copier/printer leases, letter opener lease and one postage machine lease. Lease payments of \$25,213 were made during the year ended June 30, 2015.

Future minimum lease payments for facilities/equipment are as follows for the years ended June 30:

2016	\$ 16,545
2017	3,809
2018	1,896
2019	1,284
2020	<u>1,322</u>
Total	<u>\$ 24,856</u>

J. Long-Term Liabilities

Compensated Absences

Compensated absences are comprised of vacation leave and comp time earned by the government's employees for services already rendered and paid when taken or upon termination, and a portion of the employees balance of unused sick leave that is payable upon termination. Any and all funds directly responsible for the payment of the employee's services while still in the government's employment are also responsible for the liquidation of the compensated absence liability upon termination of the employee.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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

Pledged Revenues

The government does not sell receivables or future revenues. However the government does pledge revenues to collateralize debt until the debt is fully repaid.

The City issues a variety of debt types for the purpose of carrying out its capital financing activities. The various types of debt are discussed below and each debt type reports the range of maturities for each of its outstanding debt issues. The City's tax-exempt debt remains in compliance with all Internal Revenue Service arbitrage regulations. Outstanding debt amounts are as of June 30, 2015.

Airport Revenue Bonds, Series 1996

The government has pledged future airport revenues, net of specified operating expenses, to repay \$1,750,000 in airport revenue bonds issued in October 1996. Proceeds from the bonds provided financing to extend and overlay taxiways and runways, construct an access road and provide necessary utilities to the east side of the airport and to make other airport related improvements. The interest rate payable on the remaining outstanding bonds is 5.50%, payable solely from airport revenues, including property taxes levied by the government, through fiscal year 2016. Annual principal and interest payments on the bonds are expected to require 67% of net revenues. Principal and interest paid in the current year and total net revenues were \$144,850 and \$216,798 respectively.

Renold Passion – Off Street Parking Fund

The government has pledged future off street parking fund revenues, net of specified operating expenses, to repay \$52,000 to Renold Passion for the purchase of land for a parking lot in 2006. Payments on the promissory note are due in monthly installments of \$587 including interest of 6.50%. Principal and interest paid for the current year was \$13,954. The note was paid off in 2015.

Timbermill Shores – Lakefront Urban Renewal

The City 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 interfund loan with the escrow reserve fund is paid in full (see Note 4 Section M.).

Washington Federal – Town Center Urban Renewal

The government 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 \$1,825,000 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. The government uses increment property taxes to pay the loan. For the current year, principal and interest paid and total incremental property tax revenues were \$975,034 and \$173,319, respectively. The loan balance of \$817,262 was refinanced in 2015.

Washington Federal – Town Center Urban Renewal

The government has pledged future tax increment revenues to repay a \$1,117,262 loan with Washington Federal as of May 20, 2015. This loan refinances the outstanding long-term and short term loans with Washington Federal which were for improvements to the Town Center Urban Renewal District. The loan is termed out over nine annual payments of \$138,912. The loan includes a variable interest of prime minus .800% (currently 2.450%) with a floor of 2.275% based on the lender's Prime Rate (the "Index") which will not change more than daily. The government uses increment property taxes to pay the loan. For the current year, principal paid and total incremental property tax revenues were \$32,205 and \$173,319, respectively.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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

Special Public Works Fund (Geothermal Service Line Extension) – Water Fund

The government has pledged future revenues from geothermal customers, net of specified operating expenses, to repay a special public works fund (SPWF) loan of \$100,000 received in February 2002. The funds were used to extend the government's geothermal service line to the IFA Nursery Facility on Spring Street. Payments are due annually over 20 years at 5.58% interest. Principal and interest paid in the current year was \$56,157. The loan was paid off in 2015.

Special Public Works Fund (Geothermal Rehabilitation) – Water Fund

The government entered into an interim period financing contract with the Oregon Special Public Works Fund in April 2009 for \$800,000 to install 6,020 lineal feet of 12" and 8" insulated ductile geothermal pipeline within the geothermal heating distribution system. The financing contract was amended and restated in May of 2014 with an interest rate of 4% on the remaining loan amount of \$680,981 and a maturity date of December 1, 2033. The government has pledged future revenues from geothermal customers, net of specified operating expenses to repay the loan. Principal or interest paid in the current year was \$711,407. The loan was paid off in 2015.

Special Public Works Fund (Water Line Service Extension) – Water Fund

The government's water fund has pledged future customer revenues, net of specified operating expenses, to repay a \$976,000 special public works fund (SPWF) loan received in November 2004. The funds were used to install 6,500 feet of 12" pipe, increase 620 feet of 4" pipe to 6" pipe and connect the Sturdicraft facility to the water system. Payments are due annually at 4.16% interest. The SPWF loan is payable solely from water customer net revenues and is payable through fiscal year 2030. Annual principal and interest payments on the loan are expected to require 2.0% of net revenues. Principal and interest paid in the current year and total customer net revenues were \$66,348 and \$3,402,093 respectively.

Water Revenue Refunding Bond, Series 2001

The government's water fund has also pledged future customer revenues, net of specified operating expenses, to repay \$6,110,000 in water revenue refunding bonds issued in August 2001. Proceeds from the bonds provided funds to pay off the government's 1994 and 1996 water revenue bonds. Both the 1994 revenue bonds in the amount of \$3,500,000 and the 1996 revenue bonds in the amount of \$5,800,000 provided financing for capital improvements and expansion of the government's water system and facilities. The 2001 refunding bonds are payable solely from water customer net revenues and are payable through fiscal year 2016. Interest rates range from 4.0% to 4.375%. Annual principal and interest payments on the bonds are expected to require less than 35% of net revenues. The fiscal year 2014 principal payment of \$685,000 was not paid until the current year. Principal and interest paid in the current year and total customer net revenues were \$1,174,078 and \$2,915,344, respectively.

Wastewater Revenue Refunding Bonds, Series 2005

The government's wastewater fund has pledged future customer revenues, net of specified operating expenses, to repay \$9,800,000 in wastewater revenue refunding bonds issued in June 2005. Proceeds from the bonds provided funds to pay off the government's 2000 wastewater revenue bonds in June 2010. The 2005 refunding bonds are payable solely from wastewater customer net revenues and are payable through fiscal year 2025. Interest rates range from 3.5% to 4.1%. Interest only payments were due on the bonds through fiscal year 2010 with principal payments starting in fiscal year 2011. Annual principal and interest payments are expected to require less than 26% of net revenues. Principal and interest paid in the current year and total customer net revenues were \$883,025 and \$3,516,246, respectively.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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

General Obligation Bond, Series 2008 – Police Department of the General Fund

In May 2008 the city voters approved the sale of \$4,000,000 in general obligation bonds to fund a portion of the remodeling, construction, purchase of equipment and furnishing of personal property for a City Police station. The bonds are to be paid from ad valorem taxes levied on all taxable property within the city boundaries. The taxes imposed are not subject to the limits of Sections 11 and 11b, Article XI of the Oregon Constitution. The bonds were sold in August 2008 and are payable through fiscal year 2038. Interest rates range from 5.0% to 5.25%. Taxes are imposed annually for the amount of the bond payments due in that fiscal year. Interest only payments are due through fiscal year 2017 with principal payments beginning in fiscal year 2018. Interest paid in the current year and taxes received were \$205,525 and \$201,707 respectively.

Full Faith and Credit Bond, Series 2008 – Police Department of the General Fund

The government has pledged general non-restricted revenues and other funds that are lawfully available to repay \$3,995,000 in Full Faith and Credit Obligations issued in September of 2008. Proceeds of the bonds financed a portion of the costs of capital construction and capital improvements of the new City Police station facilities and equipment. The source for the repayment of the bonds are the ad valorem property taxes levied under the government's permanent rate limitations under sections 11 and 11b, Article XI of the Oregon Constitution, and revenues derived from other taxes, if any, levied by the government in accordance with and subject to limitations and restrictions imposed under applicable law or contract, that are not dedicated, restricted or obligated by law or contract to an inconsistent expenditure or use. Interest rates range from 3.5% to 5.0%. The bonds are payable through fiscal year 2029. Annual principal and interest payments on the bonds are expected to require less than 4.4% of the total non-restricted property taxes collected in any given fiscal year. Principal and interest paid in the current year and total non-restricted property taxes collected were \$285,883 and \$6,551,484 respectively.

Oregon Department of Environmental Quality – Wastewater Fund

In May of 2011 the City entered into a revenue secured loan with the Oregon Department of Environmental Quality for \$1,000,000 for wastewater treatment facility headworks improvements. The City has pledged wastewater net operating revenues to repay the loan. An interest only payment of \$41,000 will be required within six months after the estimated project completion date, and thereafter semi-annual payments of principal and interest and fees (approximately \$80,000 per year) will be made for 20 years after the completion date or the estimated completion date, whichever date is earlier. An annual fee of 0.5% of the outstanding loan amount is due during the repayment period commencing with the second payment date and thereafter. The interest rate is 3.32% per annum. There is a loan reserve requirement of \$35,185. The City has yet to draw down the funds or begin work on the project.

Oregon Department of Environmental Quality – Wastewater Fund

In October of 2011 the City entered into a revenue secured loan with the Oregon Department of Environmental Quality (DEQ) for \$14,484,130 for wastewater treatment facility headworks improvements. The City has pledged wastewater net operating revenues to repay the loan. An interest only payment within six months after the estimated project completion date will be due, and thereafter semi-annual payments of principal and interest will be made for 20 years after the completion date or the estimated completion date, whichever date is earlier. An annual fee of 0.5% of the outstanding loan amount is due during the repayment period commencing with the second payment date and thereafter. There is a loan reserve requirement of \$480,660. The interest rate is 2.71% per annum. Principal, interest and fees are estimated to cost the City about \$1,000,000 per year until 2033. If the City completes the project, and provided there is no default of any terms of the loan, DEQ will forgive the lesser of 75% of the loan or \$1,000,000. The amount forgiven will be determined when the final payment is calculated. The City has yet to draw down the funds or begin work on the project.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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

Oregon Department of Environmental Quality – Wastewater Fund

In June of 2012 the City entered into a revenue secured loan with the Oregon Department of Environmental Quality (DEQ) for \$7,150,672 for design and construction of improvements to the wastewater treatment facility. The City has pledged wastewater net operating revenues to repay the loan. An interest only payment within six months after the estimated project completion date will be due, and thereafter semi-annual payments of principal and interest will be made for 20 years after the completion date or the estimated completion date, whichever date is earlier. An annual fee of 0.5% of the outstanding loan amount is due during the repayment period commencing with the second payment date and thereafter. There is a loan reserve requirement of \$228,630. The interest rate is 2.45% per annum. Principal, interest and fees are estimated to cost the City about \$250,000 per year until 2034. The City has yet to draw down the funds or begin work on the project.

Long-term liability activity for the year ended June 30, 2015:

	Balance June 30, 2014	Additions	Reductions	Balance June 30, 2015	Amounts Due Within One Year
Governmental Activities					
Bonds, notes, leases & contracts payable					
Airport Revenue Bonds, Series 1996:	\$ 270,000	\$ -	\$ 130,000	\$ 140,000	\$ 140,000
Washington Federal (Town Center Urban Renewal):	921,845	-	921,845	-	-
Washington Federal (Town Center Urban Renewal):		300,000	300,000	-	-
Washington Federal (Town Center Urban Renewal):		1,117,262	30,000	1,087,262	124,187
Renold Passien:	13,659	-	13,659	-	-
Timbermill Shores	2,248,564	-	-	2,248,564	-
General Obligation Bonds, Series 2008	4,000,000	-	-	4,000,000	-
Add issuance premiums and discounts, net	25,204	-	1,054	24,150	-
Full Faith and Credit Bonds, Series 2008:	3,165,000	-	150,000	3,015,000	165,000
Add issuance premiums and discounts, net	23,073	-	1,547	21,526	-
Total bonds, notes, leases & contracts payable	10,667,345	1,417,262	1,548,105	10,536,502	429,187
Other Liabilities					
Compensated Absences:					
General Fund	549,828	1,111,182	1,014,129	646,881	323,441
Airport Fund	58,966	48,561	55,432	52,095	26,048
Parks Fund	34,549	39,238	33,979	39,808	19,904
Street Fund	96,367	74,486	78,859	91,994	45,997
Parking Fund	2,928	5,332	4,783	3,477	1,739
Street Lighting Fund	1,581	-	1,581	-	-
Total governmental activities compensated absences	744,219	1,278,799	1,188,763	834,255	417,129
Other Post Employment Benefits:					
General Fund	212,216	21,189	-	233,405	-
Airport Fund	29,522	2,533	-	32,055	-
Parks Fund	30,395	2,792	-	33,187	-
Street Fund	48,873	4,623	-	53,496	-
Parking Fund	2,290	279	-	2,569	-
Street Lighting Fund	651	-	651	-	-
Total governmental activities OPEB	323,947	31,416	651	354,712	-
Governmental activities long-term liabilities	\$ 11,735,511	\$ 2,727,477	\$ 2,737,519	\$ 11,725,469	\$ 846,316

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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

Compensated absences and other post-employment benefit obligations will be liquidated based on their fund liability as detailed above.

Long-term liability activity for the year ended June 30, 2015:

	Balance <u>June 30, 2014</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2015</u>	Amounts Due <u>Within One Year</u>
Business-Type Activities					
Bonds and notes payable					
Water Revenue Refunding Bonds, Series 2001:	\$ 1,575,000	-	\$ 1,120,000	\$ 455,000	\$ 455,000
Add issuance premiums and discounts, net	25,314	-	12,657	12,657	-
Wastewater Revenue Refunding Bonds, Series 2005	7,645,000	-	590,000	7,055,000	595,000
Less issuance discounts	(97,338)	-	(8,916)	(88,422)	-
Special Public Works Fund (Geo service line extension):	53,189	-	53,189	-	-
Special Public Works Fund (Geothermal rehabilitation):	680,981	-	680,981	-	-
Special Public Works Fund (Water line extension):	728,625	-	35,671	692,954	35,870
Total bonds, notes, and leases payable	<u>10,610,771</u>	<u>-</u>	<u>2,483,582</u>	<u>8,127,189</u>	<u>1,085,870</u>
Other Liabilities					
Compensated Absences:					
Wastewater Fund	113,676	140,324	171,084	82,916	41,458
Water Fund	136,840	152,227	152,468	136,599	68,300
Total business-type activities compensated absences	<u>250,516</u>	<u>292,551</u>	<u>323,552</u>	<u>219,515</u>	<u>109,758</u>
Other Post Employment Benefits:					
Wastewater Fund	69,710	6,076	-	75,786	-
Water Fund	86,004	8,087	-	94,091	-
Total business-type activities OPEB	<u>155,714</u>	<u>14,163</u>	<u>-</u>	<u>169,877</u>	<u>-</u>
Business-type activities long-term liabilities	<u>\$ 11,017,001</u>	<u>\$ 306,714</u>	<u>\$ 2,807,134</u>	<u>\$ 8,516,581</u>	<u>\$ 1,195,628</u>

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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

Revenue Bonds

The government issues revenue bonds where the government pledges income derived from the acquired or the constructed assets to pay debt service. All amounts outstanding at the end of the current fiscal year are related to bonds issued in prior years. Revenue bond debt service requirements to maturity are as follows:

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Airport Revenue Bonds, Series 1996				
Principal	\$ 140,000	\$	\$	\$
Interest	7,700			
Water Revenue Refunding Bonds, Series 2001				
Principal	455,000			
Interest	12,513			
Wastewater Refunding Bonds, Series 2005				
Principal	595,000	615,000	635,000	665,000
Interest	272,375	251,253	229,113	205,618
Total Revenue Bonds	<u>\$ 1,482,588</u>	<u>\$ 866,253</u>	<u>\$ 864,113</u>	<u>\$ 870,618</u>

General Obligation Bonds

General obligation bonds are a voted indebtedness and are the direct obligation of the tax payers. The government issued general obligation bonds to finance capital projects as approved by City Council. General obligation bond debt service requirements to maturity are as follows:

General Obligation Bonds, Series 2008				
Principal	\$	\$	\$ 40,000	\$ 50,000
Interest	205,525	205,525	205,525	203,425
Total General Obligation Bonds	<u>\$ 205,525</u>	<u>\$ 205,525</u>	<u>\$ 245,525</u>	<u>\$ 253,425</u>

Full Faith and Credit Bonds

Full faith and credit bonds were issued for the government's capital projects as approved by City Council. They are a direct obligation and pledge of the full faith and credit of the government. Full faith and credit bond debt service requirements to maturity are as follows:

Full Faith and Credit Obligations, Series 2008				
Principal	\$ 165,000	\$ 170,000	\$ 175,000	\$ 185,000
Interest	130,633	124,445	117,645	110,645
Total Full Faith and Credit Bonds	<u>\$ 295,633</u>	<u>\$ 294,445</u>	<u>\$ 292,645</u>	<u>\$ 295,645</u>

Other Long-term Liabilities

The government has entered into several long-term agreements as noted below:

SPWF - Water line service extension				
Principal	\$ 35,870	\$ 36,082	\$ 36,310	\$ 36,563
Interest	29,428	28,128	26,775	25,323
Timbermill Shores				
Principal				
Washington Fed - Town Center Urban Renewal				
Principal	124,187	114,923	117,844	120,771
Interest	14,725	23,989	21,068	18,141
Total other long-term liabilities	<u>\$ 204,210</u>	<u>\$ 203,122</u>	<u>\$ 201,997</u>	<u>\$ 200,798</u>

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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

2020	2021-2025	2026-2030	2031-2035	2036-2040	2041-2045	Total
\$	\$	\$	\$	\$	\$	\$ 140,000
						7,700
						455,000
						12,513
685,000	3,860,000					7,055,000
180,680	475,770					1,614,809
<u>\$ 865,680</u>	<u>\$ 4,335,770</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 9,285,021</u>
\$ 55,000	\$ 465,000	\$ 845,000	\$ 1,385,000	\$ 1,160,000	\$	\$ 4,000,000
200,800	947,300	787,963	514,138	119,250		3,389,450
<u>\$ 255,800</u>	<u>\$ 1,412,300</u>	<u>\$ 1,632,963</u>	<u>\$ 1,899,138</u>	<u>\$ 1,279,250</u>	<u>\$ -</u>	<u>\$ 7,389,450</u>
\$ 190,000	\$ 1,080,000	\$ 1,050,000	\$	\$	\$	\$ 3,015,000
103,245	382,800	120,580				1,089,993
<u>\$ 293,245</u>	<u>\$ 1,462,800</u>	<u>\$ 1,170,580</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,104,993</u>
\$ 41,825	\$ 223,545	\$ 282,759	\$	\$	\$	\$ 692,954
23,860	93,226	39,037				265,777
	255,600	575,000	575,000	575,000	267,964	2,248,564
123,771	485,766					1,087,262
15,141	29,082					122,145
<u>\$ 204,597</u>	<u>\$ 1,087,219</u>	<u>\$ 896,796</u>	<u>\$ 575,000</u>	<u>\$ 575,000</u>	<u>\$ 267,964</u>	<u>\$ 4,416,702</u>

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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

K. Short-term debt:

Washington Federal – Town Center Urban Renewal

The government has pledged future tax increment revenues to repay a line of credit of \$300,000 entered into with Washington Federal on October 09, 2014. The loan was drawn down and the funds were used to complete projects in the Town Center Urban Renewal District. Monthly payments of interest are required to be paid at a variable interest of prime minus 0.500% (currently 2.750%) based on the Lender’s Prime Rate (the “Index”) until maturity on June 1, 2015, at which time the principal was due in full. 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 \$306,565 and \$173,319 respectively. The loan was refinanced in 2015.

