

**City of Klamath Falls
Oregon**

**Comprehensive
Annual
Financial
Report**

**For the Fiscal Year Ended
June 30, 2013**

**Prepared by the
Finance Department
Stephanie Loghry,
Finance Officer**

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CITY OF KLAMATH FALLS, OREGON
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 June 30, 2013

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INTRODUCTORY SECTION

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



December 6, 2013

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

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. This report is published to fulfill that requirement for the fiscal year ended June 30, 2013.

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.

Molatore, Scroggin, Peterson & 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, 2013. 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 420 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 21,495. Although the population within the City limits is only 21,495, 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. Currently values are expected to decrease for existing improvements. 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 2013 was approximately \$4.4231 per \$1,000 of assessed value. The City of Klamath Falls collected about \$217,090 less in property taxes, including delinquent taxes, during the 2013 fiscal year than it did in 2012.

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 prepared by fund, department/division and category (e.g., personnel services or materials & services). Transfers between categories, 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. The slowing migration of retired people moving to the community has had a negative impact on the local economy.

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. Currently the rate is around 10.9 percent, more than 3 percent higher than the national average.

The City's median income was \$33,411 (per 2010 census data), which was also lower than the state's at \$49,850 at that time. In addition, the average home value was \$160,000 vs. the state's average of \$252,600.

The Klamath basin prides itself on its use of alternative energy sources. With the sun shining much of the year, we have been contacted by several solar energy companies wishing to locate here. 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 and have discovered Klamath Falls through this venue.

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 hired a new City Manager on February 1, 2013. In preparation of the 2013-2014 annual budget, the City Manager guided staff to look at a 10 year sustainability model for the City. It was determined that the City could not operate at status quo without resulting fund deficits 10 years out. Consequently, many departments reduced materials & services budgets. The major change, however, was a restructuring among certain departments. With the retirement of the Finance Director and a removal of that position, the Support Services department was formed. The Support Services Director is responsible for Finance, Utility Billing, Municipal Court, Human Resources and the Information Systems departments. In addition, Code Enforcement, formally under management of the Community Development Director, now falls under the Police department. The City is also looking at the possibility of consolidating employees from two buildings into one. In the future, as employees retire, an assessment will determine the need to refill that position.

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 will go through a major Enterprise Resource Planning conversion in fiscal year 2014. 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 2013 the Airport allocated significant effort to developing the Modoc Wetland site. This replacement wetland is required to mitigate for air safety improvements in prior years which eliminated wetlands near the runways and taxiways. The Airport re-negotiated its airport joint use agreement (AJUA) with the Air National Guard (ANG). The ANG implemented a major construction project to enhance their capacity and significant Airport effort was needed to coordinate the construction of the North Arm/Dearm Apron. The Airport Futures Group submitted its findings to the City Council. The effort involved an extensive review with local representatives of Airport factors and potential areas to enhance Airport economic sustainability. The conclusion of the Futures Group was to enhance the stability of tax base support for the Airport through a re-organization. With lower enplanements, the Airport engaged in an effort to support air service with the Klamath Falls public and to establish with the carrier SkyWest initiatives to stabilize the air service itself. Prior year initiatives were completed and implemented. These included the major 14-32 Runway reconstruction and the “cutting-edge” partnership (P-4) effort with the 173rd Fighter Wing through the National Guard Bureau. The Airport planned and engaged the FAA in a major new construction project, the development of Taxiway J on the eastside. The project would enhance aviation safety and open up the east side to expanded air operations.

The City Community Development Department is working with a group of citizens representing varying interests to review staff’s proposed changes to the Community Development Ordinance (CDO). Staff anticipates taking the changes to the Planning Commission and City Council in 2014 for review and adoption.

The Timbermill Shores Development urban renewal project is currently planning the development of several commercial lots with plans to later construct some residential condominiums. Build out of the development has slowed along with the overall economy. 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 Town Center urban renewal project to rebuild the Klamath Mall has found a new owner. Discussions are taking place regarding the final development of the south east corner of the property. The Downtown urban renewal project is slowly coming to an end. We anticipate that they will reach their maximum indebtedness during fiscal year 2014.

The Street division completed the overlay of Eberlein between Washburn Way and the A Canal bike path. Other contracted renovations were also completed including crack sealing various streets and overlaying sections of Martin and Pershing Streets. The bigger issue facing the Street Department is the lack of funding and amount of deferred maintenance. As a result City and County staff are exploring the potential of consolidating road departments. This research should be completed spring of 2014.

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 regained

management of the Ella Redkey Pool in April 2013. 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.

Under new Police department management, the Code Enforcement Division continues its program of upgrading deteriorating sidewalks along pedestrian corridors in Klamath Falls. The Division notifies property owners of sidewalks needing to be replaced and works with those who cannot afford to make improvements to use abatement dollars to fix the sidewalks and set up repayment agreements so property owners can repay the City. The City developed an Amnesty Program that eliminated many of the fees for property owners in violation of City Code. Qualified participants either paid their reduced balance in full or entered into a payment plan.

The City is gearing up for a major overhaul of the front end of the Wastewater treatment plant to replace facilities and equipment that are in excess of 50 years old. Prior to this work taking place the City and its counterpart, South Suburban Sanitary District are conducting a joint operations study that will look at the potential for operational and capital savings. The City is still waiting to hear from Oregon DEQ on finalization of the Oregon TMDL's and how they will ultimately relate to the City of Klamath Falls discharge.

The City contracted with an outside consultant to perform a water rate study in July of 2013. The scope of the work included both the rate structure and water system development charges. The City used the outcome of the study to update the rate structure effective January 2014. The City has installed approximately 5,600 radios on the water meters and expects to install an additional 11,000 over the next few years in order to increase the efficiency of meter reads and to provide access to the meters during snowy weather. A listing of capital projects can be found on page 12 of the MD&A.

The City has undergone two feasibility studies on the possibility of forming a Municipal Utility District. Council is expected to vote on the matter in December of 2013.

Relevant financial policies

The State of Oregon Treasurer's Office developed a model policy for state and local governments to use in developing their investment policies. In reviewing our current policy, staff found several areas in need of updating, including the procedures for lengthening the time allowed for maturity on some of our long-term investments. Staff recommended amending the City policy to bring it in line with the current investment rules. Council adopted the new Investment Policy in July of 2013. Due to the weakness in current interest rates, staff reviewed the investments and plans to take advantage of higher interest rates paid for funds with a maturity lasting longer than 18 months.

Awards and Acknowledgements

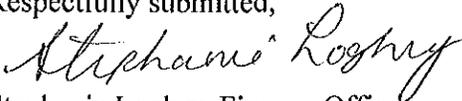
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Klamath Falls for its comprehensive annual financial report (CAFR) for the fiscal year ended

June 30, 2012. This was the twenty-first 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 program requirements.

A Certificate of Achievement is valid for a period of one year only. However, we believe that our current CAFR continues to meet the Certificate of Achievement for Excellence in Financial Reporting 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,

A handwritten signature in cursive script that reads "Stephanie Loghry".

Stephanie Loghry, Finance Officer



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Klamath Falls
Oregon**

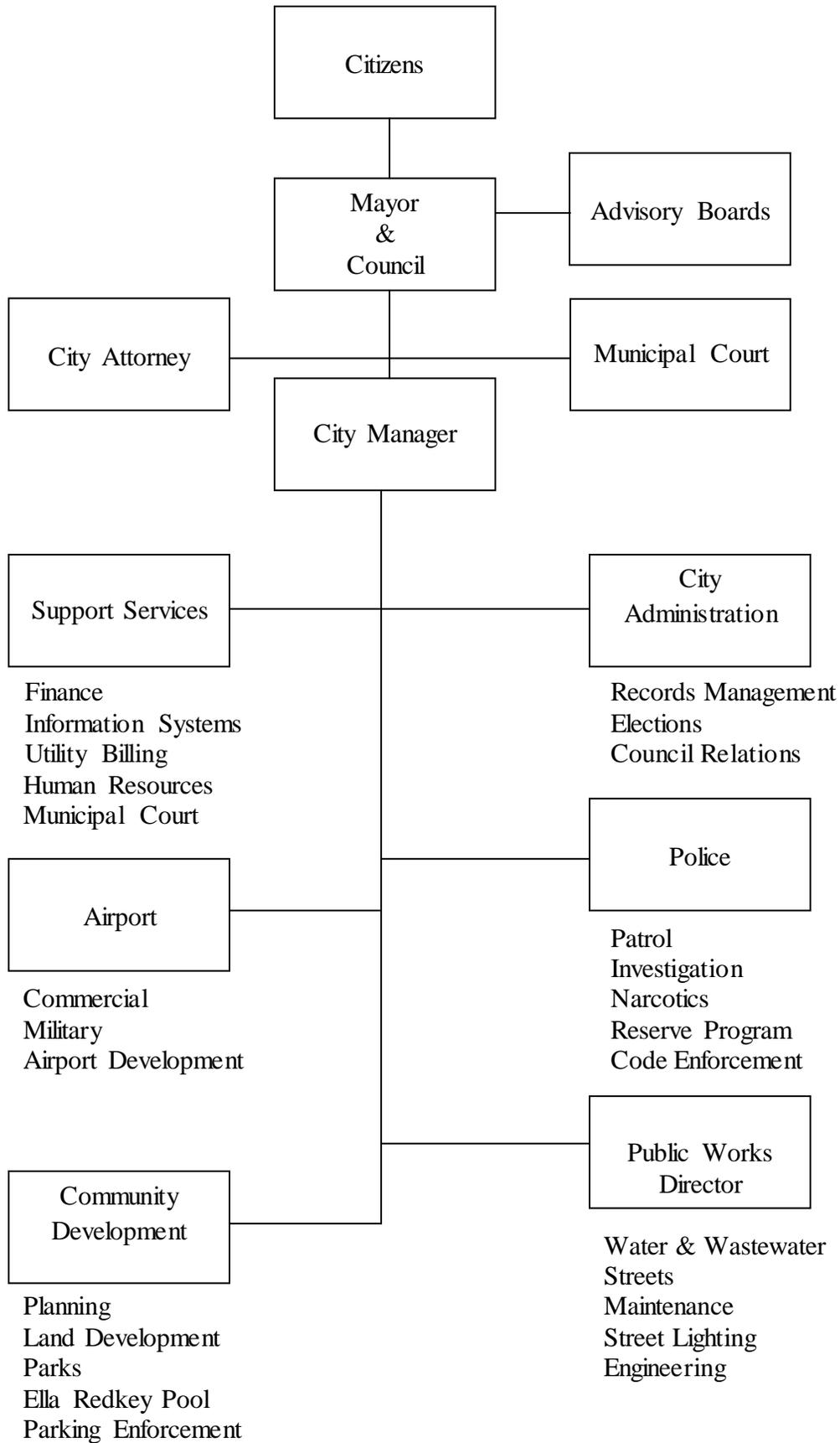
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

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, 2013

Elected Officials

		<u>Length of Service</u>
Mayor	Todd L. Kellstrom	20 yrs. 6 mos.
City Council Member	Irving "Bud" Hart	24 yrs. 6 mos.
City Council Member	William Adams	10 yrs. 6 mos.
City Council Member	Trish Seiler	12 yrs. 6 mos.
City Council Member	Dan Tofell	2 yrs. 6 mos.
City Council Member	Matt Dodson	10 mos.

Appointed Officials

		<u>Time in Position</u>	<u>Length of Employment</u>
City Manager	Nathan Cherpeski	5 mos.	5 mos.
City Attorney	Joanna Lyons-Antley	3 yrs. 3 mos.	3 yrs. 3 mos.
Municipal Court Judge	Jim Uerlings	28 yrs. 9 mos.	28 yrs. 9 mos.

Appointed Directors

		<u>Time in Position</u>	<u>Length of Employment</u>
Airport Director	John Longley	2 yrs. 10 mos.	2 yrs. 10 mos.
Support Services Director	Sue Kirby	1 mos.	3 yrs. 8 mos.
Community Development Director	Sandra Fox	7 yrs. 10 mos.	14 yrs. 10 mos.
Police Chief	James Hunter	7 yrs. 5 mos.	23 yrs. 9 mos.
Public Works Director	Mark Willrett	7 yrs. 3 mos.	14 yrs. 10 mos.
City Recorder	Elisa Olson	26 yrs. 9 mos.	27 yrs. 9 mos.