Short-term debt activity of the fiscal year ended June 30, 2015 was as follows:

	<u>Balance 7/1/14</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/15</u>
Washington Federal	-	300,000	300,000	-

L. Fund balance

Fund Balance as of June 30, 2015 is detailed as follows:

	<u>General Fund</u>	<u>Airport Fund</u>	<u>Lakefront Urban Renewal Fund</u>	<u>Street Fund</u>	<u>Escrow Reserve Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balances:							
Nonspendable:							
Prepays	130,701	4,574		67,614		16,322	219,211
Inventory				5,218		31,579	36,797
Restricted for:							
Capital projects		10,923				78,625	89,548
Debt Service		147,700					147,700
Forfeiture Money	71,800						71,800
DOJ Equitable Sharing	8,654						8,654
Parks Master Plan						19,404	19,404
Traffic signals				9,530			9,530
Third party claims						706,617	706,617
Urban renewal						723,508	723,508
Assigned for:							
Capital projects					7,190,470	3,150,470	10,340,940
Community programs	48,609						48,609
Public Access Television	55,182						55,182
Debt Service						57,181	57,181
Operations		961,509		4,494,391		2,388,767	7,844,667
Unassigned:							
Unassigned	3,246,947		(726,523)			(174,624)	2,345,800
Total Fund Balances	<u>3,561,893</u>	<u>1,124,706</u>	<u>(726,523)</u>	<u>4,576,753</u>	<u>7,190,470</u>	<u>6,997,849</u>	<u>22,725,148</u>

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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

M. Interfund receivables and payables

The composition of interfund balances as of June 30, 2015 is as follows:

Advances from / to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Escrow Reserve Fund	Airport Fund	\$275,000
Escrow Reserve Fund	Lakefront Urban Renewal Fund	\$730,790
Escrow Reserve Fund	Technology Reserve Fund	\$409,815

An interfund loan in an amount not to exceed \$1,500,000 from the escrow reserve fund to the airport fund was authorized by the government’s council in March 2010. The loan amortization was amended and approved by council in August 2011 and again in May 2015. The loan was to provide cash flow for the quarterly payments on the wetlands mitigation settlement agreement while awaiting reimbursement from the Federal Aviation Administration. The total amount loaned from the escrow reserve fund was \$900,000 at 4.625% interest. Principal of \$25,000 and interest of \$13,875 were paid in fiscal year 2015.

An interfund loan in the amount of \$900,000 from the escrow reserve fund to the lakefront urban renewal fund was authorized by the government’s council in October 2013. The loan was used to reimburse the developer, Timbermill Shores, for work done on the lakefront of Lake Ewauna. The loan accrues interest at 3.75% and matures in 2023. The loan will be repaid using tax increment financing. Principal of \$79,210 and interest of \$30,375 were paid in fiscal year 2015.

An interund loan in the amount of \$425,000 from the escrow reserve fund to the technology reserve fund was authorized by the government’s council in June 2014. The loan was used to fund the ERP system and conversion expenses. The loan accrues interest at 4.75% and matures in 2024. Principal of \$15,185 and interest of \$10,011 were paid in fiscal year 2015.

N. Interfund transfers

The composition of interfund transfers for the year ended June 30, 2015 is as follows:

Interfund transfers:

<u>Transfer out</u>	<u>Transfer in</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	2,073,954
Wastewater Fund	Street Fund	750,000
Wastewater Fund	Nonmajor Governmental Funds	250,000
Water Fund	Airport Fund	215,290
Water Fund	Street Fund	34,545
Water Fund	Nonmajor Governmental Fund	320,078
Nonmajor Governmental Fund	Escrow Reserve Fund	133,499
Total		<u>\$ 3,777,366</u>

In the year ended June 30, 2015, the government made the following transfers:

The general fund transferred \$60,000 to the technology reserve fund for the replacement of the ERP system, \$13,954 to the parking fund to pay off a loan and \$2,000,000 to the building reserve fund for future capital projects.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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

The wastewater fund transferred \$100,000 to the parks fund, \$750,000 to the street fund and \$150,000 to the economic development fund which were the excess funds from the Cogen plant effluent agreement and will be used for projects at the Council’s discretion.

The water fund transferred \$215,290 to the airport fund and \$34,545 to the street fund to support operations and \$320,078 to the parks fund to support operations and capital improvements.

The cogeneration fund transferred \$133,499 to the escrow reserve fund for capital.

NOTE 4 – CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment, by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

On February 10, 2010, the Oregon Department of Environmental Quality released the draft document on the Klamath River TMDL’s (Total Maximum Daily Load) for public comment. The City hired Perkins, Coie, LLP, to prepare comments to the draft. The City’s comments on the draft were submitted on May 26, 2010. On December 21, 2010 the Klamath River TMDL’s were issued as a final Order by Oregon Department of Environmental Quality (DEQ) and submitted to the Environmental Protection Agency (EPA) for review and final approval. In February of 2011, City staff received approval from Council to submit a Petition for Reconsideration, which was submitted to DEQ in February of 2011. DEQ asked EPA to hold final approval until DEQ finished evaluating the Reconsideration documents. In June of 2011, DEQ indicated that they would adopt the final TMDL’s in December of 2011. The City requested that DEQ hold off on adopting the TMDL’s until after the City and DEQ meet in January of 2012. The City met with DEQ at which time discussion was focused around seasonal allocations which essentially would relax criteria in the winter months and tighten criteria in summer months when water quality is at its lowest. DEQ was receptive to this concept and the City pursued additional modeling work to show that this was feasible. While this modeling work was taking place, the City received notice from the EPA that they were going to adopt the TMDL’s as submitted by Oregon DEQ and on May 30, 2012 EPA approved the upper Klamath TMDL. Since EPA’s adoption of the TMDL, a legal challenge was filed by Northwest Environmental Advocates which disagreed with how the temperature standard was administered throughout the state. In addition they also challenged the Klamath River TMDL for similar issues. At this time the City is in a holding pattern as DEQ determines the best course of action.

NOTE 5 – CHANGE IN ACCOUNTING PRINCIPLE

Based on implementation of GASB Statement No. 68 and 71, the City restated the beginning net position for the Governmental Activities and Business-Type Activities. Net position has been restated as follows:

	Governmental Activities	Business-Type Activities	Total
Net position - beginning (as originally reported)	\$ 132,916,942	\$ 71,485,242	\$ 204,402,184
Cumulative effect of change in accounting principle	(2,873,466)	(492,799)	(3,366,265)
Net position - beginning (as restated)	<u>\$ 130,043,476</u>	<u>\$ 70,992,443</u>	<u>\$ 201,035,919</u>

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 6- ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. GASB Statement No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. GASB Statement No. 71 addresses an issue regarding application of the transition provisions of GASB Statement No. 68. The City implemented GASB Statement No. 68 and 71 in the year ending June 30, 2015. Additional information can be found in Note 3 E. - Pension Plan and Note 5 - Change in Accounting Principle.

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

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

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF KLAMATH FALLS, OREGON
MAJOR GOVERNMENTAL FUNDS

The General Fund is the chief operating fund of the City and accounts for all financial resources except those required to be accounted for in another fund.

The Airport Fund is a special revenue fund that accounts for the operations of the Crater Lake Klamath Regional Airport. Revenues consist of property taxes, rental revenue, landing fees, FAA grants and other intergovernmental revenues. Expenditures are assigned for maintenance, repairs and capital improvements to the City's Airport facilities. Funds are also restricted for the annual debt service payment for Airport's Series 1996 revenue bonds.

The Lakefront Urban Renewal Fund is a special revenue fund that accounts for capital projects and receipts from the property tax increment for property located along the Timbermill Shores subdivision of Lake Ewauna. Payments are restricted for capital projects, payments to the developer and debt service.

The Street Fund accounts for the operation of the City's street system. Revenue consists of franchise fees and intergovernmental revenues which are assigned for spending on street repairs, maintenance and capital improvements.

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CITY OF KLAMATH FALLS, OREGON
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended June 30, 2015

Schedule A-1

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 5,384,975	\$ 5,384,975	\$ 5,494,574	\$ 109,599
Special assessments	500	500	-	(500)
Intergovernmental	543,800	543,800	555,259	11,459
Licenses, fees and permits	144,875	144,875	137,648	(7,227)
Franchise fees	1,474,075	1,474,075	1,466,238	(7,837)
Charges for services	67,875	67,875	68,395	520
Internal charges for services	2,781,650	2,781,650	2,668,758	(112,892)
Fines and forfeits	377,800	377,800	404,326	26,526
Investment income	61,225	61,225	86,716	25,491
Miscellaneous revenue	10,000	55,150	76,577	21,427
Total revenues	<u>10,846,775</u>	<u>10,891,925</u>	<u>10,958,491</u>	<u>66,566</u>
EXPENDITURES				
Municipal court	237,600	241,350	231,203	10,147
City manager	456,550	504,450	480,507	23,943
Legal	232,850	232,850	219,910	12,940
Finance	669,100	690,175	651,550	38,625
Human resources	261,700	261,700	249,031	12,669
Information systems	396,475	396,475	359,812	36,663
Planning	421,075	391,250	351,884	39,366
Public works administration	263,775	261,975	245,673	16,302
Public works engineering	664,525	664,525	516,588	147,937
Police	5,712,625	5,712,625	5,273,811	438,814
Code enforcement	198,175	208,175	172,410	35,765
Legislative	117,550	117,550	92,022	25,528
Maintenance	923,050	923,050	867,793	55,257
Other general fund programs - materials & services	115,025	115,025	71,752	43,273
Other general fund programs - capital outlay	55,000	84,050	63,897	20,153
Debt service	300,300	285,900	285,882	18
Contingency	15,000	15,000	-	15,000
Total expenditures	<u>11,040,375</u>	<u>11,106,125</u>	<u>10,133,725</u>	<u>972,400</u>
Excess (deficiency) of revenues over expenditures	(193,600)	(214,200)	824,766	1,038,966
OTHER FINANCING SOURCES (USES)				
Transfers out	(2,060,000)	(2,074,400)	(2,073,955)	445
Insurance recoveries	-	-	9,124	9,124
Total other financing source (uses)	<u>(2,060,000)</u>	<u>(2,074,400)</u>	<u>(2,064,831)</u>	<u>9,569</u>
Net change in fund balances	(2,253,600)	(2,288,600)	(1,240,065)	1,048,535
Fund balances - beginning	4,812,250	4,847,250	4,801,958	(45,292)
Fund balances - ending	<u>\$ 2,558,650</u>	<u>\$ 2,558,650</u>	<u>\$ 3,561,893</u>	<u>\$ 1,003,243</u>

CITY OF KLAMATH FALLS, OREGON
 AIRPORT FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
 For the Year Ended June 30, 2015

Schedule A-2

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 215,700	\$ 215,700	\$ 338,283	\$ 122,583
Intergovernmental	767,500	1,015,725	538,363	(477,362)
Charges for services	446,050	446,050	524,083	78,033
Investment income	7,400	7,400	11,614	4,214
Miscellaneous revenue	-	3,675	9,938	6,263
Total revenues	<u>1,436,650</u>	<u>1,688,550</u>	<u>1,422,281</u>	<u>(266,269)</u>
EXPENDITURES				
Airport operations	1,201,275	1,455,625	1,200,959	254,666
FAA grants	350,000	605,700	149,494	456,206
Debt service	183,725	183,725	183,725	-
Total expenditures	<u>1,735,000</u>	<u>2,245,050</u>	<u>1,534,178</u>	<u>710,872</u>
Excess (deficiency) of revenues over expenditures	(298,350)	(556,500)	(111,897)	444,603
OTHER FINANCING SOURCES (USES)				
Transfers in	201,675	201,675	215,290	13,615
Proceeds from sale of asset	-	-	2,200	2,200
Total other financing source (uses)	<u>201,675</u>	<u>201,675</u>	<u>217,490</u>	<u>15,815</u>
Net change in fund balances	(96,675)	(354,825)	105,593	460,418
Fund balances - beginning	753,900	879,275	1,294,113	414,838
Fund balances - ending	<u>\$ 657,225</u>	<u>\$ 524,450</u>	1,399,706	<u>\$ 875,256</u>
Reconciliation: Interfund loan			<u>(275,000)</u>	
Fund balances - ending (GAAP)			<u>\$ 1,124,706</u>	

CITY OF KLAMATH FALLS, OREGON
 LAKEFRONT URBAN RENEWAL FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
 For the Year Ended June 30, 2015

Schedule A-3

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 121,200	\$ 121,200	\$ 105,980	\$ (15,220)
Investment income	925	925	1,297	372
Total revenues	<u>122,125</u>	<u>122,125</u>	<u>107,277</u>	<u>(14,848)</u>
EXPENDITURES				
Lakefront urban renewal	6,725	6,725	6,720	5
Debt service	109,600	109,600	109,585	15
Contingency	<u>21,575</u>	<u>21,575</u>	-	<u>21,575</u>
Total expenditures	<u>137,900</u>	<u>137,900</u>	<u>116,305</u>	<u>21,595</u>
Excess (deficiency) of revenues over expenditures	(15,775)	(15,775)	(9,028)	6,747
Fund balances - beginning	15,775	15,775	13,295	(2,480)
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>4,267</u>	<u>\$ 4,267</u>
Reconciliation: Interfund loan			<u>(730,790)</u>	
Fund balances - ending (GAAP)			<u>\$ (726,523)</u>	

CITY OF KLAMATH FALLS, OREGON
STREET FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended June 30, 2015

Schedule A-4

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ 2,584,925	\$ 2,584,925	\$ 2,435,400	\$ (149,525)
Franchise fees	637,850	637,850	635,530	(2,320)
Charges for services	4,075	4,075	4,702	627
Internal charges for services	203,125	203,125	268,004	64,879
Investment income	22,550	22,550	16,175	(6,375)
Miscellaneous revenue	-	-	22,212	22,212
System development charges	-	-	2,722	2,722
Total revenues	<u>3,452,525</u>	<u>3,452,525</u>	<u>3,384,745</u>	<u>(67,780)</u>
EXPENDITURES				
Street maintenance	4,051,550	4,051,550	2,752,818	1,298,732
Vehicle maintenance	202,875	202,875	174,649	28,226
Contingency	140,000	140,000	-	140,000
Total expenditures	<u>4,394,425</u>	<u>4,394,425</u>	<u>2,927,467</u>	<u>1,466,958</u>
Excess (deficiency) of revenues over expenditures	(941,900)	(941,900)	457,278	1,399,178
OTHER FINANCING SOURCES (USES)				
Transfers in	820,700	820,700	784,545	(36,155)
Insurance recoveries	-	-	4,407	4,407
Total other financing source (uses)	<u>820,700</u>	<u>820,700</u>	<u>788,952</u>	<u>(31,748)</u>
Net change in fund balances	(121,200)	(121,200)	1,246,230	1,367,430
Fund balances - beginning	3,014,950	3,014,950	3,330,523	315,573
Fund balances - ending	<u>\$ 2,893,750</u>	<u>\$ 2,893,750</u>	<u>\$ 4,576,753</u>	<u>\$ 1,683,003</u>

City of Klamath Falls, Oregon
Schedule of Funding Progress
Last Three Fiscal Years

Schedule A-5

POST EMPLOYMENT HEALTH CARE PLAN - IMPLICIT MEDICAL BENEFIT

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b – a) / c)
July 1, 2009	\$ -	\$ 930,240	\$ 930,240	0%	\$ 6,007,311	15.49%
August 1, 2012	-	822,372	822,372	0%	6,341,297	12.97%
August 1, 2014	-	569,207	569,207	0%	6,079,986	9.36%

City of Klamath Falls, Oregon
 Schedule of Proportionate Share of Net Pension Liability
 Last Two Fiscal Years

Schedule A-6

Year Ended June 30,	Proportion of the net pension liability (asset) (a)	Proportionate share of the net pension liability (asset) (b)	Covered payroll (c)	Proportionate share of the net pension liability (asset) as a percentage of its covered payroll (b/c)	Plan fiduciary net position as a percentage of the total pension liability
2015	0.07740436%	\$ (1,754,536)	\$ 9,314,418	-18.84%	103.60%
2014	0.07740436%	3,950,058	9,389,238	42.07%	91.97%

Schedule of Contributions
 Last Two Fiscal Years

Schedule A-7

Year Ended June 30,	Statutorily required contribution (a)	Contributions in relation to the statutorily required contribution (b)	Contribution deficiency (excess) (a-b)	City's covered payroll (c)	Contributions as a percent of covered payroll (b/c)
2015	\$ 635,700	\$ 635,700	\$ -	\$ 9,314,418	6.82%
2014	632,709	632,709	-	9,389,238	6.74%

The amounts presented for each fiscal year were actuarial determined at December 31 and rolled forward to the measurement date.