FINANCIAL SECTION

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**REPORT OF
INDEPENDENT AUDITORS**

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824 Pine Street
Klamath Falls, OR 97601
(541) 884-4164
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A0613-51400-1

Certified Public Accountants

Independent Auditors' Report

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, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Klamath Falls, Oregon's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

City of Klamath Falls, Oregon's 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 of Klamath Falls, Oregon, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

The management's discussion and analysis on pages 27 through 38, budgetary comparison information on pages 99 through 101, and the schedule of funding progress on page 102 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Klamath Falls, Oregon's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, other supplementary schedules, statistical section, Schedule of Expenditures of Federal Awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Schedule of Passenger Facility Charges Collected, Held and Used, required by Federal Aviation Administration, *Passenger Facility Charge Audit Guide For Public Agencies*, and the schedules of compliance with rate covenants, required by applicable bond covenants, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, other supplementary schedules, Schedule of Expenditures of Federal Awards, Schedule of Passenger Facility Charges Collected, Held and Used, and the schedules of compliance with rate covenants are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, other supplementary schedules, Schedule of Expenditures of Federal Awards, Schedule of Passenger Facility Charges Collected, Held and Used, and the schedules of compliance with rate covenants and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Klamath Falls, Oregon's basic financial statements. The introductory section and statistical section is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have issued our report dated December 6, 2013, on our consideration of the City of Klamath Falls, Oregon's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Molatore, Scroggin, Peterson & Co. LLP



Andrew E. Peterson, Partner

Klamath Falls, Oregon
December 6, 2013

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, 2013 and June 30, 2012. 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 on pages 9-13 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 \$203,079,623 (*net position*). Of this amount, \$24,621,761 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 increased by \$1,646,930 due to a slowdown in capital projects and increased wastewater and water rates.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$20,550,349, an increase of \$1,623,073 in comparison with the prior year. Approximately 20.2% of this amount (\$4,150,530) is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unrestricted fund balance (the total of the *committed*, *assigned*, and *unassigned* components of *fund balance*) for the general fund was \$4,200,168, or approximately 39.7% of total general fund expenditures.
- The City's total outstanding long-term debt decreased by \$1,816,056 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 pages 42-45 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The 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 sixteen 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 and street fund, which are considered to be major funds. The escrow reserve fund is also considered to be a major fund, but as a capital project fund, it is presented with the other capital project funds on the governmental fund balance sheet and separately in the governmental fund statement of revenues, expenditures, and changes in fund balance. With the implementation of GASB 54, the City's PERS reserve fund was combined with the general fund. The airport fund accounts for the operation of the Klamath Falls Airport and receives property taxes, rental revenue, landing fees, and FAA grants. 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. The escrow reserve fund is a 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 thirteen 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, 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 can be found on pages 48-49 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 can be found on pages 50-53 of this report.

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 can be found on pages 57 and 133 of this report.

Notes to Financial Statements – The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 61-93 of this report.

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. Required supplementary information can be found on pages 99-102 of this report.

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 can be found on pages 106-137 of this report.

Other Supplementary Schedules – Other schedules with pertinent information can be found on pages 141-144 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 and deferred outflows of resources exceeded liabilities by \$203,079,623, at the close of the most recent fiscal year.

City of Klamath Falls’ Net Position

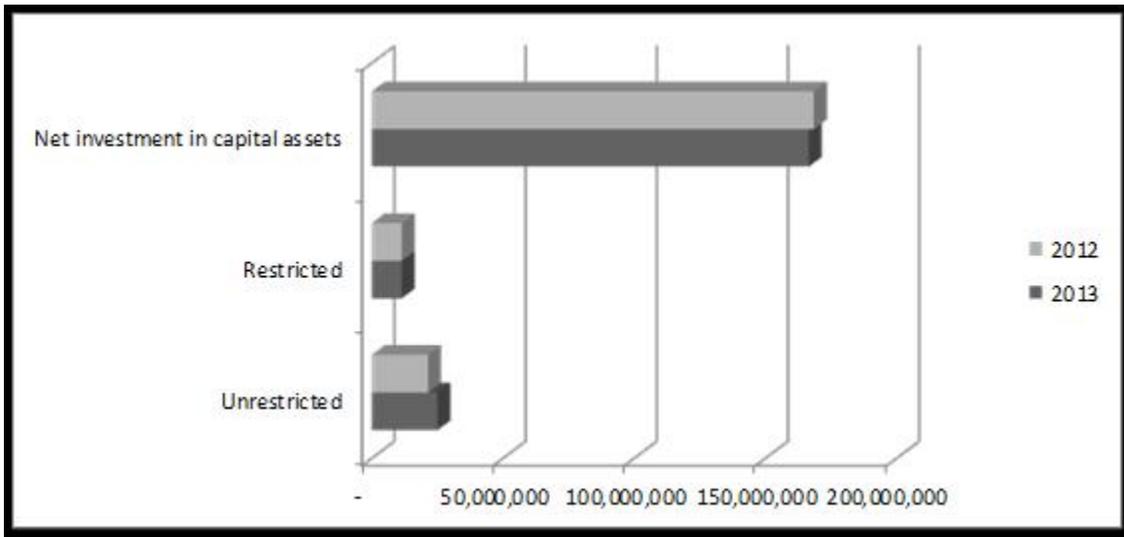
	Governmental activities		Business-type activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 22,948,334	\$ 21,540,517	\$ 17,241,202	\$ 15,305,095	\$ 40,189,536	\$ 36,845,612
Capital assets	122,877,275	127,293,199	62,666,799	61,817,549	185,544,074	189,110,748
Total assets	145,825,609	148,833,716	79,908,001	77,122,644	225,733,610	225,956,360
Total deferred outflows of resources	114,480	120,587	342,137	388,965	456,617	509,552
Long-term liabilities outstanding	9,106,313	9,470,254	9,504,313	10,762,613	18,610,626	20,232,867
Other liabilities	1,699,557	2,091,166	2,800,421	2,709,186	4,499,978	4,800,352
Total liabilities	10,805,870	11,561,420	12,304,734	13,471,799	23,110,604	25,033,219
Net position:						
Net investment in capital assets	115,096,825	119,231,089	51,447,145	49,262,631	166,543,970	168,493,720
Restricted	2,851,180	3,800,188	9,062,712	7,691,035	11,913,892	11,491,223
Unrestricted	17,186,214	14,361,606	7,435,547	7,086,144	24,621,761	21,447,750
Total net position	\$ 135,134,219	\$ 137,392,883	\$ 67,945,404	\$ 64,039,810	\$ 203,079,623	\$ 201,432,693