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

Stewardship, Compliance, and Accountability

On or before June 30 of each year, the City enacts a resolution approving the budget, appropriating the expenditures, and levying the property taxes. The City's budget is presented on the modified accrual basis of accounting which is not the same basis as GAAP.

Prior to enacting this resolution, the proposed budget is presented to a budget committee. The budget committee presents the budget to the City Council for budget hearings prior to enactment of the resolution. The City budgets all funds as required by Oregon Local Budget Law.

The resolution authorizing appropriations for each fund sets the legal level of control by which expenditures cannot legally exceed appropriations. Total expenditures by department as established by the resolution are the legal level of control for the funds. Non-departmental expenditures within the funds are categorized by materials and services, capital outlay, debt service, transfers and contingency and are the legal level of control for non-departmental expenditures. The detail budget document, however, is required to contain more specific information for the above mentioned expenditure categories. Unexpected additional resources 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 adoption by the City Council. Management may modify original and supplemental budgets by the use of appropriation transfers between the legal levels of control within a fund. Such transfers require approval by the City Council. Management may not amend the budget without seeking the approval of the Council. The City had appropriation transfers during the year-ended June 30, 2015. The city had supplemental budgets during the year-ended June 30, 2015. Appropriations lapse as of year-end.

Pension Plan

Changes in Plan Provisions

A summary of key changes in plan provisions are described in the Oregon Public Employees Retirement System's GASB 68 Disclosure Information which can be found at: http://www.oregon.gov/pers/EMP/docs/er_general_information/opers_gasb_68_disclosure_information_revised.pdf

Changes of assumptions

A summary of key changes implemented since the December 31, 2011 valuation are described in the Oregon Public Employees Retirement System's GASB 68 Disclosure Information which can be found

at: http://www.oregon.gov/pers/EMP/docs/er_general_information/opers_gasb_68_disclosure_information_revised.pdf Additional details and a comprehensive list of changes in methods and assumptions can be found in the 2012 Experience Study for the System, which was published on September 18, 2013, and can be found at: <http://www.oregon.gov/pers/docs/2012%20Exp%20Study%20Updated.pdf>

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OTHER SUPPLEMENTARY INFORMATION

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**NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS**

CITY OF KLAMATH FALLS, OREGON
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2015

Schedule B-1

	Special Revenue Funds	Capital Projects Funds	Debt Service Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 2,410,914	\$ 3,401,407	\$ 51,534	\$ 5,863,855
Accounts receivable	162,361	1,155	-	163,516
Taxes receivable	103,269	-	23,132	126,401
Interest receivable	2,771	-	612	3,383
Inventories	31,579	-	-	31,579
Prepaid items	16,322	-	-	16,322
Temporarily restricted assets				
Cash and cash equivalents	767,828	77,470	-	845,298
Investments	192,683	-	-	192,683
Interest receivable	4,820	-	-	4,820
Long-term investments				
Temporarily restricted investments	497,946	-	-	497,946
 Total Assets	 \$ 4,190,493	 \$ 3,480,032	 \$ 75,278	 \$ 7,745,803
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 122,826	\$ 15,746	\$ -	\$ 138,572
Advances from other funds	-	409,815	-	409,815
Deposits payable	3,530	-	-	3,530
Unearned revenue	32,491	-	-	32,491
 Total Liabilities	 158,847	 425,561	 -	 584,408
Deferred inflows of resources:				
Unavailable revenue - property taxes	77,751	-	18,097	95,848
Unavailable revenue - transient room tax	48,916	-	-	48,916
Unavailable revenue - downtown maint. district fees	1,161	-	-	1,161
Unavailable revenue - accounts receivable	2,314	-	-	2,314
Unavailable revenue - parking fines	15,307	-	-	15,307
 Total Deferred Inflows of Resources	 145,449	 -	 18,097	 163,546
 Total Liabilities and Deferred Inflows of Resources	 304,296	 425,561	 18,097	 747,954
Fund Balances:				
Nonspendable	47,901	-	-	47,901
Restricted	1,449,529	78,625	-	1,528,154
Assigned	2,388,767	3,150,470	57,181	5,596,418
Unassigned	-	(174,624)	-	(174,624)
 Total Fund Balances	 3,886,197	 3,054,471	 57,181	 6,997,849
 Total Liabilities and Fund Balances	 \$ 4,190,493	 \$ 3,480,032	 \$ 75,278	 \$ 7,745,803

CITY OF KLAMATH FALLS, OREGON
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2015

Schedule B-2

	Special Revenue Funds	Capital Project Funds	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues				
Taxes	\$ 891,946	\$ -	\$ 201,707	\$ 1,093,653
Intergovernmental	201,800	12,416	-	214,216
Licenses, fees and permits	40,851	-	-	40,851
Franchise fees	298,745	-	-	298,745
Charges for services	431,873	54,000	-	485,873
Fines and forfeits	55,825	-	-	55,825
Investment income	33,034	12,087	2,301	47,422
Miscellaneous revenues	37,792	-	-	37,792
Total Revenues	1,991,866	78,503	204,008	2,274,377
Expenditures				
Current:				
General government	535,660	32,046	-	567,706
Culture and recreation	1,167,304	-	-	1,167,304
Highways and streets	356,734	-	-	356,734
Debt service:				
Principal	1,265,504	-	-	1,265,504
Interest	62,201	10,011	205,525	277,737
Capital outlay:				
General government	334,883	262,289	-	597,172
Culture and recreation	152,894	-	-	152,894
Public Safety	-	-	-	-
Highways and streets	211,711	1,472	-	213,183
Total Expenditures	4,086,891	305,818	205,525	4,598,234
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,095,025)	(227,315)	(1,517)	(2,323,857)
Other Financing Sources (Uses)				
Proceeds from sale of asset	68,571	-	-	68,571
Transfers in	584,032	2,060,000	-	2,644,032
Transfers out	(133,499)	-	-	(133,499)
Issuance of debt	1,417,262	-	-	1,417,262
Insurance recoveries	1,592	-	-	1,592
Total Other Financing Sources and (Uses)	1,937,958	2,060,000	-	3,997,958
Net Change in Fund Balances	(157,067)	1,832,685	(1,517)	1,674,101
Fund Balance - Beginning	4,092,180	1,221,786	58,698	5,372,664
Prior Period Adjustment	(48,916)	-	-	(48,916)
Fund Balance - Beginning (Adjusted)	4,043,264	1,221,786	58,698	5,323,748
Fund Balances - Ending	<u>\$ 3,886,197</u>	<u>\$ 3,054,471</u>	<u>\$ 57,181</u>	<u>\$ 6,997,849</u>

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CITY OF KLAMATH FALLS, OREGON
NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

The Parks Fund accounts for the operation of the City's park system and the Ella Redkey Pool. Revenue consists of property taxes and intergovernmental revenues, which are assigned for operation of the City's park and recreation system. Other revenues consist primarily of charges for services and a transfer in from the Water Fund for a portion of water receipts.

The Downtown and Town Center Urban Renewal Funds account for receipts from the property tax increment for the specified area. Funds are restricted for capital improvements, payments to developers and debt service.

The Off-Street Parking Fund accounts for expenditures to provide parking for customers of downtown businesses. Revenues consist of parking fees and parking fines.

The Street Lighting Fund accounts for the operations of the City's street lights. Primary revenues are franchise fees, charges for services and intergovernmental revenue. The funds are designated for maintenance and repairs and capital improvements of the street lighting system.

The Downtown Maintenance District Fund imposes an annual assessment on benefited properties to partially offset the costs of landscaping, banners, benches, entry signs, sidewalk sweeping, garbage removal and other public area maintenance.

The Economic Development Fund accounts for infrastructure improvements and costs to encourage development within the City of Klamath Falls and other costs associated with property owned by the City. Revenue is generally transferred in from other funds.

The Klamath Cogeneration Fund accounts for the proceeds from the sale of a 500 megawatt gas fired, combined-cycle power plant which are then transferred to the Escrow Reserve Fund. Revenues consist solely of investment earnings.

CITY OF KLAMATH FALLS, OREGON
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 June 30, 2015

	Parks Fund	Downtown Urban Renewal Fund	Town Center Urban Renewal Fund	Parking Fund
ASSETS				
Cash and cash equivalents	\$ 1,603,472	\$ -	\$ -	\$ 81,392
Receivables				
Accounts	83,150	5,335	-	16,464
Taxes	82,982	-	20,287	-
Interest	2,264	-	507	-
Inventories	-	9,236	-	-
Prepaid items	15,222	-	-	1,100
Temporarily restricted assets				
Cash and cash equivalents	19,404	713,245	24,011	-
Investments	-	-	-	-
Interest receivable	-	-	-	-
Long-term investments				
Temporarily restricted investments	-	-	-	-
Total Assets	\$ 1,806,494	\$ 727,816	\$ 44,805	\$ 98,956
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 58,718	\$ 21,475	\$ -	\$ 922
Deposits payable	3,530	-	-	-
Unearned revenue	9,051	-	-	13,750
Total Liabilities	71,299	21,475	-	14,672
Deferred inflows of resources:				
Unavailable revenue - property taxes	61,663	-	16,088	-
Unavailable revenue - transient room tax	48,916	-	-	-
Unavailable revenue - downtown maint. district fees	-	-	-	-
Unavailable revenue - accounts receivable	-	2,314	-	-
Unavailable revenue - parking fines	-	-	-	15,307
Total Deferred Inflows of Resources	110,579	2,314	16,088	15,307
Total Liabilities and Deferred Inflows of Resources	181,878	23,789	16,088	29,979
Fund Balances:				
Nonspendable	15,222	9,236	-	1,100
Restricted	19,404	694,791	28,717	-
Assigned	1,589,990	-	-	67,877
Total Fund Balances	1,624,616	704,027	28,717	68,977
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 1,806,494	\$ 727,816	\$ 44,805	\$ 98,956

Schedule C-1

Street Lighting Fund	Downtown Maintenance District Fund	Economic Development/Property Fund	Cogeneration Fund	Total
\$ 417,218	\$ 15,694	\$ 293,138	\$ -	\$ 2,410,914
51,112	6,300	-	-	162,361
-	-	-	-	103,269
-	-	-	-	2,771
22,343	-	-	-	31,579
-	-	-	-	16,322
-	-	-	11,168	767,828
-	-	-	192,683	192,683
-	-	-	4,820	4,820
-	-	-	497,946	497,946
<u>\$ 490,673</u>	<u>\$ 21,994</u>	<u>\$ 293,138</u>	<u>\$ 706,617</u>	<u>\$ 4,190,493</u>
\$ 25,016	\$ 1,695	\$ 15,000	\$ -	\$ 122,826
-	-	-	-	3,530
-	9,690	-	-	32,491
<u>25,016</u>	<u>11,385</u>	<u>15,000</u>	<u>-</u>	<u>158,847</u>
-	-	-	-	77,751
-	-	-	-	48,916
-	1,161	-	-	1,161
-	-	-	-	2,314
-	-	-	-	15,307
-	1,161	-	-	145,449
<u>25,016</u>	<u>12,546</u>	<u>15,000</u>	<u>-</u>	<u>304,296</u>
22,343	-	-	-	47,901
-	-	-	706,617	1,449,529
443,314	9,448	278,138	-	2,388,767
<u>465,657</u>	<u>9,448</u>	<u>278,138</u>	<u>706,617</u>	<u>3,886,197</u>
<u>\$ 490,673</u>	<u>\$ 21,994</u>	<u>\$ 293,138</u>	<u>\$ 706,617</u>	<u>\$ 4,190,493</u>

CITY OF KLAMATH FALLS, OREGON
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 For the Year Ended June 30, 2015

	Parks Fund	Downtown Urban Renewal Fund	Town Center Urban Renewal Fund	Parking Fund
Revenues				
Taxes	\$ 718,627	\$ -	\$ 173,319	\$ -
Intergovernmental	201,800	-	-	-
Licenses, fees and permits	-	-	-	40,851
Franchise fees	-	-	-	-
Charges for services	145,332	68,447	-	-
Fines and forfeits	-	-	-	55,825
Investment income	14,853	7,194	1,889	480
Miscellaneous revenues	36,334	500	-	369
Total Revenues	<u>1,116,946</u>	<u>76,141</u>	<u>175,208</u>	<u>97,525</u>
Expenditures				
Current:				
General government	-	114,033	303,445	-
Culture and recreation	1,167,304	-	-	-
Highways and streets	-	-	-	100,059
Debt service:				
Principal	-	-	1,251,845	13,659
Interest	-	-	61,959	242
Capital outlay:				
General government	-	334,883	-	-
Culture and recreation	152,894	-	-	-
Highways and streets	-	-	-	-
Total Expenditures	<u>1,320,198</u>	<u>448,916</u>	<u>1,617,249</u>	<u>113,960</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(203,252)</u>	<u>(372,775)</u>	<u>(1,442,041)</u>	<u>(16,435)</u>
Other Financing Sources (Uses)				
Proceeds from sale of asset	-	68,571	-	-
Transfers in	420,078	-	-	13,954
Transfers out	-	-	-	-
Issuance of debt	-	-	1,417,262	-
Insurance recoveries	1,592	-	-	-
Total Other Financing Sources and (Uses)	<u>421,670</u>	<u>68,571</u>	<u>1,417,262</u>	<u>13,954</u>
Net Change in Fund Balances	<u>218,418</u>	<u>(304,204)</u>	<u>(24,779)</u>	<u>(2,481)</u>
Fund Balance - Beginning	1,455,114	1,008,231	53,496	71,458
Prior Period Adjustment	(48,916)	-	-	-
Fund Balance - Beginning (Adjusted)	<u>1,406,198</u>	<u>1,008,231</u>	<u>53,496</u>	<u>71,458</u>
Fund Balances - Ending	<u>\$ 1,624,616</u>	<u>\$ 704,027</u>	<u>\$ 28,717</u>	<u>\$ 68,977</u>

Schedule C-2

Street Lighting Fund	Downtown Maintenance District Fund	Economic Development/ Property Fund	Cogeneration Fund	Total
\$ -	\$ -	\$ -	\$ -	\$ 891,946
-	-	-	-	201,800
-	-	-	-	40,851
298,745	-	-	-	298,745
188,132	19,097	10,865	-	431,873
-	-	-	-	55,825
2,398	88	1,301	4,831	33,034
589	-	-	-	37,792
<u>489,864</u>	<u>19,185</u>	<u>12,166</u>	<u>4,831</u>	<u>1,991,866</u>
-	23,368	93,314	1,500	535,660
-	-	-	-	1,167,304
256,675	-	-	-	356,734
-	-	-	-	1,265,504
-	-	-	-	62,201
-	-	-	-	334,883
-	-	-	-	152,894
<u>211,711</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>211,711</u>
<u>468,386</u>	<u>23,368</u>	<u>93,314</u>	<u>1,500</u>	<u>4,086,891</u>
<u>21,478</u>	<u>(4,183)</u>	<u>(81,148)</u>	<u>3,331</u>	<u>(2,095,025)</u>
-	-	-	-	68,571
-	-	150,000	-	584,032
-	-	-	(133,499)	(133,499)
-	-	-	-	1,417,262
-	-	-	-	1,592
<u>-</u>	<u>-</u>	<u>150,000</u>	<u>(133,499)</u>	<u>1,937,958</u>
<u>21,478</u>	<u>(4,183)</u>	<u>68,852</u>	<u>(130,168)</u>	<u>(157,067)</u>
444,179	13,631	209,286	836,785	4,092,180
-	-	-	-	(48,916)
<u>444,179</u>	<u>13,631</u>	<u>209,286</u>	<u>836,785</u>	<u>4,043,264</u>
<u>\$ 465,657</u>	<u>\$ 9,448</u>	<u>\$ 278,138</u>	<u>\$ 706,617</u>	<u>\$ 3,886,197</u>

CITY OF KLAMATH FALLS, OREGON
PARKS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended June 30, 2015

Schedule C-3

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 656,225	\$ 656,225	\$ 718,627	\$ 62,402
Intergovernmental	590,150	590,150	201,800	(388,350)
Charges for services	148,900	148,900	145,332	(3,568)
Investment income	11,575	11,575	14,853	3,278
Miscellaneous revenue	27,775	32,425	36,334	3,909
Total revenues	<u>1,434,625</u>	<u>1,439,275</u>	<u>1,116,946</u>	<u>(322,329)</u>
EXPENDITURES				
Parks operations	1,536,800	1,568,625	941,095	627,530
Ella Redkey Pool	416,250	434,375	379,103	55,272
Contingency	50,000	4,700	-	4,700
Total expenditures	<u>2,003,050</u>	<u>2,007,700</u>	<u>1,320,198</u>	<u>687,502</u>
Excess (deficiency) of revenues over expenditures	(568,425)	(568,425)	(203,252)	365,173
OTHER FINANCING SOURCES (USES)				
Transfers in	478,600	478,600	420,078	(58,522)
Insurance recoveries	-	-	1,592	1,592
Total other financing source (uses)	<u>478,600</u>	<u>478,600</u>	<u>421,670</u>	<u>(56,930)</u>
Net change in fund balances	<u>(89,825)</u>	<u>(89,825)</u>	<u>218,418</u>	<u>308,243</u>
Fund balances - beginning	1,467,725	1,467,725	1,455,114	(12,611)
Prior period adjustment	-	-	(48,916)	(48,916)
Fund balances - beginning (adjusted)	<u>1,467,725</u>	<u>1,467,725</u>	<u>1,406,198</u>	<u>(61,527)</u>
Fund balances - ending	<u>\$ 1,377,900</u>	<u>\$ 1,377,900</u>	<u>\$ 1,624,616</u>	<u>\$ 246,716</u>

CITY OF KLAMATH FALLS, OREGON
DOWNTOWN URBAN RENEWAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended June 30, 2015

Schedule C-4

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Charges for services	\$ 72,700	\$ 72,700	\$ 68,447	\$ (4,253)
Investment income	6,575	6,575	7,194	619
Miscellaneous revenue	-	-	500	500
Total revenues	<u>79,275</u>	<u>79,275</u>	<u>76,141</u>	<u>(3,134)</u>
EXPENDITURES				
Downtown urban renewal	998,600	998,600	448,916	549,684
Contingency	-	57,000	-	57,000
Total expenditures	<u>998,600</u>	<u>1,055,600</u>	<u>448,916</u>	<u>606,684</u>
Excess (deficiency) of revenues over expenditures	(919,325)	(976,325)	(372,775)	603,550
OTHER FINANCING SOURCES (USES)				
Transfers out	(57,000)	-	-	-
Proceeds from sale of asset	93,300	93,300	68,571	(24,729)
Total other financing source (uses)	<u>36,300</u>	<u>93,300</u>	<u>68,571</u>	<u>(24,729)</u>
Net change in fund balances	(883,025)	(883,025)	(304,204)	578,821
Fund balances - beginning	883,025	883,025	1,008,231	125,206
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 704,027</u>	<u>\$ 704,027</u>

CITY OF KLAMATH FALLS, OREGON
TOWN CENTER URBAN RENEWAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended June 30, 2015

Schedule C-5

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 175,500	\$ 175,500	\$ 173,319	\$ (2,181)
Investment income	1,575	1,575	1,889	314
Total revenues	<u>177,075</u>	<u>177,075</u>	<u>175,208</u>	<u>(1,867)</u>
EXPENDITURES				
Town center urban renewal	306,450	306,450	303,445	3,005
Debt service	<u>206,275</u>	<u>206,275</u>	<u>1,313,804</u>	<u>(1,107,529)</u>
Total expenditures	<u>512,725</u>	<u>512,725</u>	<u>1,617,249</u>	<u>(1,104,524)</u>
Excess (deficiency) of revenues over expenditures	(335,650)	(335,650)	(1,442,041)	(1,106,391)
OTHER FINANCING SOURCES (USES)				
Issuance of debt	300,000	300,000	1,417,262	1,117,262
Total other financing source (uses)	<u>300,000</u>	<u>300,000</u>	<u>1,417,262</u>	<u>1,117,262</u>
Net change in fund balances	(35,650)	(35,650)	(24,779)	10,871
Fund balances - beginning	35,650	35,650	53,496	17,846
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,717</u>	<u>\$ 28,717</u>

CITY OF KLAMATH FALLS, OREGON
PARKING FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended June 30, 2015

Schedule C-6

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Licenses, fees and permits	\$ 46,000	\$ 46,000	\$ 40,851	\$ (5,149)
Fines and forfeits	59,050	59,050	55,825	(3,225)
Investment income	750	750	480	(270)
Miscellaneous revenue	-	-	369	369
Total revenues	<u>105,800</u>	<u>105,800</u>	<u>97,525</u>	<u>(8,275)</u>
EXPENDITURES				
Parking	103,800	103,800	100,059	3,741
Debt service	-	14,400	13,901	499
Total expenditures	<u>103,800</u>	<u>118,200</u>	<u>113,960</u>	<u>4,240</u>
Excess (deficiency) of revenues over expenditures	2,000	(12,400)	(16,435)	(4,035)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	14,400	13,954	(446)
Total other financing source (uses)	<u>-</u>	<u>14,400</u>	<u>13,954</u>	<u>(446)</u>
Net change in fund balances	2,000	2,000	(2,481)	(4,481)
Fund balances - beginning	101,675	101,675	71,458	(30,217)
Fund balances - ending	<u>\$ 103,675</u>	<u>\$ 103,675</u>	<u>\$ 68,977</u>	<u>\$ (34,698)</u>

CITY OF KLAMATH FALLS, OREGON
STREET LIGHTING FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended June 30, 2015

Schedule C-7

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Franchise fees	\$ 295,725	\$ 295,725	\$ 298,745	\$ 3,020
Charges for services	189,400	189,400	188,132	(1,268)
Investment income	2,525	2,525	2,398	(127)
Miscellaneous revenue	-	-	589	589
Total revenues	<u>487,650</u>	<u>487,650</u>	<u>489,864</u>	<u>2,214</u>
EXPENDITURES				
Street lighting operations	<u>555,750</u>	<u>555,750</u>	<u>468,386</u>	<u>87,364</u>
Total expenditures	<u>555,750</u>	<u>555,750</u>	<u>468,386</u>	<u>87,364</u>
Excess (deficiency) of revenues over expenditures	(68,100)	(68,100)	21,478	89,578
Fund balances - beginning	337,850	337,850	444,179	106,329
Fund balances - ending	<u>\$ 269,750</u>	<u>\$ 269,750</u>	<u>\$ 465,657</u>	<u>\$ 195,907</u>

CITY OF KLAMATH FALLS, OREGON
DOWNTOWN MAINTENANCE DISTRICT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended June 30, 2015

Schedule C-8

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Charges for services	\$ 22,700	\$ 22,700	\$ 19,097	\$ (3,603)
Investment income	200	200	88	(112)
Total revenues	<u>22,900</u>	<u>22,900</u>	<u>19,185</u>	<u>(3,715)</u>
EXPENDITURES				
Downtown maintenance district	<u>30,875</u>	<u>30,875</u>	<u>23,368</u>	<u>7,507</u>
Total expenditures	<u>30,875</u>	<u>30,875</u>	<u>23,368</u>	<u>7,507</u>
Excess (deficiency) of revenues over expenditures	(7,975)	(7,975)	(4,183)	3,792
Fund balances - beginning	27,850	27,850	13,631	(14,219)
Fund balances - ending	<u>\$ 19,875</u>	<u>\$ 19,875</u>	<u>\$ 9,448</u>	<u>\$ (10,427)</u>

CITY OF KLAMATH FALLS, OREGON
 ECONOMIC DEVELOPMENT/PROPERTY FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
 For the Year Ended June 30, 2015

Schedule C-9

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Charges for services	\$ 10,550	\$ 10,550	\$ 10,865	\$ 315
Investment income	1,150	1,150	1,301	151
Total revenues	<u>11,700</u>	<u>11,700</u>	<u>12,166</u>	<u>466</u>
EXPENDITURES				
Economic development/property				
Materials & services	92,350	112,375	93,314	19,061
Contingency	282,850	258,600	-	258,600
Total expenditures	<u>375,200</u>	<u>370,975</u>	<u>93,314</u>	<u>277,661</u>
Excess (deficiency) of revenues over expenditures	(363,500)	(359,275)	(81,148)	278,127
OTHER FINANCING SOURCES (USES)				
Transfers in	150,000	150,000	150,000	-
Total other financing source (uses)	<u>150,000</u>	<u>150,000</u>	<u>150,000</u>	<u>-</u>
Net change in fund balances	(213,500)	(209,275)	68,852	278,127
Fund balances - beginning	213,500	209,275	209,286	11
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 278,138</u>	<u>\$ 278,138</u>

CITY OF KLAMATH FALLS, OREGON
 COGENERATION FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
 For the Year Ended June 30, 2015

Schedule C-10

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Investment income	\$ 40,350	\$ 40,350	\$ 4,831	\$ (35,519)
Total revenues	<u>40,350</u>	<u>40,350</u>	<u>4,831</u>	<u>(35,519)</u>
EXPENDITURES				
Cogeneration				
Materials & services	1,500	1,500	1,500	-
Total expenditures	<u>1,500</u>	<u>1,500</u>	<u>1,500</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	38,850	38,850	3,331	(35,519)
OTHER FINANCING SOURCES (USES)				
Transfers out	(157,400)	(157,400)	(133,499)	23,901
Total other financing source (uses)	<u>(157,400)</u>	<u>(157,400)</u>	<u>(133,499)</u>	<u>23,901</u>
Net change in fund balances	(118,550)	(118,550)	(130,168)	(11,618)
Fund balances - beginning	877,225	877,225	836,785	(40,440)
Fund balances - ending	<u>\$ 758,675</u>	<u>\$ 758,675</u>	<u>\$ 706,617</u>	<u>\$ (52,058)</u>

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CITY OF KLAMATH FALLS, OREGON
NONMAJOR GOVERNMENTAL FUNDS

Capital Projects Funds

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds.

The Footpaths/Bicycle Trails Fund accounts for funds received and expended for construction and renovation of pedestrian footpaths and bicycle trails. The primary source of revenue is 1% of all gas tax receipts disbursed to the City.

The Technology Reserve Fund accounts for the reservation of funds and interfund loans set aside to upgrade or replace the computer information systems used by the City.

The Building Fund is a capital projects fund that accounts for funds received and expended for construction and renovation of buildings. Revenue consists of interest and payments from the Finance Division in the General Fund and the Utility Billing Divisions of the Water and Wastewater funds to reimburse the building fund for renovation of the finance/utility billing building at 222 S. 6th St.

The Escrow Reserve Fund is a major fund that accounts for the annual distribution of the non-restricted proceeds from the sale of the city's 500 megawatt gas fired, combined-cycle power plant. City council has chosen to use the distribution for needed capital projects or one-time expenditures.

Debt Service Fund

Debt service funds are used to account for taxes collected for the principal and interest payments of the 2008 general obligation bond used to build the Police Department.

Fiduciary Fund

Fiduciary funds are used to report assets held in a trustee capacity for others and therefore cannot be used to support the City's own programs.

The Veteran's Memorial Fund is used to account for funds belonging to donors and held in trust by the City for the sole and exclusive purpose of repairing, maintaining and expanding the Memorial facility at the Veterans Park. Expenditures of funds for the memorial are at the written direction of a "Memorial Committee".

CITY OF KLAMATH FALLS, OREGON
 COMBINING BALANCE SHEET
 NONMAJOR CAPITAL PROJECTS FUNDS
 June 30, 2015

Schedule D-1

	Footpaths/Bicycle Trails Fund	Technology Reserve Fund	Building Reserve Fund	Total
ASSETS				
Cash and cash equivalents	\$ -	\$ 250,937	\$ 3,150,470	\$ 3,401,407
Accounts receivable	1,155	-	-	1,155
Temporarily restricted assets				
Cash and cash equivalents	77,470	-	-	77,470
Total Assets	\$ 78,625	\$ 250,937	\$ 3,150,470	\$ 3,480,032
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ -	\$ 15,746	\$ -	\$ 15,746
Advances from other funds	-	409,815	-	409,815
Total Liabilities	-	425,561	-	425,561
Fund Balances				
Restricted	78,625	-	-	78,625
Assigned	-	-	3,150,470	3,150,470
Unassigned	-	(174,624)	-	(174,624)
Total Fund Balances	78,625	(174,624)	3,150,470	3,054,471
Total Liabilities and Fund Balances	\$ 78,625	\$ 250,937	\$ 3,150,470	\$ 3,480,032

CITY OF KLAMATH FALLS, OREGON
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR CAPITAL PROJECTS FUNDS
 For the Year Ended June 30, 2015

Schedule D-2

	<u>Footpaths/Bicycle Trails Fund</u>	<u>Technology Reserve Fund</u>	<u>Building Reserve Fund</u>	<u>Total</u>
Revenues				
Intergovernmental	\$ 12,416	\$ -	\$ -	\$ 12,416
Charges for Services	-	-	54,000	54,000
Investment Income	387	795	10,905	12,087
Total Revenues	<u>12,803</u>	<u>795</u>	<u>64,905</u>	<u>78,503</u>
Expenditures				
Materials and services	1,725	30,321	-	32,046
Capital Outlay	1,472	262,289	-	263,761
Debt Service	-	10,011	-	10,011
Total Expenditures	<u>3,197</u>	<u>302,621</u>	<u>-</u>	<u>305,818</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	9,606	(301,826)	64,905	(227,315)
Other Financing Sources (Uses)				
Transfers in	-	60,000	2,000,000	2,060,000
Total Other Financing Sources (Uses)	<u>-</u>	<u>60,000</u>	<u>2,000,000</u>	<u>2,060,000</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	9,606	(241,826)	2,064,905	1,832,685
Fund Balances - Beginning	<u>69,019</u>	<u>67,202</u>	<u>1,085,565</u>	<u>1,221,786</u>
Fund Balances - Ending	<u>\$ 78,625</u>	<u>\$ (174,624)</u>	<u>\$ 3,150,470</u>	<u>\$ 3,054,471</u>

CITY OF KLAMATH FALLS, OREGON
 FOOTPATHS/BICYCLE TRAILS FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
 For the Year Ended June 30, 2015

Schedule D-3

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ 12,025	\$ 12,025	\$ 12,416	\$ 391
Investment income	375	375	387	12
Total revenues	<u>12,400</u>	<u>12,400</u>	<u>12,803</u>	<u>403</u>
EXPENDITURES				
Footpaths/bicycle trails	6,725	6,725	3,197	3,528
Total expenditures	<u>6,725</u>	<u>6,725</u>	<u>3,197</u>	<u>3,528</u>
Excess (deficiency) of revenues over expenditures	5,675	5,675	9,606	3,931
Fund balances - beginning	70,000	70,000	69,019	(981)
Fund balances - ending	<u>\$ 75,675</u>	<u>\$ 75,675</u>	<u>\$ 78,625</u>	<u>\$ 2,950</u>

CITY OF KLAMATH FALLS, OREGON
 TECHNOLOGY RESERVE FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
 For the Year Ended June 30, 2015

Schedule D-4

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Investment income	\$ 125	\$ 125	\$ 795	\$ 670
Total revenues	<u>125</u>	<u>125</u>	<u>795</u>	<u>670</u>
EXPENDITURES				
Technology reserve				
Materials & services	22,575	37,575	30,321	7,254
Capital outlay	425,000	410,000	262,289	147,711
Debt service	25,200	25,200	25,196	4
Contingency	38,550	38,550	-	38,550
Total expenditures	<u>511,325</u>	<u>511,325</u>	<u>317,806</u>	<u>193,519</u>
Excess (deficiency) of revenues over expenditures	(511,200)	(511,200)	(317,011)	194,189
OTHER FINANCING SOURCES (USES)				
Transfers in	60,000	60,000	60,000	-
Issuance of debt - interfund loan	425,000	425,000	425,000	-
Total other financing source (uses)	<u>485,000</u>	<u>485,000</u>	<u>485,000</u>	<u>-</u>
Net change in fund balances	(26,200)	(26,200)	167,989	194,189
Fund balances - beginning	26,200	26,200	67,202	41,002
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	235,191	<u>\$ 235,191</u>
Reconciliation: Interfund loan			(409,815)	
Fund balances - ending (GAAP)			<u>\$ (174,624)</u>	

CITY OF KLAMATH FALLS, OREGON
 BUILDING RESERVE FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
 For the Year Ended June 30, 2015

Schedule D-5

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Charges for services	\$ 54,000	\$ 54,000	\$ 54,000	\$ -
Investment income	5,850	5,850	10,905	5,055
Total revenues	<u>59,850</u>	<u>59,850</u>	<u>64,905</u>	<u>5,055</u>
Excess (deficiency) of revenues over expenditures	59,850	59,850	64,905	5,055
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,000,000</u>	<u>-</u>
Total other financing source (uses)	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,000,000</u>	<u>-</u>
Net change in fund balances	2,059,850	2,059,850	2,064,905	5,055
Fund balances - beginning	1,085,425	1,085,425	1,085,565	140
Fund balances - ending	<u>\$ 3,145,275</u>	<u>\$ 3,145,275</u>	<u>\$ 3,150,470</u>	<u>\$ 5,195</u>

CITY OF KLAMATH FALLS, OREGON
 ESCROW RESERVE FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
 For the Year Ended June 30, 2015

Schedule D-6

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Investment income	\$ 97,875	\$ 97,875	\$ 84,568	\$ (13,307)
Total revenues	<u>97,875</u>	<u>97,875</u>	<u>84,568</u>	<u>(13,307)</u>
Excess (deficiency) of revenues over expenditures	97,875	97,875	84,568	(13,307)
OTHER FINANCING SOURCES (USES)				
Transfers in	157,400	157,400	133,499	(23,901)
Interfund loan	(425,000)	(425,000)	(425,000)	-
Interfund loan repayment	<u>109,125</u>	<u>109,125</u>	<u>119,395</u>	<u>10,270</u>
Total other financing source (uses)	<u>(158,475)</u>	<u>(158,475)</u>	<u>(172,106)</u>	<u>(13,631)</u>
Net change in fund balances	(60,600)	(60,600)	(87,538)	(26,938)
Fund balances - beginning	6,175,200	6,175,200	5,862,403	(312,797)
Fund balances - ending	<u>\$ 6,114,600</u>	<u>\$ 6,114,600</u>	<u>5,774,865</u>	<u>\$ (339,735)</u>
Reconciliation: Interfund loan			<u>1,415,605</u>	
Fund balances - ending (GAAP)			<u>\$ 7,190,470</u>	

CITY OF KLAMATH FALLS, OREGON
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended June 30, 2015

Schedule E-1

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 200,675	\$ 200,675	\$ 201,707	\$ 1,032
Investment income	1,800	1,800	2,301	501
Total revenues	<u>202,475</u>	<u>202,475</u>	<u>204,008</u>	<u>1,533</u>
EXPENDITURES				
Debt service				
Debt service	<u>205,525</u>	<u>205,525</u>	<u>205,525</u>	<u>-</u>
Total expenditures	<u>205,525</u>	<u>205,525</u>	<u>205,525</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	(3,050)	(3,050)	(1,517)	1,533
Fund balances - beginning	58,775	58,775	58,698	(77)
Fund balances - ending	<u>\$ 55,725</u>	<u>\$ 55,725</u>	<u>\$ 57,181</u>	<u>\$ 1,456</u>

CITY OF KLAMATH FALLS, OREGON
VETERAN'S MEMORIAL AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
For the Year Ended June 30, 2015

Schedule F-1

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
ASSETS				
Cash and cash equivalents	\$ 52,002	\$ 6,964	\$ 11,184	\$ 47,782
Interest Receivable	102	1,092	1,083	111
Investments	99,824	2,391	34	102,181
	<u>\$ 151,928</u>	<u>\$ 10,447</u>	<u>\$ 12,301</u>	<u>\$ 150,074</u>
LIABILITIES				
Accounts payable	\$ 360	\$ 8,458	\$ 8,818	\$ -
Due to Veterans Associations	151,568	-	1,494	150,074
	<u>\$ 151,928</u>	<u>\$ 8,458</u>	<u>\$ 10,312</u>	<u>\$ 150,074</u>

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CITY OF KLAMATH FALLS, OREGON
PROPRIETARY FUNDS

Enterprise Funds

Enterprise Funds are used for activities which are financed and operated in a manner similar to private business enterprise, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The City of Klamath Falls Enterprise Funds consists of the following:

The Wastewater Fund accounts for the expansion, operation, and maintenance of the City's sanitary sewer system. Revenues consist primarily of charges for services.