By far, the largest portion of the City’s net position (82.0%) 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 (5.9%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$24,621,761 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, 2012 and 2013**



The City's overall net position increased \$1,646,930 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

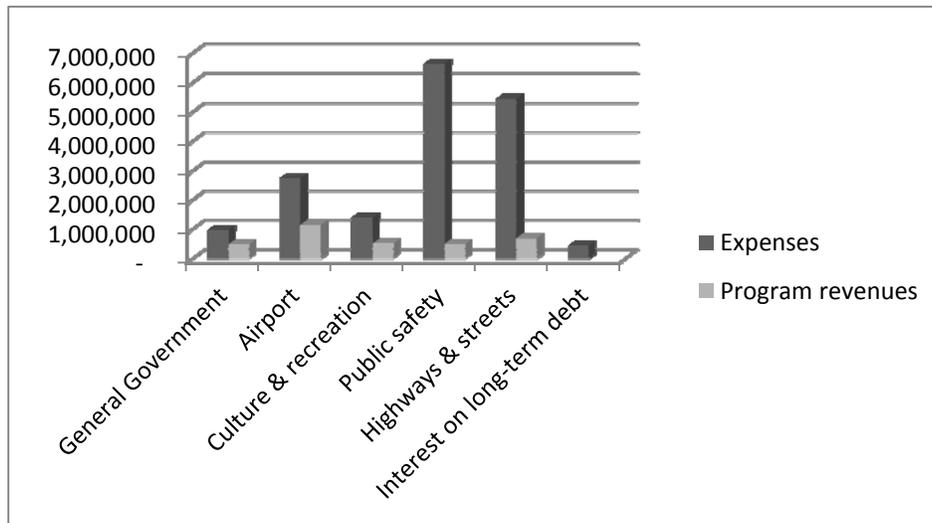
Governmental Activities

During the current fiscal year, net position for governmental activities decreased by \$2,258,664. While expenses were \$794,026 less in the current fiscal year, overall revenue declined by \$2,140,129. Intergovernmental revenue decreased by \$830,923. This revenue is mostly reimbursement based grants. If the work is not complete, the funds are not drawn down. In addition, the City received \$500,000 in the prior year from the airport litigation settlement that it did not receive in the current fiscal year. Property tax revenue came in \$238,757 less in the current fiscal year as there were fewer foreclosures and banks were no longer paying off the delinquent portion of the taxes. Transient room tax declined \$70,224 as fewer people stayed in Klamath Falls. Finally, the City and Klamath County participated in a \$633,000 fund exchange in the prior year that did not occur again the current fiscal year. The remaining variances are considered individually immaterial.

City of Klamath Falls' Changes in Net Position

	Governmental activities		Business-type activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues						
Charges for services	\$ 2,058,062	\$ 1,921,391	\$ 14,226,355	\$ 12,955,922	\$ 16,284,417	\$ 14,877,313
Operating grants & contributions	278,724	408,138	-	1,989	278,724	410,127
Capital grants & contributions	986,649	1,824,829	428,094	43,543	1,414,743	1,868,372
General revenues:						
Property taxes	7,205,147	7,443,904	-	-	7,205,147	7,443,904
Other taxes	4,400,793	4,308,408	-	-	4,400,793	4,308,408
Klamath County fund exchange	-	633,000	-	-	-	633,000
Other	151,791	228,152	95,196	80,863	246,987	309,015
Total revenues	15,081,166	16,767,822	14,749,645	13,082,317	29,830,811	29,850,139
Expenses:						
General government	971,123	916,736	-	-	971,123	916,736
Airport	2,738,308	3,056,676	-	-	2,738,308	3,056,676
Culture & recreation	1,393,933	1,315,332	-	-	1,393,933	1,315,332
Public safety	6,643,034	6,592,397	-	-	6,643,034	6,592,397
Highways & streets	5,443,451	6,069,358	-	-	5,443,451	6,069,358
Interest on long-term debt	435,161	468,537	-	-	435,161	468,537
Wastewater	-	-	4,992,855	4,914,640	4,992,855	4,914,640
Water	-	-	5,566,016	5,588,110	5,566,016	5,588,110
Total expenses	17,625,010	18,419,036	10,558,871	10,502,750	28,183,881	28,921,786
Increase (decrease) in net position before transfers & other sources	(2,543,844)	(1,651,214)	4,190,774	2,579,567	1,646,930	928,353
Special & extraordinary items	-	500,000	-	-	-	500,000
Transfers	285,180	238,653	(285,180)	(238,653)	-	-
Change in net position	(2,258,664)	(912,561)	3,905,594	2,340,914	1,646,930	1,428,353
Net position - beginning	137,392,883	138,305,444	64,039,810	61,698,896	201,432,693	200,004,340
Net position - ending	\$ 135,134,219	\$ 137,392,883	\$ 67,945,404	\$ 64,039,810	\$ 203,079,623	\$ 201,432,693

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 \$67,945,404. The total increase in net position for business-type activities (wastewater and water funds) was \$3,905,594 or 6.1% from the prior fiscal year. While expenses were up slightly (\$56,121), charges in services increased by \$1,270,433 due to a CPI rate increase of 2.0%. In addition, capital grants and contributions increased by \$384,551 due mainly in part to federal grants received for the California Ave Force Main project in the wastewater fund.

Financial Analysis of the Government’s Funds

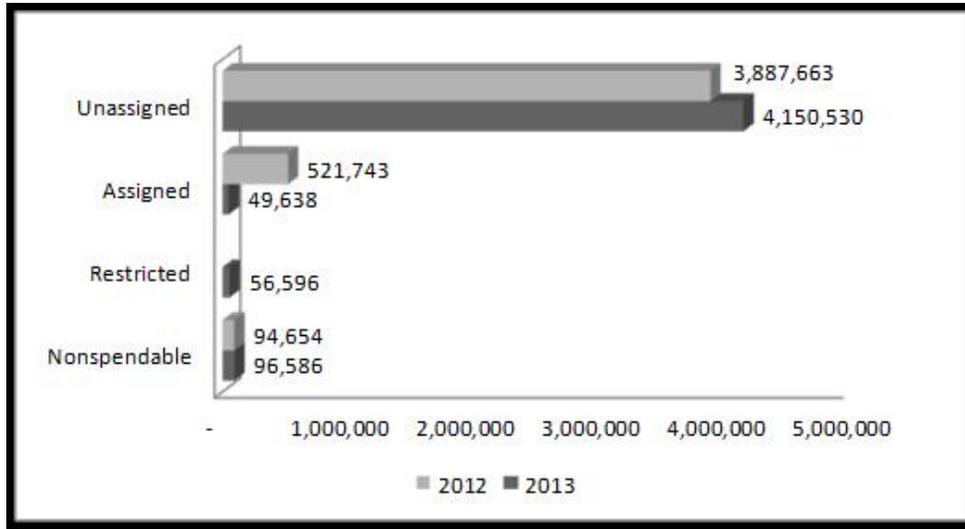
As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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.