The Water Fund accounts for the expansion, operation, and maintenance of the City's water supply system and the geothermal system. Revenues consist primarily of charges for services.

CITY OF KLAMATH FALLS, OREGON
WASTEWATER FUND
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – BUDGET AND ACTUAL
For the Year Ended June 30, 2015

Schedule G-1

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	224,325	224,325	-	(224,325)
Charges for services	6,762,025	6,762,025	6,913,287	151,262
Investment income	61,800	61,800	56,267	(5,533)
System development charges	53,700	53,700	51,889	(1,811)
Miscellaneous revenue	950	7,800	52,965	45,165
Total revenues	<u>7,102,800</u>	<u>7,109,650</u>	<u>7,074,408</u>	<u>(35,242)</u>
EXPENDITURES				
Collections	2,297,900	2,297,900	1,838,648	459,252
Treatment	2,461,125	2,461,125	2,053,506	407,619
Utility billing	303,550	306,150	287,416	18,734
Debt service	883,025	883,025	883,025	-
Total expenditures	<u>5,945,600</u>	<u>5,948,200</u>	<u>5,062,595</u>	<u>885,605</u>
Excess (deficiency) of revenues over expenditures	1,157,200	1,161,450	2,011,813	850,363
OTHER FINANCING SOURCES (USES)				
Transfers out	(1,000,000)	(1,000,000)	(1,000,000)	-
Total other financing source (uses)	<u>(1,000,000)</u>	<u>(1,000,000)</u>	<u>(1,000,000)</u>	<u>-</u>
Net change in fund balances	157,200	161,450	1,011,813	850,363
Fund balances - beginning	10,352,075	10,352,075	11,061,876	709,801
Fund balances - ending	<u>\$ 10,509,275</u>	<u>\$ 10,513,525</u>	<u>12,073,689</u>	<u>\$ 1,560,164</u>
Reconciliation				
Capital assets, net of accumulated depreciation			29,818,154	
OPEB implicit subsidy			(75,786)	
Compensated absences			(82,915)	
Bond prepaid insurance			37,369	
Accrued interest payable			(22,698)	
Bonds payable			(7,055,000)	
Bonds discount			88,421	
Deferred outflows of resources - pensions			34,557	
Deferred inflows of resources - pensions			(187,694)	
Net pension asset			95,376	
Net position - ending (GAAP)			<u>\$ 34,723,473</u>	

CITY OF KLAMATH FALLS, OREGON
WATER FUND
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – BUDGET AND ACTUAL
For the Year Ended June 30, 2015

Schedule G-2

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Charges for services	7,122,100	7,122,100	7,551,829	429,729
Investment income	37,725	37,725	86,364	48,639
System development charges	38,000	38,000	117,849	79,849
Miscellaneous revenue	12,425	19,450	18,320	(1,130)
Total revenues	<u>7,210,250</u>	<u>7,217,275</u>	<u>7,774,362</u>	<u>557,087</u>
EXPENDITURES				
Operations	5,509,100	5,509,100	4,533,098	976,002
Utility billing	974,800	980,350	924,816	55,534
Geothermal	213,925	213,925	141,134	72,791
Debt service	1,358,375	2,048,650	2,007,990	40,660
Total expenditures	<u>8,056,200</u>	<u>8,752,025</u>	<u>7,607,038</u>	<u>1,144,987</u>
Excess (deficiency) of revenues over expenditures	(845,950)	(1,534,750)	167,324	1,702,074
OTHER FINANCING SOURCES (USES)				
Transfers out	(650,975)	(650,975)	(569,912)	81,063
Total other financing source (uses)	<u>(650,975)</u>	<u>(650,975)</u>	<u>(569,912)</u>	<u>81,063</u>
Net change in fund balances	(1,496,925)	(2,185,725)	(402,588)	1,783,137
Fund balances - beginning	5,980,575	6,665,575	8,907,632	2,242,057
Fund balances - ending	<u>\$ 4,483,650</u>	<u>\$ 4,479,850</u>	8,505,044	<u>\$ 4,025,194</u>
Reconciliation				
Capital assets, net of accumulated depreciation			33,767,671	
OPEB implicit subsidy			(94,091)	
Compensated absences			(136,600)	
Bond prepaid insurance			1,503	
Accrued interest payable			(17,167)	
Loans payable			(692,954)	
Bonds payable			(455,000)	
Bonds premium/discount			(12,657)	
Deferred outflows of resources - pensions			59,878	
Deferred inflows of resources - pensions			(325,229)	
Net pension asset			165,264	
Net position - ending (GAAP)			<u>\$ 40,765,662</u>	

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OTHER SUPPLEMENTARY SCHEDULES

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CITY OF KLAMATH FALLS, OREGON
 CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
 SCHEDULE BY FUNCTION AND ACTIVITY
 June 30, 2015

Schedule H-1

Function and Activity	Land	Buildings	Machinery and Equipment	Infrastructure	Construction in Progress	Total
General Government:						
Manager	\$ 775,757	\$ 1,659,968	\$ 277,499	\$ 1,138,993	\$	\$ 3,852,217
Information Systems			1,393,275			1,393,275
Engineering			302,952			302,952
Maintenance		79,087	83,975			163,062
Economic Development	544,243					544,243
Urban renewal	329,167	1,946,486		330,985	14,460	2,621,098
Total General Government	1,649,167	3,685,541	2,057,701	1,469,978	14,460	8,876,847
Airport	9,193,403	4,017,708	2,807,034	56,787,761	24,202	72,830,108
Culture and Recreation	319,224	1,366,360	1,611,553	3,168,122	198,757	6,664,016
Public Safety:						
Police	399,111	8,336,078	2,078,484	24,059		10,837,732
Code enforcement			62,535			62,535
Total Public Safety	399,111	8,336,078	2,141,019	24,059	-	10,900,267
Highways and Streets:						
Maintenance	1,500	275,883	3,066,154			3,343,537
Street system	2,100,947		705,194	132,254,919	90,868	135,151,928
Total Highways and Streets	2,102,447	275,883	3,771,348	132,254,919	90,868	138,495,465
Total Governmental Funds Capital Assets	\$ 13,663,352	\$ 17,681,570	\$ 12,388,655	\$ 193,704,839	\$ 328,287	\$ 237,766,703

CITY OF KLAMATH FALLS, OREGON
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY
For the Fiscal Year Ended June 30, 2015

Schedule H-2

Function and Activity	Governmental Funds Capital Assets July 1, 2014	Additions	Deductions, Transfers in & (Transfers out)	Governmental Funds Capital Assets June 30, 2015
General Government:				
Manager	\$ 3,600,825	\$ 317,607	\$ (66,215)	\$ 3,852,217
Information Systems	1,130,986	262,289		1,393,275
Engineering	297,452	5,500		302,952
Maintenance	163,062			163,062
Economic Development	544,243			544,243
Urban renewal	4,226,029	81,173	(1,686,104)	2,621,098
Total General Government	<u>9,962,597</u>	<u>666,569</u>	<u>(1,752,319)</u>	<u>8,876,847</u>
Airport	<u>72,550,948</u>	<u>294,464</u>	<u>(15,304)</u>	<u>72,830,108</u>
Culture and Recreation	<u>6,503,830</u>	<u>160,186</u>		<u>6,664,016</u>
Public Safety:				
Police	10,923,472	203,127	(288,867)	10,837,732
Code enforcement	62,535			62,535
Total Public Safety	<u>10,986,007</u>	<u>203,127</u>	<u>(288,867)</u>	<u>10,900,267</u>
Highways and Streets:				
Maintenance	3,551,221	9,429	(217,113)	3,343,537
Street system	132,814,649	2,120,166	217,113	135,151,928
Total Highways and Streets	<u>136,365,870</u>	<u>2,129,595</u>	<u>-</u>	<u>138,495,465</u>
Total Governmental Funds Capital Assets	<u>\$ 236,369,252</u>	<u>\$ 3,453,941</u>	<u>\$ (2,056,490)</u>	<u>\$ 237,766,703</u>

STATISTICAL SECTION

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STATISTICAL SECTION

This part of the City of Klamath Falls' comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Contents

Financial Trends Schedules I-1, I-2, I-3 and I-4

These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

Revenue Capacity Schedules I-5, I-6, I-7 and I-8

These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.

Debt Capacity Schedules I-9, I-10, I-11, I-12 and I-13

These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

Demographic and Economic Information Schedules I-14 and I-15

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

Operating Information Schedules I-16, I-17, I-18 and I-19

These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial report for the relevant year.

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City of Klamath Falls, Oregon
Net Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)

Schedule I-1

	Fiscal Year									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Governmental activities										
Net investment in capital assets	\$ 107,962,108	\$ 113,684,484	\$ 115,096,825	\$ 119,231,089	\$ 120,623,415	\$ 117,426,374	\$ 92,499,417	\$ 93,122,533	\$ 89,451,135	\$ 84,152,802
Restricted	1,832,112	2,324,012	2,851,180	3,800,188	5,705,016	12,853,050	10,439,805	998,106	2,492,693	821,666
Unrestricted	18,256,806	16,908,446	17,186,214	14,361,606	11,814,580	7,948,267	9,927,193	9,391,036	7,907,273	9,156,698
Total governmental activities net position	<u>\$ 128,051,026</u>	<u>\$ 132,916,942</u>	<u>\$ 135,134,219</u>	<u>\$ 137,392,883</u>	<u>\$ 138,143,011</u>	<u>\$ 138,227,691</u>	<u>\$ 112,866,415</u>	<u>\$ 103,511,675</u>	<u>\$ 99,851,101</u>	<u>\$ 94,131,166</u>
Business-type activities										
Net investment in capital assets	\$ 55,458,635	\$ 51,934,040	\$ 51,447,145	\$ 49,262,631	\$ 49,086,527	\$ 47,325,073	\$ 36,340,357	\$ 34,075,653	\$ (18,771,844)	\$ (25,067,214)
Restricted	5,041,272	5,402,198	9,062,712	7,691,035	5,823,352	4,055,414	20,547,492	18,221,131	50,993,327	62,991,009
Unrestricted	14,989,228	14,149,001	7,435,547	7,086,144	6,789,017	7,971,682	7,817,326	12,808,080	10,243,022	11,136,384
Total business-type activities net position	<u>\$ 75,489,135</u>	<u>\$ 71,485,239</u>	<u>\$ 67,945,404</u>	<u>\$ 64,039,810</u>	<u>\$ 61,698,896</u>	<u>\$ 59,352,169</u>	<u>\$ 64,705,175</u>	<u>\$ 65,104,864</u>	<u>\$ 42,464,505</u>	<u>\$ 49,060,179</u>
Primary government										
Net investment in capital assets	\$ 163,420,743	\$ 165,618,524	\$ 166,543,970	\$ 168,493,720	\$ 169,709,942	\$ 164,751,447	\$ 128,839,774	\$ 127,198,186	\$ 70,679,291	\$ 59,085,588
Restricted	6,873,384	7,726,210	11,913,892	11,491,223	11,528,368	16,908,464	30,987,297	19,219,237	53,486,020	63,812,675
Unrestricted	33,246,034	31,057,447	24,621,761	21,447,750	18,603,597	15,919,949	17,744,519	22,199,116	18,150,295	20,293,082
Total primary government net position	<u>\$ 203,540,161</u>	<u>\$ 204,402,181</u>	<u>\$ 203,079,623</u>	<u>\$ 201,432,693</u>	<u>\$ 199,841,907</u>	<u>\$ 197,579,860</u>	<u>\$ 177,571,590</u>	<u>\$ 168,616,539</u>	<u>\$ 142,315,606</u>	<u>\$ 143,191,345</u>

City of Klamath Falls, Oregon
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)

Schedule I-2a

	Fiscal Year									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Expenses										
Governmental activities:										
General government	\$ 4,750,011	\$ 1,117,501	\$ 998,328	\$ 916,736	\$ 1,858,704	\$ 965,249	\$ 1,166,541	\$ 1,968,063	\$ 1,736,240	\$ 2,564,468
Airport	2,483,308	2,979,505	2,738,308	3,056,676	2,711,318	2,416,914	2,955,132	2,090,904	2,212,159	1,882,408
Culture and recreation	1,198,095	1,429,718	1,393,933	1,315,332	1,170,962	1,126,984	1,104,576	855,338	877,478	743,067
Public safety	4,551,499	6,392,398	6,643,034	6,592,397	6,728,610	6,245,613	6,211,412	5,980,528	5,681,870	5,122,162
Highways and streets	6,920,863	5,376,296	5,443,451	6,069,358	5,548,199	6,980,014	6,998,760	6,580,800	6,073,551	5,858,103
Interest on long-term debt	450,287	409,176	435,161	468,537	514,306	549,840	470,765	407,383	432,661	421,747
Total governmental activities	<u>20,354,063</u>	<u>17,704,594</u>	<u>17,652,215</u>	<u>18,419,036</u>	<u>18,532,099</u>	<u>18,284,614</u>	<u>18,907,186</u>	<u>17,883,016</u>	<u>17,013,959</u>	<u>16,591,955</u>
Business-type activity -										
Wastewater	4,893,634	5,045,680	4,992,855	4,914,640	5,021,711	5,784,920	5,788,994	5,639,417	5,373,761	5,492,687
Water	5,536,655	5,682,323	5,566,016	5,588,110	5,479,594	5,557,164	5,652,839	5,116,142	4,642,124	4,651,917
Electric	-	-	-	-	-	-	-	93,333,875	171,122,266	170,839,198
Total business-type activities	<u>10,430,289</u>	<u>10,728,003</u>	<u>10,558,871</u>	<u>10,502,750</u>	<u>10,501,305</u>	<u>11,342,084</u>	<u>11,441,833</u>	<u>104,089,434</u>	<u>181,138,151</u>	<u>180,983,802</u>
Total Expenses	<u>\$ 30,784,352</u>	<u>\$ 28,432,597</u>	<u>\$ 28,211,086</u>	<u>\$ 28,921,786</u>	<u>\$ 29,033,404</u>	<u>\$ 29,626,698</u>	<u>\$ 30,349,019</u>	<u>\$ 121,972,450</u>	<u>\$ 198,152,110</u>	<u>\$ 197,575,757</u>
Program Revenues										
Governmental activities:										
Charges for services										
General government	\$ 2,837,399	\$ 286,623	\$ 484,091	\$ 375,711	\$ 297,346	\$ 307,620	\$ 444,397	\$ 612,722	\$ 1,105,100	\$ 1,152,869
Airport	524,083	714,909	709,978	690,670	752,472	714,295	792,410	741,703	786,589	761,785
Culture and recreation	184,357	152,142	139,322	32,895	26,465	62,635	36,938	73,467	16,185	104,911
Public safety	404,376	446,467	421,800	511,539	486,579	477,764	627,543	718,489	820,536	636,445
Highways and streets	151,678	355,562	302,871	310,576	298,671	293,013	290,611	138,292	133,324	100,354
Operating grants and contributions	108,891	117,860	278,724	408,138	1,228,734	500,695	770,859	434,462	437,146	305,567
Capital grants and contributions	831,469	2,236,523	986,649	1,824,829	3,123,541	21,676,883	11,419,781	6,507,816	8,762,011	6,504,254
Total governmental activities	<u>5,042,253</u>	<u>4,310,086</u>	<u>3,323,435</u>	<u>4,154,358</u>	<u>6,213,808</u>	<u>24,032,905</u>	<u>14,382,539</u>	<u>9,226,951</u>	<u>12,060,891</u>	<u>9,566,185</u>
Business-type activity -										
Charges for services										
Wastewater	7,018,141	6,714,855	6,791,552	6,223,467	6,181,257	6,190,377	4,874,626	4,994,068	4,887,063	4,606,349
Water	7,703,108	7,244,563	7,434,803	6,732,455	6,767,730	7,128,762	6,955,464	6,931,420	7,285,457	6,733,075
Electric	-	-	-	-	-	-	-	79,743,915	156,136,085	176,380,149
Operating grants and contributions	-	-	-	1,989	45,623	104,527	-	-	-	21,771
Capital grants and contributions	339,176	864,767	428,094	43,543	172,287	307,195	527,998	1,133,629	1,525,949	1,533,013
Total business-type activity	<u>15,060,425</u>	<u>14,824,185</u>	<u>14,654,449</u>	<u>13,001,454</u>	<u>13,166,897</u>	<u>13,730,861</u>	<u>12,358,088</u>	<u>92,803,032</u>	<u>169,834,554</u>	<u>189,274,357</u>
Total program revenues	<u>\$ 20,102,678</u>	<u>\$ 19,134,271</u>	<u>\$ 17,977,884</u>	<u>\$ 17,155,812</u>	<u>\$ 19,380,705</u>	<u>\$ 37,763,766</u>	<u>\$ 26,740,627</u>	<u>\$ 102,029,983</u>	<u>\$ 181,895,445</u>	<u>\$ 198,840,542</u>
Net (expense)/revenue										
Governmental activities	\$ (15,311,810)	\$ (13,394,508)	\$ (14,328,780)	\$ (14,264,678)	\$ (12,318,291)	\$ 5,748,291	\$ (4,524,647)	\$ (8,656,065)	\$ (4,953,068)	\$ (7,025,770)
Business-type activity	4,630,136	4,096,182	4,095,578	2,498,704	2,665,592	2,388,777	916,255	(11,286,402)	(11,303,597)	8,290,555
Total net expense (revenue)	<u>\$ (10,681,674)</u>	<u>\$ (9,298,326)</u>	<u>\$ (10,233,202)</u>	<u>\$ (11,765,974)</u>	<u>\$ (9,652,699)</u>	<u>\$ 8,137,068</u>	<u>\$ (3,608,392)</u>	<u>\$ (19,942,467)</u>	<u>\$ (16,256,665)</u>	<u>\$ 1,264,785</u>