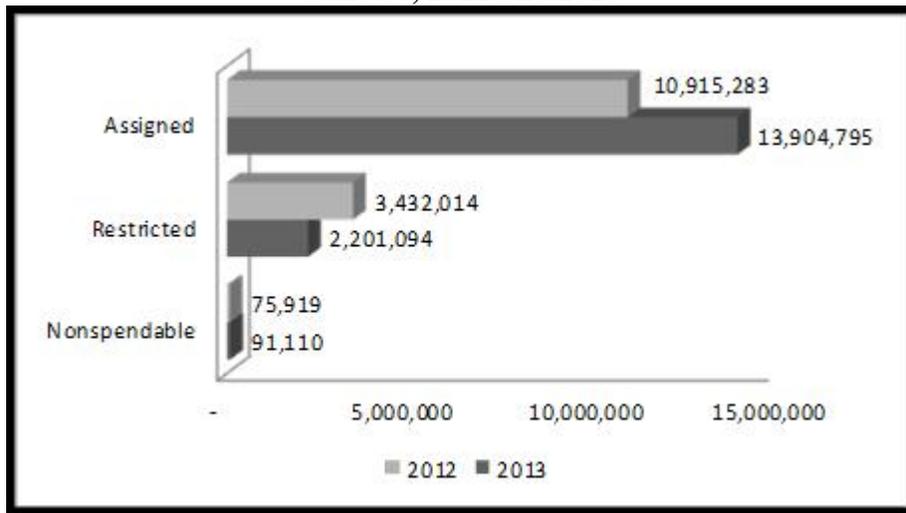
At June 30, 2013, the City’s governmental funds reported combined fund balances of \$20,550,349, an increase of \$1,623,073 in comparison with the prior year. Approximately 20.2% of this amount (\$4,150,530) constitutes *unassigned fund balance*, which is available for spending at the government’s discretion. The remainder of the fund balance is either nonspendable, restricted or assigned to indicate that it is 1) not in spendable form (\$187,696), 2) legally required to be maintained intact or restricted for particular purposes (\$2,257,690), 3) or assigned for particular purposes (\$13,954,433).

**General Fund - Components of Fund Balance
June 30, 2012 and 2013**



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 \$4,150,530, while total fund balance decreased to \$4,353,350. 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 39.2% of total general fund expenditures, while total fund balance represents approximately 41.2% of that same amount. The City's fund balance policies are located in Note 1.13.

**Other Governmental Funds - Components of Fund Balance
June 30, 2012 and 2013**



The fund balance of the City's general fund decreased by \$150,710 during the current fiscal year. While expenditures were \$138,264 lower in the current year compared to the prior year, revenues were down \$791,086. Property taxes, the general fund's primary revenue source, declined by \$309,740. Charges for services (comprised of administrative, maintenance & engineering charges) were down \$252,649 due to a reduction in expenditures in many of the departments. Overall revenues exceeded expenditures by \$356,329 before transfers. Transfers out include amounts for debt service, technology reserves and PERS support to the remaining funds with personnel. This is

debt service, technology reserves and PERS support to the remaining funds with personnel. This is the last year that the general fund will make any PERS distributions as the reserves were diminished in the current fiscal year.

The airport fund, a major fund, had an increase in fund balance of \$177,737. With a reallocation of property taxes between the airport fund and the parks fund, the airport fund received \$182,913 more than in the prior year. However, overall revenues declined \$278,597. The airport also completed more capital projects than in the prior year which attributed to a lower increase to the ending fund balance.

The street fund, another major fund, had an increase in fund balance of \$538,022. Overall activity within the street fund declined from the prior year (regarding both revenues and expenditures). There were fewer capital projects completed (which equates to fewer reimbursement based grant funds).

The final major fund, the escrow reserve fund, had an increase in fund balance of \$1,665,477 as proceeds from the sale of the cogeneration plant were transferred into the fund from the cogeneration fund.

Proprietary funds

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

Unrestricted net position of the wastewater fund at the end of the year was \$1,814,855 and for the water fund was \$5,620,692. The total growth in net position for both funds was \$2,278,629 and \$1,626,965, respectively. As noted earlier in the discussion of business-type activities, the increase was due to a 2.0% CPI rate increase in the current year and an increase in federal grants in the wastewater fund for completion of the California Ave Force Main project.

General Fund Budgetary Highlights

Original budget compared to final budget

During the year there was a \$198,050 increase in appropriations between the original and final amended budget. The two components of the increase are as follows:

- Police Department: The police department decided to tap into reserves set aside for vehicles that were not included in the original budget (\$149,300).
- City Manager Department: The city manager resigned unexpectedly resulting in his final payout and additional recruitment costs for a new city manager (\$48,750).

Final budget compared to actual results

Revenues: There were significant differences between estimated and actual intergovernmental revenue and charges for services. The City estimated that it would receive \$2,442,325 in intergovernmental revenue, but actually received \$620,484. This \$1,821,840 difference is mainly attributed to an Oregon Community Block Grant that the City budgeted for, but subsequently did not apply for. The grant would have been passed through to Best Care to purchase a detox facility. Charges for services, which is comprised of administrative service charges, maintenance charges and engineering service charges, was \$662,148 less than budgeted as expenditures in these departments came in significantly lower than expected (the costs are generally charged out to other departments 100%).

Expenditures: The only significant variance between estimated expenditures and actual expenditures occurred in the other general fund program department's materials & services related to the Oregon Community Block Grant discussed in the budget variances for revenue. The City budgeted \$1,973,150 but actually spent \$139,798 leaving a difference of \$1,833,351. The amount estimated for the grant was \$1,800,000.

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, 2013, amounts to \$185,544,074 (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 for the current fiscal year was approximately 1.9%.