City of Klamath Falls, Oregon
Changes in Net Position (continued)
Last Ten Fiscal Years
(accrual basis of accounting)

Schedule I-2b

	Fiscal Year									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
General Revenues										
Governmental activities:										
Property taxes	\$ 6,999,271	\$ 6,801,445	\$ 7,205,147	\$ 7,443,904	\$ 7,519,701	\$ 7,455,530	\$ 6,951,966	\$ 6,659,364	\$ 6,111,968	\$ 5,248,764
Franchise taxes	2,400,513	2,338,179	2,285,109	2,112,940	2,032,875	1,897,175	1,884,227	1,925,103	1,781,794	1,666,103
911 excise tax	-	-	51,006	102,784	105,920	-	-	-	-	-
Motor fuel taxes	1,229,155	1,227,480	1,165,774	1,145,033	1,044,517	887,985	815,573	906,914	955,921	983,565
Alcoholic beverage taxes	309,693	300,889	284,182	268,841	250,378	241,280	255,551	238,360	217,772	216,961
Cigarette taxes	28,698	28,905	30,238	30,699	32,418	31,174	33,304	34,359	37,453	37,764
Transient room taxes	507,012	448,867	400,655	470,879	494,922	375,233	381,837	349,415	359,218	399,169
State revenue sharing	199,962	202,054	183,829	177,232	163,365	159,682	165,415	158,907	142,365	141,698
Federal forest receipts	1,103,867	-	-	-	-	-	-	-	-	-
Unrestricted investment earnings	247,792	199,778	178,996	227,402	222,930	482,757	504,718	968,114	706,203	434,838
Gain on sale of capital assets	2,199	111,709	-	750	30,435	-	350,266	288,583	368,809	150,396
Special and extraordinary items	-	-	-	1,133,000	-	(397,783)	-	899,194	-	-
Insurance recoveries	15,123	-	-	-	-	-	-	-	-	-
Transfer of capital asset	(1,293,837)	-	-	-	-	-	-	-	-	-
Transfers in / (out)	1,569,912	385,189	285,180	238,653	379,138	8,236,517	2,536,530	212,550	(8,500)	789,132
Total general revenues, transfers, and special items	<u>13,319,360</u>	<u>12,044,495</u>	<u>12,070,116</u>	<u>13,352,117</u>	<u>12,276,599</u>	<u>19,369,550</u>	<u>13,879,387</u>	<u>12,640,863</u>	<u>10,673,003</u>	<u>10,068,390</u>
Business-type activity -										
Unrestricted investment earnings	142,631	104,507	95,196	80,863	60,273	494,734	1,220,586	6,710,258	4,699,423	3,916,544
Special and extraordinary items	-	-	-	-	-	-	-	39,047,754	-	-
Transfer of capital asset	1,293,837	-	-	-	-	-	-	-	-	-
Transfers in / (out)	(1,569,912)	(385,189)	(285,180)	(238,653)	(379,138)	(8,236,517)	(2,536,530)	(212,550)	8,500	(789,132)
Total business-type activities	<u>(133,444)</u>	<u>(280,682)</u>	<u>(189,984)</u>	<u>(157,790)</u>	<u>(318,865)</u>	<u>(7,741,783)</u>	<u>(1,315,944)</u>	<u>45,545,462</u>	<u>4,707,923</u>	<u>3,127,412</u>
Total primary government	<u>\$ 13,185,916</u>	<u>\$ 11,763,813</u>	<u>\$ 11,880,132</u>	<u>\$ 13,194,327</u>	<u>\$ 11,957,734</u>	<u>\$ 11,627,767</u>	<u>\$ 12,563,443</u>	<u>\$ 58,186,325</u>	<u>\$ 15,380,926</u>	<u>\$ 13,195,802</u>
Change in Net Position										
Governmental activities	\$ (1,992,450)	\$ (1,350,013)	\$ (2,258,664)	\$ (912,561)	\$ (41,692)	\$ 25,117,841	\$ 9,354,740	\$ 3,984,798	\$ 5,719,935	\$ 3,042,620
Business-type activity	4,496,692	3,815,500	3,905,594	2,340,914	2,346,727	(5,353,006)	(399,689)	34,259,060	(6,595,674)	11,417,967
Total Change in Net Position	<u>\$ 2,504,242</u>	<u>\$ 2,465,487</u>	<u>\$ 1,646,930</u>	<u>\$ 1,428,353</u>	<u>\$ 2,305,035</u>	<u>\$ 19,764,835</u>	<u>\$ 8,955,051</u>	<u>\$ 38,243,858</u>	<u>\$ (875,739)</u>	<u>\$ 14,460,587</u>

City of Klamath Falls, Oregon
Fund Balances of Government Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

Schedule I-3

	Fiscal Year									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
General Fund										
Nonspendable	\$ 130,701	\$ 243,735	\$ 96,586	\$ 94,654	\$ 123,265					
Restricted	80,454	65,278	56,596							
Assigned	103,791	39,638	49,638	521,743	954,280					
Unassigned	3,246,947	4,453,307	4,150,530	3,887,663	3,005,764					
Reserved						\$ 213,091	\$ 314,051	\$ 433,900		
Unreserved						3,266,208	3,091,150	3,166,075	\$ 4,213,632	\$ 3,684,637
Total general fund	<u>\$ 3,561,893</u>	<u>\$ 4,801,958</u>	<u>\$ 4,353,350</u>	<u>\$ 4,504,060</u>	<u>\$ 4,083,309</u>	<u>\$ 3,479,299</u>	<u>\$ 3,405,201</u>	<u>\$ 3,599,975</u>	<u>\$ 4,213,632</u>	<u>\$ 3,684,637</u>
All other governmental funds										
Nonspendable	125,307	149,572	91,110	75,919	\$ 104,942					
Restricted	1,696,307	2,166,019	2,201,094	3,432,013	5,325,961					
Assigned	18,242,788	14,354,112	13,904,795	10,915,284	8,605,567					
Unassigned	(901,147)	(796,705)			(206,459)					
Reserved for:										
Prepays and inventory						\$ 177,656	\$ 107,973	\$ 110,200		
Advances to other funds						500,000	500,000			
System development charges						64,759	59,695	131,182	\$ 203,449	\$ 277,891
Community programs							57,300	171,020		
Capital outlay						1,152,821	9,489,776	10,433	22,008	20,750
Debt service						145,025	288,207	4,886,295	145,025	145,025
Outside Third Party Claims						5,873,283				
Perpetual care-Nonexpendable							436,100	430,446	406,469	398,750
Unreserved, reported in:										
Special revenue funds						3,540,839	3,963,066	5,040,643	4,998,025	4,929,325
Capital project funds						4,701,679	1,340,445	1,962,118	804,099	595,226
Debt service fund						448,480	363,854	350,471	1,029,218	972,281
Perpetual care-Expendable							2,014			
Total all other governmental funds	<u>\$ 19,163,255</u>	<u>\$ 15,872,998</u>	<u>\$ 16,196,999</u>	<u>\$ 14,423,216</u>	<u>\$ 13,830,011</u>	<u>\$ 16,604,542</u>	<u>\$ 16,608,430</u>	<u>\$ 13,092,808</u>	<u>\$ 7,608,293</u>	<u>\$ 7,339,248</u>

City of Klamath Falls, Oregon
Changes in Fund Balances of Government Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

Schedule I-4a

	Fiscal Year									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Revenues										
Property taxes	\$ 7,032,490	\$ 6,956,668	\$ 7,211,003	\$ 7,507,727	\$ 7,387,533	\$ 7,340,106	\$ 6,819,648	\$ 6,526,160	\$ 6,184,818	\$ 5,396,974
Special assessments		800	97,227	2,479	6,387	10,350	7,942	30,541	42,166	156,287
Intergovernmental	3,743,238	3,797,578	3,158,117	4,984,594	6,886,229	22,573,756	13,577,485	6,912,621	9,582,481	8,020,987
Licenses, fees and permits	178,499	183,764	194,230	224,155	216,805	231,027	257,485	400,221	429,564	404,758
Franchise fees	2,400,513	2,338,178	2,293,767	2,120,371	2,040,041	1,905,227	1,896,824	1,940,380	1,812,114	1,694,587
Charges for services	1,083,053	4,863,660	4,933,476	5,134,894	5,260,072	5,114,039	5,349,311	4,951,836	5,035,000	4,797,951
Internal charges for services	2,936,762									
Fines and forfeitures	460,151	452,676	432,056	471,487	441,085	464,037	573,498	642,191	694,081	544,560
Investment earnings	247,792	285,013	195,184	251,546	246,054	531,217	511,791	978,724	716,220	452,821
Miscellaneous	146,519	330,967	337,110	860,705	144,065	263,425	288,023	893,455	737,979	328,280
System development charges	2,722									
Total Revenues	\$ 18,231,739	\$ 19,209,304	\$ 18,852,170	\$ 21,557,958	\$ 22,628,271	\$ 38,433,184	\$ 29,282,007	\$ 23,276,129	\$ 25,234,423	\$ 21,797,205
Expenditures										
Current:										
General government	\$ 4,906,651	\$ 4,726,157	\$ 4,479,363	\$ 4,566,723	\$ 5,597,129	\$ 4,674,825	\$ 5,061,948	\$ 5,462,570	\$ 4,824,534	\$ 5,489,012
Airport	1,055,989	1,189,143	1,102,636	1,483,526	1,272,520	1,387,107	1,929,477	1,156,695	1,392,797	1,089,328
Culture and recreation	1,167,304	1,258,030	1,224,762	1,158,806	1,024,348	964,693	965,616	720,010	778,636	684,657
Public safety	5,243,094	5,686,252	6,202,304	6,270,405	6,523,042	6,072,095	6,069,531	5,871,247	5,568,272	5,040,205
Highways and streets	1,985,704	2,258,666	2,348,697	3,003,832	2,341,674	2,314,837	2,523,206	2,558,448	2,087,840	1,920,807
Debt service:										
Principal	1,545,504	878,156	1,078,192	1,246,208	1,679,938	1,097,091	1,063,693	1,018,380	1,181,185	887,702
Interest	472,719	429,641	454,509	482,696	542,702	603,483	451,763	435,932	438,399	442,938
Capital outlay:										
General government	666,569	1,268,137	98,237	1,243,738	427,806	609,577	1,461,962	475,013	320,689	257,422
Airport	294,464	1,071,748	487,536	204,245	1,772,448	19,655,722	12,165,551	2,219,716	2,303,642	3,446,344
Culture and recreation	152,894	105,539	224,123	343,890	401,250	192,133	528,296	404,824	721,112	209,856
Public safety	203,127	175,045	153,902	90,723	1,342,951	5,650,413	1,513,308	769,853	132,477	164,830
Highways and streets	1,511,680	1,103,562	283,734	1,537,863	2,325,970	3,932,092	566,050	3,155,222	5,828,300	2,988,717
Total Expenditures	19,205,699	20,150,076	18,137,995	21,632,655	25,251,778	47,154,068	34,300,401	24,247,910	25,577,883	22,621,818
Excess (Deficiency) of Revenues over Expenditures	(973,960)	(940,772)	714,175	(74,697)	(2,623,507)	(8,720,884)	(5,018,394)	(971,781)	(343,460)	(824,613)

City of Klamath Falls, Oregon
Changes in Fund Balances of Government Funds (continued)
Last Ten Fiscal Years
(modified accrual basis of accounting)

Schedule I-4b

	Fiscal Year									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Other financing sources (uses)										
Transfers in	3,777,366	1,504,581	2,814,408	2,836,477	2,195,503	3,450,095	3,962,622	6,139,010	232,128	1,647,953
Transfers out	(2,207,454)	(1,041,629)	(2,529,228)	(2,597,824)	(1,805,028)	(3,089,424)	(695,379)	(5,926,460)	(240,628)	(772,953)
General long-term debt issued	1,417,262	414,721	600,000	350,000	105,500	1,022,228	9,135,000	810,000	1,150,000	1,541,000
Premium on general long-term debt issued							63,427			
Insurance recoveries	15,123									
Sale of general capital assets	70,771	187,706	23,718				403,548	4,810,025		
Total Other Financing Sources (Uses)	<u>3,073,068</u>	<u>1,065,379</u>	<u>908,898</u>	<u>588,653</u>	<u>495,975</u>	<u>1,382,899</u>	<u>12,869,218</u>	<u>5,832,575</u>	<u>1,141,500</u>	<u>2,416,000</u>
Net change in fund balances before extraordinary item	2,099,108	124,607	1,623,073	513,956	(2,127,532)	(7,337,985)	7,850,824	4,860,794	798,040	1,591,387
Extraordinary item				\$ 500,000		(408,837)				
Net change in fund balances	<u>\$ 2,099,108</u>	<u>\$ 124,607</u>	<u>\$ 1,623,073</u>	<u>\$ 1,013,956</u>	<u>\$ (2,127,532)</u>	<u>\$ (7,746,822)</u>	<u>\$ 7,850,824</u>	<u>\$ 4,860,794</u>	<u>\$ 798,040</u>	<u>\$ 1,591,387</u>
Debt service as a percentage of noncapital expenditures	12.32%	7.96%	9.07%	9.41%	11.71%	9.94%	8.39%	8.44%	9.95%	8.55%

City of Klamath Falls, Oregon
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years
(amounts expressed in thousands)

Schedule I-5

Fiscal Year	Real Property		Personal Property		Total Assessed Value	Total Direct Tax Rate	Total Estimated Actual Value ¹	Ratio of Total Assessed Value to Total Estimated Actual Value
	Assessed Value	Estimated Actual Value ¹	Assessed Value	Estimated Actual Value				
2015	\$ 1,287,767	\$ 1,828,863	\$ 49,080	\$ 49,080	\$ 1,336,847	\$ 5.43	\$ 1,877,943	71.2%
2014	1,240,897	1,769,715	52,113	52,113	1,293,010	5.67	1,821,828	71.0
2013	1,240,906	1,806,891	52,113	52,113	1,293,019	5.74	1,859,004	69.6
2012	1,239,596	1,941,724	52,576	52,576	1,292,172	5.93	1,994,300	64.8
2011	1,220,364	2,199,827	57,007	57,007	1,277,371	6.01	2,256,834	56.6
2010	1,183,111	2,289,058	58,260	58,260	1,241,371	6.12	2,347,318	52.9
2009	1,148,385	2,363,872	51,686	51,686	1,200,071	6.02	2,415,558	49.7
2008	1,077,366	2,318,787	49,593	49,593	1,126,959	5.93	2,368,380	47.6
2007	981,487	1,914,106	44,217	44,217	1,025,704	5.79	1,958,323	52.4
2006	904,016	1,499,192	43,763	43,763	947,779	5.79	1,542,955	61.4

Source: Klamath County Assessors Office.

¹ Includes Downtown Urban Renewal District.

**City of Klamath Falls, Oregon
Property Tax Rates (per thousand) ¹
Direct and Overlapping Governments
Last Ten Fiscal Years**

Schedule I-6

<u>Fiscal Year</u>	<u>City of Klamath Falls</u>				<u>Klamath County</u>			<u>School District Operating Millage</u>	<u>Other</u>	<u>Total</u>
	<u>Operating Millage</u>	<u>Capital Levy</u>	<u>Debt Service Millage</u>	<u>Total City Millage</u>	<u>Operating Millage</u>	<u>Debt Service Millage</u>	<u>Total County Millage</u>			
2015	\$ 5.28	-	\$ 0.15	\$ 5.43	\$ 1.68	\$ 0.61	\$ 2.29	\$ 4.08	\$ 4.13	\$ 15.93
2014	5.51	-	0.16	5.67	1.73	-	1.73	4.73	3.59	15.72
2013	5.57	-	0.17	5.74	1.56	-	1.56	4.12	3.37	14.79
2012	5.75	-	0.18	5.93	1.66	-	1.66	4.10	2.98	14.67
2011	5.83	-	0.18	6.01	1.66	0.35	2.01	4.06	3.01	15.09
2010	5.94	-	0.18	6.12	1.27	0.48	1.75	3.99	3.94	15.80
2009	5.87	-	0.15	6.02	1.52	0.42	1.94	4.14	2.71	14.81
2008	5.93	-	-	5.93	1.48	0.38	1.86	4.08	2.86	14.73
2007	5.79	-	-	5.79	1.62	0.52	2.14	4.12	2.71	14.76
2006	5.56	0.23	-	5.79	1.45	0.60	2.05	4.18	3.30	15.32

¹ Millage rates are reported after compression

Source: Klamath County Assessor and Klamath County Budget Officer.