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

	Governmental activities		Business-type activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 13,347,096	\$ 13,374,957	\$ 1,545,876	\$ 1,545,876	\$ 14,892,972	\$ 14,920,833
Intangible assets	559,266	526,886	167,492	138,256	726,758	665,142
Construction in progress	672,164	545,972	397,442	494,669	1,069,606	1,040,641
Buildings & system	13,888,732	14,336,566	3,645,935	3,772,464	17,534,667	18,109,030
Machinery & equipment	3,200,168	3,138,578	6,948,788	7,279,503	10,148,956	10,418,081
Infrastructure	91,209,849	95,370,240	49,961,266	48,586,781	141,171,115	143,957,021
Total	\$ 122,877,275	\$ 127,293,199	\$ 62,666,799	\$ 61,817,549	\$ 185,544,074	\$ 189,110,748

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

- Construction in progress on the Washburn Way/Eberlein Ave Crosswalk in the amount of \$109,508
- Various street projects around the City in the amount of \$125,276
- Police vehicles and equipment in the amount of \$153,902
- Construction in progress on Taxiway J at the airport in the amount of \$210,323
- Construction in progress on the Lake Ewauna Trail and Putnam's Shoreline in the amount of \$214,059
- Water meter replacements in the amount of \$215,294
- A dump truck in the amount of \$251,190
- Construction in progress on the Bisbee St 2" Water Main project in the amount of \$307,639
- Construction in progress on the Linkriver Bridge Water Main project in the amount of \$393,103
- Construction in progress on the Altamont/Crosby Water Line Phase III project in the amount of \$743,130
- Construction in progress on the California Ave Force Main project in the amount of \$943,274

Additional information on the City’s capital assets can be found in Note 4.D. on pages 75-77 of this report.

Long-term debt

At the end of the current fiscal year, the City had outstanding debt totaling \$20,104,470. Of this amount, \$10,116,717 is bonded debt secured by revenue from the City’s applicable funds, \$4,026,258 is general obligation bonded debt that will be paid from ad valorem taxes levied on all taxable property within the city boundaries, and \$3,339,619 is full faith and credit bonds that the City has pledged all general unrestricted revenues to repay. There is \$1,104,366 in various loans for economic growth that are secured by the revenues derived from that growth and another \$1,517,510 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	
	2013	2012	2013	2012	2013	2012
Leases/loans payable	1,123,939	1,337,132	1,497,937	1,624,459	2,621,876	2,961,591
General obligation bonds	4,026,258	4,027,312			4,026,258	4,027,312
Full faith and credit bond	3,339,619	3,486,166				
Revenue bonds	395,000	515,000	9,721,717	10,930,457	10,116,717	11,445,457
Total	8,884,816	9,365,610	11,219,654	12,554,916	20,104,470	21,920,526

The City’s total debt decreased by \$1,816,056 (8.3%) during the current fiscal year. The City issued \$600,000 additional governmental debt and repaid \$1,080,794. The City repaid \$1,335,263 in business-type debt.

Standard & Poor’s rated the City of Klamath Falls general obligation bonds A+ with a stable outlook. The Water Revenue Refunding Bonds, Series 2001 are rated AA- with a stable outlook. The Full Faith and Credit Bonds, Series 2008 are rated A+ with a stable outlook. The Airport Revenue Bonds, Series 1996 are rated AA- with a stable outlook. Finally, the Wastewater Revenue Refunding Bonds, Series 2005 were not affected by the downgrade and maintain their AAA rating.

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 \$38,856,206 which is significantly in excess of the City’s outstanding general obligation debt.

Additional information on the City’s long-term debt can be found in Note 4.J., pages 82-89.

Economic Factors and Next Year’s Rates

The following economic factors currently affect the City of Klamath Falls and were considered in developing the 2013-2014 fiscal year budget.

- The unemployment rate for Klamath County is currently 10.9%, which is a decrease from a rate of 11.5% a year ago as our economy is slowly picking up. Although there have been three straight

years of decline in unemployment, the rate is still significantly higher than the national average of 7.6% as of June 30, 2013.

- A 2.0% CPI increase in sewer and water rates was put into effect on January 1, 2013. For January 1, 2014, the City anticipates an additional CPI increase of 1.2% as well as a 7.16% increase in anticipation of current and future expenditure increases due to additional state and federal water quality mandates and a sewer infrastructure in dire need of repair. Inside City customers will receive a discount in the amount of 7.1%. A portion of the increase will also help fund the airport.
- Interest rates are extremely low and some experts estimate them to remain low until 2016.
- On the expenditure side, increases are expected in health insurance premiums, as well as PERS/OPSRP rates. To help combat PERS/OPSRP costs, AFSCME and non-represented City personnel now pay for the 6% employee portion of PERS/OPSRP. Also, the percentage of health premiums paid for by those City personnel was increased to 10%.
- The Teamsters union contract was extended for one year with no change and expires June 2014.
- The AFSCME union contract included changes for PERS and healthcare, as described above, in addition to implementing a salary step system to systematically move the employees through the salary ranges that were created during a compensation study conducted in 2011.
- Departmental budget reductions were implemented in recognition of the decline in revenues as a result of the current recession.

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.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT WIDE FINANCIAL STATEMENTS

CITY OF KLAMATH FALLS, OREGON
STATEMENT OF NET POSITION
June 30, 2013

ASSETS	Governmental Activities	Business-Type Activities	Total
Current Assets:			
Cash and cash equivalents	\$ 17,755,061	\$ 5,219,115	\$ 22,974,176
Investments		497,475	497,475
Accounts receivable (net of uncollectables)	1,199,641	2,027,762	3,227,403
Taxes receivable	965,718		965,718
Loans receivable	309,313	180,877	490,190
Interest receivable	187,400	93	187,493
Inventories	51,632	308,754	360,386
Prepaid items	136,064	61,245	197,309
Temporarily restricted assets			
Cash and cash equivalents	1,299,803	8,645,881	9,945,684
Investments	193,375		193,375
Loans receivable		50,000	50,000
Interest receivable	10,632		10,632
Total Current Assets	22,108,639	16,991,202	39,099,841
Noncurrent Assets:			
Investments	-	250,000	250,000
Temporarily restricted assets			
Investments	839,695		839,695
Capital assets not being depreciated			
Land	13,347,096	1,545,876	14,892,972
Intangible assets	559,266	167,492	726,758
Construction in progress	672,164	397,442	1,069,606
Capital assets (net of accumulated depreciation)			
Buildings and system	13,888,732	3,645,935	17,534,667
Machinery, equipment and vehicles	3,200,168	6,948,788	10,148,956
Infrastructure	91,209,849	49,961,266	141,171,115
Total Noncurrent Assets	123,716,970	62,916,799	186,633,769
Total Assets	145,825,609	79,908,001	225,733,610
Deferred Outflows of Resources:			
Deferred charges on bond issuance	114,480	342,137	456,617
Total deferred outflows of resources	114,480	342,137	456,617
Total Assets and Deferred Outflows of Resources	145,940,089	80,250,138	226,190,227

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	\$ 400,177	\$ 339,050	\$ 739,227
Retainage payable	415		415
Accrued interest payable	28,947	46,864	75,811
Compensated Absences	363,404	119,520	482,924
Customer deposits	252,452	320,698	573,150
Unearned revenues	227,728	3,167	230,895
Leases / loans payable	151,434	716,122	867,556
Bonds payable	150,000	492,879	642,879
Current Liabilities (payable from restricted assets):			
Accrued interest payable		22,573	22,573
Leases / loans payable		77,121	77,121
Bonds payable	125,000	685,000	810,000
Total Current Liabilities	<u>1,699,557</u>	<u>2,822,994</u>	<u>4,522,551</u>
Noncurrent Liabilities:			
Compensated absences	363,404	119,520	482,924
Leases / Loans payable	972,505	781,814	1,754,319
Bonds payable (net of unamortized discounts)	7,485,878	8,466,717	15,952,595
Post employment benefits	284,526	136,262	420,788
Total Noncurrent Liabilities	<u>9,106,313</u>	<u>9,504,313</u>	<u>18,610,626</u>
Total Liabilities	<u>10,805,870</u>	<u>12,327,307</u>	<u>23,133,177</u>
NET POSITION			
Net investment in capital assets	115,096,825	51,447,145	166,543,970
Restricted for:			
Community loans		135,020	135,020
Outside Legal Authority	995,775	-	995,775
System development	59,138	197,307	256,445
Capital outlay	168,168	5,189,487	5,357,655
Debt service	324,475	767,375	1,091,850
Environmental		2,403,524	2,403,524
Outside Third Party Claims	1,115,928		1,115,928
Prepaid Expenses	136,064	61,245	197,309
Inventory	51,632	308,754	360,386
Unrestricted	<u>17,186,214</u>	<u>7,435,547</u>	<u>24,621,761</u>
Total Net Position	<u>\$ 135,134,219</u>	<u>\$ 67,945,404</u>	<u>\$ 203,079,623</u>

CITY OF KLAMATH FALLS, OREGON
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government	\$ 971,123	\$ 484,091	\$ 1,826	\$
Airport	2,738,308	709,978		425,412
Culture and recreation	1,393,933	139,322	57,043	320,481
Public safety	6,643,034	421,800	69,855	11,351
Highways and streets	5,443,451	302,871	150,000	229,405
Interest on long-term debt	435,161			
Total Government Activities	17,625,010	2,058,062	278,724	986,649
Business-Type Activities:				
Wastewater	4,992,855	6,791,552		384,133
Water	5,566,016	7,434,803		43,961
Total Business-Type Activities	10,558,871	14,226,355	-	428,094
Total	\$ 28,183,881	\$ 16,284,417	\$ 278,724	\$ 1,414,743

General Revenues:
Property taxes
Franchise taxes
911 excise tax
Motor fuel taxes
Alcoholic beverage taxes
Cigarette taxes
Transient room taxes
Miscellaneous taxes from other governments
Unrestricted investment earnings
Gain (loss) on sale of capital assets
Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning

Net Position - Ending

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

Net (Expense) Revenue and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (485,206)	\$	\$ (485,206)
(1,602,918)		(1,602,918)
(877,087)		(877,087)
(6,140,028)		(6,140,028)
(4,761,175)		(4,761,175)
(435,161)		(435,161)
(14,301,575)	-	(14,301,575)
	2,182,830	2,182,830
	1,912,748	1,912,748
-	4,095,578	4,095,578
<u>\$ (14,301,575)</u>	<u>4,095,578</u>	<u>(10,205,997)</u>
7,205,147		7,205,147
2,285,109		2,285,109
51,006		51,006
1,165,774		1,165,774
284,182		284,182
30,238		30,238
400,655		400,655
183,829		183,829
178,996	95,196	274,192
(27,205)		(27,205)
285,180	(285,180)	-
12,042,911	(189,984)	11,852,927
(2,258,664)	3,905,594	1,646,930
137,392,883	64,039,810	201,432,693
<u>\$ 135,134,219</u>	<u>\$ 67,945,404</u>	<u>\$ 203,079,623</u>

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FUND FINANCIAL STATEMENTS

CITY OF KLAMATH FALLS, OREGON
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013

	General Fund	Airport Fund	Street Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 4,301,367	\$ 1,006,787	\$ 2,583,726	\$ 9,863,181	\$ 17,755,061
Accounts receivable	244,298	192,138	359,242	166,370	962,048
Taxes receivable	631,009	73,202		261,507	965,718
Loans receivable	208,968			100,344	309,312
Interest receivable	121,198	13,984		52,218	187,400
Advances to other funds				325,000	325,000
Inventories			3,625	48,006	51,631
Prepaid items	96,586	5,440	13,624	20,415	136,065
Temporarily restricted assets					
Cash and cash equivalents	56,596	237,742	6,807	998,656	1,299,801
Investments				193,376	193,376
Interest receivable				10,632	10,632
Long-term investments					
Temporarily restricted investments				839,695	839,695
Total Assets	\$ 5,660,022	\$ 1,529,293	\$ 2,967,024	\$ 12,879,400	\$ 23,035,739
LIABILITIES					
Liabilities:					
Accounts payable	162,155	41,586	52,692	115,065	371,498
Retainage payable			415		415
Advances from other funds		325,000			325,000
Interest payable				59	59
Deposits payable	225,672	23,780		3,000	252,452
Unearned revenue	67,605			160,123	227,728
Total Liabilities	455,432	390,366	53,107	278,247	1,177,152
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	642,272	74,502		267,838	984,612
Unavailable revenue - loans receivable	208,968			100,344	309,312
Unavailable revenue - special assessments				14,314	14,314
Total Deferred Inflows of Resources	851,240	74,502	-	382,496	1,308,238
Total Liabilities and Deferred Inflows of Resources	1,306,672	464,868	53,107	660,743	2,485,390
FUND BALANCES (DEFICITS)					
Nonspendable	\$ 96,586	\$ 5,440	\$ 17,249	\$ 68,421	\$ 187,696
Restricted	56,596	237,742	6,807	1,956,545	2,257,690
Assigned	49,638	821,243	2,889,861	10,193,691	13,954,433
Unassigned	4,150,530				4,150,530
Total Fund Balances	4,353,350	1,064,425	2,913,917	12,218,657	20,550,349
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 5,660,022	\$ 1,529,293	\$ 2,967,024	\$ 12,879,400	