**City of Klamath Falls, Oregon
Principal Property Taxpayers
June 30, 2015
(amounts expressed in thousands)**

Schedule I-7

<u>Taxpayer</u>	<u>2015</u>			<u>2006</u>		
	<u>Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total Assessed Valuation</u>	<u>Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total Assessed Valuation</u>
Jeld Wen, Inc. - Wood products manufacturing	\$ 55,296	1	4.14%	\$ 38,536	1	4.34%
Wal Mart - Retail Department store	20,724	2	1.55			
Charter Communications - Telecommunications	15,576	3	1.17			
Fred Meyer Stores, Inc. - Retail Department Store	14,626	4	1.09	10,751	4	1.13
Avista Corporation - Natural Gas Utility	13,297	5	0.99	7,273	8	0.77
Klamath Publishing, LLC	10,781	6	0.81			
Pacificorp - Electric utility	10,216	7	0.76	8,068	6	0.85
CenturyLink - Telecommunications	8,189	8	0.61	16,189	2	1.71
Argo K Falls LLC - Towncenter Commercial Site	7,639	9	0.57			
Klamath - Jefferson LLC - Shopping Center	7,636	10	0.57	6,468	9	0.68
Aqua Glass Western, Inc. - Bathtub & Shower Manufacturing				11,256	3	1.19
Electro Scientific Industries, Inc.				9,136	5	0.96
Shilo Inn - Hotels & Suites				7,509	7	0.79
Crystal Terrace Retirement Community LLC				5,601	10	0.59
	<u>\$ 163,980</u>		<u>12.84%</u>	<u>\$ 120,787</u>		<u>15.19%</u>

Source: Klamath County Assessor and Klamath County Budget Officer.

City of Klamath Falls, Oregon
Property Tax Levies and Collections
Last Ten Fiscal Years
(amounts expressed in thousands)

Schedule I-8

Fiscal Year Ended June 30	Total Tax Levy for Fiscal Year	Discounts, Adjustments, and Collections within the Fiscal Year of the Levy			Subsequent Years		Total Collections to Date	
		Discounts and Adjustments	Collections	Percentage of Levy	Adjustments	Collections	Amount	Percentage of Levy
2015	\$ 7,160	(197)	\$ 6,590	94.64%	\$ -	\$ -	\$ 6,590	94.64%
2014	7,157	(272)	6,522	94.73	11	192	6,714	97.36
2013	7,405	(192)	6,788	94.11	(18)	283	7,071	98.28
2012	7,658	(177)	6,955	92.97	(18)	399	7,354	98.54
2011	7,671	(197)	6,930	92.72	(35)	495	7,425	99.81
2010	7,599	(207)	6,869	92.92	(17)	498	7,367	99.89
2009	7,226	(348)	6,444	93.69	(18)	413	6,857	99.96
2008	6,683	(181)	6,138	94.40	(15)	348	6,486	99.98
2007	5,935	(149)	5,462	94.40	(12)	312	5,774	100.00
2006	5,487	(255)	4,912	93.88	110	430	5,342	100.00

City of Klamath Falls, Oregon
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
(amounts expressed in thousands, except per capita amount)

Schedule I-9

Governmental Activities							
Fiscal Year	General Obligation Bonds	Full Faith and Credit Bonds	SPWF & Other Loans	Capital Leases	Revenue Bonds	Line of Credit Loans	Total
2015	\$ 4,024	\$ 3,037	\$ 2,249	\$ -	\$ 140	\$ 1,087	\$ 10,537
2014	4,025	3,188	2,262	-	270	922	10,667
2013	4,026	3,340	20	-	395	1,104	8,885
2012	4,027	3,486	34	-	515	1,304	9,366
2011	4,028	3,633	47	-	625	1,925	10,258
2010	4,029	3,774	507	-	730	2,795	11,835
2009	4,030	3,911	211	-	830	2,930	11,912
2008	-	-	291	-	1,235	2,254	3,780
2007	-	-	4,546	-	1,615	1,903	8,064
2006	-	-	4,759	51	1,980	1,305	8,095

Business-Type Activities								
Fiscal Year	General Obligation Bonds	Water SPWF Loans	Water Revenue Bonds	Sewer Revenue Bonds	Sewer SPWF Loans	Sewer Capital Leases	Electric Revenue Bonds ²	Total
2015	\$ -	\$ 693	\$ 455	\$ 7,181	\$ -	\$ -	\$ -	\$ 8,329
2014	-	1,463	1,600	7,548	-	-	-	10,611
2013	-	1,498	1,613	8,109	-	-	-	11,220
2012	-	1,574	2,281	8,650	50	-	-	12,555
2011	-	1,649	2,918	9,171	98	-	-	13,836
2010	-	1,722	3,526	9,667	142	-	-	15,057
2009	-	956	4,114	9,902	185	-	-	15,157
2008	-	989	4,681	10,123	224	31	-	16,048
2007	445	1,018	5,217	10,334	261	83	301,849	319,207
2006	875	818	5,719	10,531	297	133	310,294	328,667

Fiscal Year	Total Primary Government	Percentage of Personal Income ¹	Per Capita ¹
2015	18,866	4.43%	874
2014	21,278	5.00%	990
2013	20,105	4.72%	935
2012	21,921	5.35%	1,021
2011	24,094	6.17%	1,141
2010	26,892	6.44%	1,285
2009	27,069	6.46%	1,271
2008	19,828	4.48%	931
2007	327,271	74.01%	15,555
2006	336,762	76.15%	16,253

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

¹ See the Schedule of Demographic and Economic Statistics for personal income and population data.

² Electric cogeneration facility sold 11/30/07 to Iberdrola Renewables, bond defeasance escrow accounts will pay-off bonds.

City of Klamath Falls, Oregon
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years
(amounts expressed in thousands, except per capita amount)

Schedule I-10

Fiscal Year	General Obligation Bonds	Less: Amounts Available in Debt Service Fund	Total	Percentage of Estimated Actual Taxable Value¹ of Property	Per Capita²
2015	\$ 4,024	\$ 57	3,967	0.30%	\$ 184
2014	4,025	53	3,972	0.31%	185
2013	4,026	52	3,974	0.31%	185
2012	4,027	40	3,987	0.31%	186
2011	4,028	22	4,006	0.31%	190
2010	4,029	372	3,657	0.29%	175
2009	4,030	368	3,662	0.31%	172
2008	-	-	-	0.00%	-
2007	-	-	-	0.00%	-
2006	-	-	-	0.00%	-

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

¹ See the Schedule of Assessed Value and Estimated Actual Value of Property for property value data.

² Population data can be found in the Schedule of Demographic and Economic Statistics.

City of Klamath Falls, Oregon
Direct and Overlapping Governmental Activities Debt
As of June 30, 2015
(amounts expressed in thousands)

Schedule I-11

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Klamath Community College	\$ 5,000	26.72%	\$ 1,336
Klamath County Fire District 1	1,340	44.99%	603
Klamath County School Distirct	39,352	7.72%	3,038
Klamath City School District	37,416	58.67%	<u>21,952</u>
Subtotal, overlapping debt			26,929
City of Klamath Falls direct debt ¹			<u>10,537</u>
Total direct and overlapping debt			<u><u>\$ 37,466</u></u>

Sources: Outstanding debt and applicable percentages provided by each governmental unit.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the property taxpayers of the City of Klamath Falls. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the property taxpayers should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

¹ City of Klamath Falls direct debt includes \$4,024 general obligation, \$3,037 full faith and credit, and \$3,476 in other governmental activites debt.

City of Klamath Falls, Oregon
Legal Debt Margin Information
June 30, 2015
(amounts expressed in thousands)

Schedule I-12

Fiscal Year	Total Taxable Assessed Value	Taxable Assessed Value as a Percentage of Estimated Actual Value	Estimated Actual Taxable Value
2015	\$ 1,336,847	71.19%	\$ 1,877,943
2014	1,293,010	70.97%	1,821,828
2013	1,293,019	69.55%	1,859,004
2012	1,292,172	64.79%	1,994,300
2011	1,277,371	56.60%	2,256,834
Total Five Years Valuation			\$ 9,809,909
Five Year Average Full Valuation of Taxable Real Property			\$ 1,961,982
Constitutional Debt Limit (3% of total assessed value)			\$ 40,105
Outstanding General Obligation Indebtedness as of June 30, 2015			
Governmental Activities - General Obligation Debt			\$ 10,537
Governmental Activities - Short-term Debt - Current Portion of Lines of Credit			124
Net Indebtedness subject to debt limit			10,661
Net debt contracting margin			\$ 29,444
Percentage of net debt contracting margin available			73.42%
Percentage of net debt contracting power exhausted			26.58%

Last Ten Fiscal Years

Fiscal Year	Constitutional Debt Limit	Outstanding Indebtedness June 30	Percentage of Net Debt Contracting Margin Available
2015	\$ 40,105	\$ 10,661	73.42%
2014	38,790	10,667	72.50%
2013	38,791	8,865	77.15%
2012	38,765	9,332	75.93%
2011	38,321	10,211	73.35%
2010	37,241	11,328	69.58%
2009	36,002	11,701	67.50%
2008	33,809	3,489	89.68%
2007	30,771	3,518	88.57%
2006	29,746	3,285	88.96%

**City of Klamath Falls, Oregon
Pledged-Revenue Coverage
Last Ten Fiscal Years
(amounts expressed in thousands)**

Schedule I-13

Fiscal Year	Sewer Revenue Bonds						Water Revenue Bonds					
	Sewer Charges and Other	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage	Water Charges and Other	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest					Principal	Interest	
2015	\$ 7,022	\$ 3,506	\$ 3,516	\$ 590	\$ 300	3.95	\$ 7,422	\$ 4,020	\$ 3,402	\$ 1,120	\$ 54	2.90
2014	6,686	3,661	3,025	570	323	3.39	7,025	4,110	2,915	685	87	3.78
2013	6,691	3,586	3,105	550	338	3.50	7,225	3,979	3,246	655	115	4.22
2012	6,223	3,445	2,778	530	359	3.12	6,463	3,992	2,471	625	147	3.20
2011	6,177	3,510	2,667	505	387	2.99	6,439	3,830	2,609	595	164	3.44
2010	6,013	3,551	2,462	385	387	3.19	6,983	3,722	3,261	575	188	4.27
2009	4,883	3,531	1,352	390	427	1.65	6,848	3,987	2,861	555	212	3.73
2008	4,833	3,427	1,406	375	445	1.71	6,968	3,577	3,391	995	290	2.64
2007	5,096	3,216	1,880	355	851	1.56	7,559	3,206	4,353	964	333	3.36
2006	4,903	3,379	1,524	445	874	1.16	6,933	3,062	3,871	913	554	2.64

Fiscal Year	Airport Revenue Bonds						Electric Revenue Bonds ¹					
	Airport Charges and Other	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage	Electric Charges and Other	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest					Principal	Interest	
2015	\$ 1,273	\$ 1,056	\$ 217	\$ 155	\$ 29	1.18						
2014	1,379	1,075	304	150	37	1.63						
2013	1,482	1,080	402	145	45	2.12						
2012	1,379	1,132	247	135	51	1.33						
2011	1,658	1,236	422	249	63	1.35						
2010	1,527	1,198	329	100	90	1.73						
2009	2,039	1,898	141	95	53	0.95						
2008	1,616	1,157	460	90	56	3.15	85,599	28,524	57,075	20,300	21,973	1.35
2007	1,814	1,393	421	85	60	2.90	159,643	140,919	18,724	8,500	21,200	0.63
2006	1,498	1,089	409	80	64	2.84	176,380	139,578	36,802	8,000	21,783	1.24

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements. Charges and other includes investment earnings but not SDC improvement fees. Operating expenses do not include interest and depreciation.

¹ Klamath Cogeneration project was sold November 30, 2007 to Iberdrola Renewables.

**City of Klamath Falls
Klamath County, Oregon
Demographic and Economic Statistics
Last Ten Fiscal Years**

Schedule I-14

Fiscal Year	City Population ¹	City Median Age ²	City Per Capita Personal Income ³	City Aggregate Income ³ (amounts expressed in thousands)	City Education Level in Years of Formal Schooling ³	City Public School Enrollment ⁴	County Unemployment Rate ⁵
2015	21,580	33.6	Unavailable	Unavailable	Unavailable	3,257	7.6%
2014	21,500	33.6	Unavailable	Unavailable	Unavailable	3,198	9.7%
2013	21,495	33.6	19,947	425,718	12.8	3,302	10.8%
2012	21,465	33.6	19,557	409,642	12.8	3,271	12.1%
2011	21,120	33.6	18,743	390,699	12.8	3,341	12.6%
2010	20,925	33.6	19,992	417,521	12.7	3,397	13.4%
2009	21,305	33.4	20,710	419,208	12.7	3,942	14.5%
2008	21,305	33.4	21,987	442,223	12.7	4,065	8.4%
2007	21,040	33.4	Unavailable	Unavailable	Unavailable	3,991	6.7%
2006	20,720	33.4	Unavailable	Unavailable	Unavailable	3,854	6.7%

Data Sources:

¹ Portland State University, Population Research Center

² U.S. Census Bureau

³ U.S. Census Bureau, American Fact Finder; City data only available since 2008

⁴ Oregon Department of Education

⁵ Oregon State Employment Division, Labor Market Information System

**City of Klamath Falls
Principal Employers
Current Year and Nine Years Prior ¹**

Schedule I-15

Employer	2015			2006 ³		
	Employees ²	Rank	Percentage of Total City Employment	Employees ²	Rank	Percentage of Total County Employment
Sky Lakes Medical Center	1,279	1	7.30%	1,038	2	3.71%
Jeld-Wen Inc. Wood Products	1,123	2	6.41%	1,500	1	5.36%
Klamath County School District	789	3	4.51%	850	3	3.04%
Asurion Customer Service Companies	659	4	3.76%	650	5	2.32%
Kingsley Field Oregon Air National Guard	623	5	3.56%	725	4	2.59%
Klamath County	491	6	2.80%	510	6	1.82%
Wal-Mart	370	7	2.11%	400	9	1.43%
Klamath Falls City Schools	365	8	2.08%	500	7	1.79%
Oregon Institute of Technology	314	9	1.79%			
Fred Meyer	290	10	1.66%			
Columbia Forest Products ³	270		1.54%	430	8	1.54%
Collins Company ³	234		1.34%	335	10	1.20%
	6,807		36%	6,938		22%

¹ Principal employers were not tracked until the period nine years prior.

² Numbers of employees furnished by employer.

³ 2006 data represents County statistics. These employers are not within City limits.

City of Klamath Falls, Oregon
Full-time Equivalent City Government Employees by Function
Last Ten Fiscal Years

Schedule I-16

Function	Full-time Equivalent Employees (FTE) as of June 30									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
General Government										
Manager	5.00	3.75	3.75	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Legal	1.70	1.75	1.75	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Municipal Court	3.30	3.25	3.25	3.00	3.25	3.25	3.50	3.50	3.50	3.00
Public Works Engineering	5.50	6.50	6.50	7.50	7.50	7.50	9.50	9.50	9.50	8.50
Public Works Administration	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Planning	2.00	4.50	4.67	4.92	6.17	6.17	6.17	6.17	6.17	6.17
Maintenance	10.00	10.50	10.00	10.00	10.00	10.00	11.00	11.00	11.00	11.00
Support Services										
Finance	6.50	6.00	7.00	7.00	8.00	8.00	7.00	7.00	7.50	8.00
Human Resources/Risk	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Information Systems	3.00	3.00	3.00	3.00	3.00	3.00	2.00	2.00	2.00	2.00
Culture and Recreation	6.30	6.75	8.25	8.25	8.00	6.00	5.65	5.65	5.65	5.65
Ella Redkey Pool ¹	3.20	5.00								
Cemetery ²						2.00	3.35	3.35	3.35	3.35
Airport	5.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	5.00	5.00
Public Safety										
Police	39.00	40.00	41.00	42.00	45.00	45.00	43.00	45.00	45.00	43.00
Code enforcement	2.00	2.00	2.33	2.33	3.33	3.33	3.33	3.33	2.33	2.33
Off-street Parking	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Highways and streets										
Streets	10.00	10.00	10.00	10.00	11.00	11.00	11.00	11.00	11.00	11.00
Vehicle Maintenance	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Water	19.25	21.10	21.10	22.10	22.85	22.85	24.85	23.85	22.83	22.83
Geothermal	0.25	0.75	0.75	0.75	0.50	0.50				
Wastewater	15.00	16.65	16.65	16.65	17.90	17.90	18.15	18.15	17.67	16.67
Total	144.00	154.50	153.00	157.00	166.00	166.00	168.00	169.00	166.00	162.00

Source: City of Klamath Falls Human Resources and Payroll department.

¹ The Ella Redkey Pool operations were taken over by City Parks full-time in Fiscal Year 2013-2014.

² The Klamath Memorial Park cemetery was sold November 30, 2009 and the two employees assigned to culture and recreation.

City of Klamath Falls, Oregon
Operating Indicators by Function
Last Ten Fiscal Years

Schedule I-17

Function	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Police										
Police department personnel	39	40	41	42	45	45	43	45	45	43
Physical arrests	2,319	2,489	2,423	2,362	1,687	2,184	2,323	2,197	2,315	2,060
Parking violations	2,323	2,275	2,632	2,222	2,506	2,572	2,888	1,999	3,448	2,272
Traffic violations	2,403	2,882	2,691	2,999	2,146	2,432	2,999	3,422	3,680	2,323
Airport										
Takeoffs and landings	51,732	44,194	38,095	41,617	36,270	25,796	31,363	34,036	38,885	48,587
Passengers enplaned ¹	-	11,972	14,254	17,376	20,486	21,893	23,588	29,626	27,398	28,426
Total passengers	-	23,648	27,950	35,409	41,284	43,693	47,059	59,131	57,548	56,700
Highways and streets										
Street resurfacing (feet)	17,262	12,157	4,135	8,200	8,151	40,400	7,920	2,800	5,166	1,200
Potholes (tons of asphalt)	36	34	27	42	38	27	85	20	286	114
Culture and recreation										
Park reservations	116	153	94	87	64	57	143	209	343	135
Municipal pool admissions ²	20,001	19,282	12,881							
Water										
New connections	43	36	36	24	26	32	20	112	244	15,782
Total connections	16,346	15,732	16,020	16,240	16,216	16,190	16,158	16,138	16,026	15,782
Average daily production (thousands of gallons)	7,180	6,899	6,790	6,700	6,400	7,800	8,500	7,600	8,558	7,800
Wastewater										
New connections	7	17	25	18	9	15	14	57	53	7,245
Total connections	7,443	7,680	7,668	7,411	7,393	7,384	7,369	7,355	7,298	7,245
Average daily sewage treatment (thousands of gallons)	2,760	2,650	2,963	3,080	2,820	2,970	3,267	3,575	4,280	3,880
Average daily reclaimed water produced (thousands of gallons) ³	2,370	2,350	2,280	2,340	3,120	2,825	2,542	2,677	2,990	1,680

Source: Various city departments.

¹ Commercial air service was discontinued in June of 2014.

² Municipal pool operations were taken over in full by City Parks on 4/1/2013.

³ Reclaimed water (effluent) was provided to the Klamath Cogeneration project beginning in 2001.

City of Klamath Falls, Oregon
Capital Asset Statistics by Function
Last Ten Fiscal Years

Schedule I-18

Function	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Public Safety										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol Units	36	40	37	33	32	37	32	33	33	36
Airport										
Miles of runways & taxiways	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8	8	8
Highways and streets										
Streets (lane miles)	302	302	302	302	302	301	245	245	245	227
Streetlights	3,116	3,114	3,104	3,080	3,052	3,047	3,003	2,983	2,981	2,857
Traffic signals	36	34	31	31	31	31	30	30	30	28
Culture and recreation										
Park acreage										
Developed	119	119	119	119	119	119	119	119	119	85
Natural areas	514	514	514	514	514	514	514	514	514	542
Undeveloped	50	50	50	50	50	50	20	20	20	20
Parks	23	23	23	23	23	23	23	23	23	23
Tennis courts	3	3	3	3	3	3	3	6	7	7
Playground equipment areas	8	8	8	8	8	8	8	8	8	7
Cemetery										
Developed acres ¹	18	18	18	18	18	18	32	32	32	32
Undeveloped acres ¹	0	0	0	0	0	0	20	20	20	20
Water										
Water mains (miles)	263	240	240	240	239	239	237	236	233	231
Fire hydrants	1,157	1,186	1,176	1,093	1,089	1,084	1,080	1,065	1,036	979
Maximum daily capacity (thousands of gallons)	13,918	15,107	13,204	13,700	13,800	16,135	18,184	17,940	16,287	16,300
Wastewater										
Sanitary sewer (miles)	156	156	155	156	156	155	140	130	129	127
Storm sewers (miles)	40	40	40	40	40	40	40	33	32	30
Manholes	2,600	2,600	2,600	2,600	2,600	2,600	2,380	2,316	2,306	
Maximum daily treatment capacity (thousands of gallons)	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000
Maximum daily reclaimed water capacity (thousands of gallons)	6,500	6,500	6,500	6,500	6,500	6,500	6,500	3,000	3,900	3,900

Source: Various city departments.

¹ In November 2009 Klamath Memorial Park Cemetery was sold

**City of Klamath Falls, Oregon
Top Ten Water & Wastewater Customers
Fiscal Year Ended June 30, 2015**

Schedule I-19

<u>Water Customers</u>	<u>Billed</u>	<u>Percent of Total Customer Charges</u>
City of Klamath Falls	\$ 420,577	5.88 %
Jeld-Wen	123,107	1.72
Klamath County	90,311	1.26
Sky Lakes Medical Center	74,800	1.05
Klamath Falls City Schools	69,584	0.97
Klamath Co-Gen	68,869	0.96
Kingsley Field	67,164	0.94
Klamath County School District	52,794	0.74
Emerald Estates	34,623	0.48
F B Owen	<u>34,182</u>	<u>0.48</u>
 Total Top Ten	 \$ <u>1,036,011</u>	 <u>14.49 %</u>
 Total Billed Fiscal Year 14/15	 \$ <u>7,149,466</u>	

<u>Wastewater Customers</u>	<u>Billed</u>	<u>Percent of Total Customer Charges</u>
Klamath Co-Gen	\$ 654,907	9.44 %
Sky Lakes Medical Center	224,028	3.23
Running Y Ranch Resort Inc.	206,837	2.98
Klamath County	179,075	2.58
Falcon Heights Condo	177,488	2.56
OIT (Oregon Institute of Technology)	130,610	1.88
Shilo	64,617	0.93
Southern Pacific	59,353	0.86
Klamath Falls City Schools	59,114	0.85
Kingsley Field	<u>51,701</u>	<u>0.75</u>
 Total Top Ten	 \$ <u>1,807,730</u>	 <u>26.06 %</u>
 Total Billed Fiscal Year 14/15	 \$ <u>6,937,728</u>	

Total Water Service Connections	<u>16,346</u>
Total Wastewater Service Connections.	<u>7,443</u>

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**GOVERNMENT AUDITING
STANDARDS SECTION**

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

To the City Council
City of Klamath Falls, Oregon
Klamath Falls, Oregon

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Klamath Falls, Oregon (the City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 14, 2015.

Internal Control over Financial Reporting

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

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. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control, that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented,

or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings to be material weakness as item 2015-1.

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 described in the accompanying schedule of findings to be significant deficiency as item 2015-2.

Compliance and Other Matters

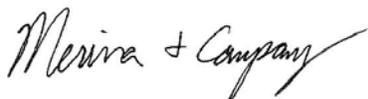
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect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

The City of Klamath Falls' Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Merina & Company, LLP
West Linn, Oregon
December 14, 2015

CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2015

Financial Statement Findings

2015-1

Condition: Controls were not in place to ensure the City record the loan proceeds and principal payments related to loan refinance accurately.

Criteria: The City should establish written policies and procedures that include controls to ensure reconciling debt activity with the trail balance.

Effect: Due to a lack of written policies and procedures the City failed to record the proceeds and principal payments from the loan refinance.

Cause: It appears the underlying cause relates to no reconciliation between the trial balance and debt activity.

Recommendation: The City should consider designing and implementing written policies and procedures to ensure debt activity is recorded accurately. These could include monthly and or year-end reviews.

Views of Responsible Officials and Planned Corrective Actions: The City will rewrite the procedures for the issuance of new debt, and the refunding of existing debt. The procedure will include recording the gross amount of the new debt proceeds, and recording the payoff of the old debt as a debt service expense. Included in the procedures will be the reconciliation of the trial balance and the debt activity of all new and refinanced debt transactions to insure the total increases and total decreases are recorded.

2015-2

Condition: Controls were not in place to ensure asset depreciation and period cut off were reviewed.

Criteria: The City should establish written policies and procedures that include controls to ensure asset depreciation and period cut off are reviewed in a timely manner.

Effect: Due to a lack of review the City failed to record the proper amount of depreciation and recorded expenses for the next period.

Cause: The City did not adequately review asset depreciation and period cut off.

Recommendation: The City should consider designing and implementing written policies and procedures to ensure asset depreciation and period cut off are reviewed in a timely manner. These could include monthly and or year-end reviews.

CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2015

Views of Responsible Officials and Planned Corrective Actions: The City will rewrite the fixed asset procedures to include analytical review of depreciation registers to insure all depreciable assets are being depreciated in accordance with the assigned useful lives. The procedures will also require a review of capital outlay expenditures at year end for appropriate period cut offs as determined by receipt and invoice dates.

**PASSENGER FACILITY CHARGES
AUDIT SECTION**

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE
PASSENGER FACILITY CHARGE PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE REQUIRED BY PASSENGER
FACILITY CHARGE AUDIT GUIDE FOR PUBLIC AGENCIES**

Mayor and City Councilors
City of Klamath Falls, Oregon
Klamath Falls, Oregon

Report on Compliance for the Passenger Facility Charge Program

We have audited City of Klamath Falls, Oregon's compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* that could have a direct and material effect on City of Klamath Falls' Passenger Facility Charge program for the year ended June 30, 2015.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Klamath Falls' Passenger Facility Charges based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Passenger Facility Charge Guide for Public Agencies*, issued by the Federal Aviation Administration. Those standards and the Passenger Facility Charge Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Passenger Facility Charge program occurred. An audit includes examining, on a test basis, evidence City of Klamath Falls' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the passenger facility charge program. However, our audit does not provide a legal determination City of Klamath Falls' compliance.

Opinion on Passenger Facility Charge Program

In our opinion, City of Klamath Falls, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of the City of Klamath Falls, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Klamath Falls' internal control over compliance with the types of requirements that could have a direct and material effect on the passenger facility charge program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the passenger facility charge program and to test and report on internal control over compliance in accordance with *Passenger Facility Charge Audit Guide for Public Agencies*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Klamath Falls' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of the passenger facility charge program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of the passenger facility charge program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the

requirements of the Passenger Facility Charges Program. Accordingly, this report is not suitable for any other purpose.

Merina & Company

Merina & Company, LLP
West Linn, Oregon
December 14, 2015

**CITY OF KLAMATH FALLS, OREGON
PASSENGER FACILITY CHARGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2015**

Section I – Summary of Auditor’s Results

Passenger Facility Charge

Internal Control over the Passenger Facility Charge program:

Material weakness(es) identified? Yes No

Significant deficiency (s) identified that are Not considered to be material weaknesses? Yes None reported

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Passenger Facility Charge Audit Guide. Yes No

Section II – Passenger Facility Charge Findings and Questioned Costs

None

Section III – Schedule of Prior Passenger Facility Charge Findings and Questioned Costs for the Years Ended June 30, 2014

None

CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF PASSENGER FACILITY CHARGES
COLLECTED, HELD AND USED
For the Year Ended June 30, 2015

12-03-C-00-LMT 03-001 Terminal Enhancements				
Quarter ending:	September 30, 2014	December 31, 2014	March 31, 2015	June 30, 2015
Unexpended PFC's and Interest, Beginning of Period	-	-	-	-
Add:				
PFC Receipts	1,108	9	18	-
Interest Earned				
Total	1,108	9	18	-
Expenses/Expenditures	1,108	9	18	-
Unexpended PFC and Interest	-	-	-	-

Note: This schedule is prepared on the cash basis of accounting

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**STATE OF OREGON
COMPLIANCE SECTION**

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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 City of Klamath Falls, Oregon (the City), as of and for the year ended June 30, 2015 and have issued our report thereon dated December 14, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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.
- 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 City 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 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 the Oregon

Administrative Rules 162-10-000 through 162-10-320 of the *Minimum Standards for Audits of Oregon Municipal Corporations*.

OAR 162-10-0230 Internal Control

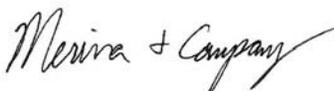
In planning and performing our audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing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

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. However, as described in the separately issued Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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.

This report is intended solely for the information and use of the City Council, Oregon 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
December 14, 2015

BOND COMPLIANCE

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
SCHEDULES OF COMPLIANCE WITH THE RATE AND REVENUE COVENANTS
OF THE WATER REVENUE REFUNDING BONDS, SERIES 2001,
THE WASTEWATER REVENUE REFUNDING BONDS, SERIES 2005,
AND THE AIRPORT REVENUE BONDS, SERIES 1996**

To the City Council
City of Klamath Falls, Oregon
Klamath Falls, Oregon

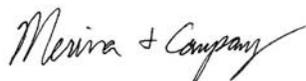
Report on Compliance

We have examined the City of Klamath Falls' compliance with the rate and revenue covenants described in the Water Revenue Refunding Bonds, Series 2001, the Wastewater Revenue Refunding Bonds, Series 2005, and the Airport Revenue Bonds, Series 1996 during the year ended June 30, 2015. Management is responsible for the City of Klamath Falls' compliance with those requirements. Our responsibility is to express an opinion on the City of Klamath Falls' compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the City of Klamath Falls' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the City of Klamath Falls' compliance with specified requirements.

In our opinion, the City of Klamath Falls complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2015.

The report is intended solely for the information and use of management, City Council and holders of City of Klamath Falls' Water, Wastewater and Airport Revenue Bonds, and should not be used for any other purpose.



Merina & Company, LLP
West Linn, Oregon
December 14, 2015

CITY OF KLAMATH FALLS, OREGON
 SCHEDULE OF COMPLIANCE WITH THE RATE COVENANTS OF THE
 THE WATER REVENUE REFUNDING BONDS, SERIES 2001
 For the Year Ended June 30, 2015

Gross Revenues			
Operating revenues		\$	7,321,192
Other revenues			
Interest earned on investments	\$	86,129	
Miscellaneous revenue		132,959	
Less: SDC improvement fees		(117,849)	101,239
Total Gross Revenues			7,422,431
Total operating expense		5,319,727	
Less: depreciation and amortization expense		(1,299,389)	4,020,338
Net Revenues			3,402,093

Water Fund debt service for the fiscal year ended June 30, 2015:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2001 Water Revenue Refunding Bonds	\$ 1,120,000	\$ 54,078	\$ 1,174,078	
Total	<u>\$ 1,120,000</u>	<u>\$ 54,078</u>	<u>\$ 1,174,078</u>	1,174,078
1.25 Compliance			2.90	
Net Revenue after senior debt				<u>\$ 2,228,015</u>
Annual Subordinate Obligations				
SPWF Loan	\$ 35,671	\$ 30,677	\$ 66,348	
Total	<u>\$ 35,671</u>	<u>\$ 30,677</u>	<u>\$ 66,348</u>	66,348
1.10 Compliance			33.58	

On January 1, 2015 the City increased water rates by 1.7% in accordance with the National (U.S. City Average) CPI-U. These rates were in effect from January 1 through June 30, 2015 of the current fiscal year.

The Water Fund net revenues exceeded the expected annual debt service on bonds computed in compliance with provisions of the Bond Documents for the year ended June 30, 2015. The City is in compliance with the rate covenant of the 2001 Series Water Revenue Refunding Bonds.

CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF COMPLIANCE WITH THE RATE COVENANTS OF THE
WASTEWATER REVENUE REFUNDING BONDS, SERIES 2005
For the Year Ended June 30, 2015

Gross Revenues		
Operating revenues		\$ 6,966,252
Other revenues		
Interest earned on investments	\$ 56,267	
Miscellaneous revenue	51,889	
Less: SDC improvement fees	<u>(51,889)</u>	<u>56,267</u>
Total Gross Revenues		7,022,519
Total operating expense	4,593,413	
Less: depreciation and amortization expense	<u>(1,087,140)</u>	<u>3,506,273</u>
Net Revenues		3,516,246

Wastewater Fund debt service for the fiscal year ended June 30, 2014:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2005 Wastewater Revenue Refunding	\$ 590,000	\$ 300,221	\$ 890,221	
Total	<u>\$ 590,000</u>	<u>\$ 300,221</u>	<u>\$ 890,221</u>	<u>890,221</u>
1.25 Compliance			3.95	
Net Revenue after senior debt				<u>\$ 2,626,025</u>

On January 1, 2015 the City increased wastewater rates by 1.7% in accordance with the National (U.S. City Average) CPI-U. These rates were in effect from January 1 through June 30, 2015 of the current fiscal year.

The Wastewater Fund net revenues exceeded the annual debt service on bonds computed in compliance with the provisions of the Bond Documents for the year ended June 30, 2014. The City is in compliance with the rate covenant of the 2005 series Wastewater Revenue Refunding Bonds.

CITY OF KLAMATH FALLS, OREGON
 SCHEDULE OF COMPLIANCE WITH THE GROSS REVENUE COVENANT
 OF THE AIRPORT REVENUE BONDS, SERIES 1996
 For the Year Ended June 30, 2015

Gross Revenues			
Property taxes (including delinquent)	\$	338,283	
Charges for services		524,083	
Intergovernmental		388,869	
Interest earned on investments		11,614	
Miscellaneous revenues		9,938	
Total Gross Revenues			\$ 1,272,787
Less total net operating expenditures			(1,055,989)
Net Revenues			216,798

Airport Fund debt service for the fiscal year ended June 30, 2015:

	Principal	Interest	Total	
1996 Airport Revenue Bonds	\$ 130,000	\$ 14,850	\$ 144,850	
Interfund Loan	25,000	13,875	38,875	
	\$ 155,000	\$ 28,725	\$ 183,725	183,725
1.00 Compliance				1.18
Net Revenue after senior debt				\$ 33,073.00

The Airport Fund net revenues for the fiscal year ended June 30, 2015 exceed the annual debt service computed in compliance with the provisions of the 1996 Series, Airport Revenue Bonds. The City was in compliance with the revenue covenant.