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.	\$ 122,877,275
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable in the funds	1,660,311
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore not reported in the funds.	(9,953,716)
Net position of governmental activities	\$ 135,134,219

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, 2013

	General Fund	Airport Fund	Street Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 4,816,051	\$ 522,070	\$	\$ 1,872,882	\$ 7,211,003
Special assessments	96,992			235	97,227
Intergovernmental	622,134	725,903	1,412,512	397,568	3,158,117
Licenses, fees and permits	149,489			44,741	194,230
Franchise fees	1,105,647		861,399	326,721	2,293,767
Charges for services	3,683,227	638,833	277,703	333,713	4,933,476
Fines and forfeits	373,475			58,581	432,056
Investment income	67,977	11,881	13,082	102,244	195,184
Miscellaneous revenues	17,117	17,146	4,384	298,463	337,110
Total Revenues	10,932,109	1,915,833	2,569,080	3,435,148	18,852,170
Expenditures					
Current:					
General government	4,219,574			259,789	4,479,363
Airport		1,102,636			1,102,636
Culture and recreation				1,224,762	1,224,762
Public safety	6,202,304				6,202,304
Highways and streets			1,933,020	415,677	2,348,697
Debt service:					
Principal		120,000		958,192	1,078,192
Interest		44,513		409,996	454,509
Capital outlay:					
General government			2,548	95,689	98,237
Airport		487,536			487,536
Culture and recreation				224,123	224,123
Public safety	153,902				153,902
Highways and streets			125,276	158,458	283,734
Total Expenditures	10,575,780	1,754,685	2,060,844	3,746,686	18,137,995
Excess (Deficiency) of Revenues Over (Under) Expenditures	356,329	161,148	508,236	(311,538)	714,175
Other Financing Sources (Uses)					
Proceeds from sale of asset				23,718	23,718
Transfers in		16,589	29,786	2,768,033	2,814,408
Transfers out	(507,039)			(2,022,189)	(2,529,228)
Issuance of debt				600,000	600,000
Total Other Financing Sources (Uses)	(507,039)	16,589	29,786	1,369,562	908,898
Net Change in Fund Balances	(150,710)	177,737	538,022	1,058,024	1,623,073
Fund Balance - Beginning	4,504,060	886,688	2,375,895	11,160,633	18,927,276
Fund Balance - Ending	\$ 4,353,350	\$ 1,064,425	\$ 2,913,917	\$ 12,218,657	\$ 20,550,349

The 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, 2013

Amounts reported for governmental activities in the statement of activities (page 15) are different because:

Net change in fund balances - total governmental funds (page 17)	\$	1,623,073
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.		(4,445,825)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to increase net assets.		127,902
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		24,659
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		472,086
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>(60,559)</u>
Change in net position of governmental activities (page 15)	\$	<u><u>(2,258,664)</u></u>

PROPRIETARY FUNDS

CITY OF KLAMATH FALLS, OREGON
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2013

	Business-Type Activities - Enterprise Funds		
	Wastewater	Water	Totals
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 960,279	\$ 4,258,836	\$ 5,219,115
Investments		497,475	497,475
Accounts receivable (net of uncollectables)	842,955	1,184,807	2,027,762
Loans receivable	121,467	59,410	180,877
Interest receivable		93	93
Inventories	32,696	276,058	308,754
Prepaid items	18,841	42,404	61,245
Temporarily restricted assets			
Cash and cash equivalents	7,714,533	931,348	8,645,881
Loans Receivable		50,000	50,000
Total Current Assets	<u>9,690,771</u>	<u>7,300,431</u>	<u>16,991,202</u>
Long-term Assets:			
Investments		250,000	250,000
Capital assets (net of accumulated depreciation)			
Land	1,322,899	222,977	1,545,876
Intangible assets	39,136	128,356	167,492
Construction in progress	184,322	213,120	397,442
Buildings and system	2,854,277	791,658	3,645,935
Machinery and equipment	4,067,841	2,880,947	6,948,788
Infrastructure	21,041,613	28,919,653	49,961,266
Total Noncurrent Assets	<u>29,510,088</u>	<u>33,406,711</u>	<u>62,916,799</u>
Total Assets	<u>39,200,859</u>	<u>40,707,142</u>	<u>79,908,001</u>
Deferred Outflows of Resources:			
Deferred charges on bond issuance	269,502	72,635	342,137
Total deferred outflows of resources	<u>269,502</u>	<u>72,635</u>	<u>342,137</u>
Total Assets and Deferred Outflows of Resources	<u><u>39,470,361</u></u>	<u><u>40,779,777</u></u>	<u><u>80,250,138</u></u>

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	\$ 177,668	\$ 161,382	\$ 339,050
Accrued interest payable	26,319	20,545	46,864
Compensated absences	56,597	62,923	119,520
Customer deposits	1,250	319,448	320,698
Unearned revenue		3,167	3,167
Loans/leases payable		716,122	716,122
Revenue bonds payable	570,000	685,000	1,255,000
Total Current Liabilities	831,834	1,968,587	2,800,421
Long-term Liabilities:			
Compensated absences	56,597	62,923	119,520
Loans/Leases payable		781,814	781,814
Revenue bonds payable (net of unamortized discounts)	7,538,746	927,971	8,466,717
Post employment benefits	60,917	75,345	136,262
Total Noncurrent Liabilities	7,656,260	1,848,053	9,504,313
Total Liabilities	8,488,094	3,816,640	12,304,734
NET POSITION			
Net investment in capital assets	21,401,342	30,045,803	51,447,145
Restricted for:			
Community loans		135,020	135,020
System development	121,522	75,785	197,307
Capital Outlay	5,189,487		5,189,487
Debt Service		767,375	767,375
Environmental	2,403,524		2,403,524
Prepaid expenses	18,841	42,404	61,245
Inventory	32,696	276,058	308,754
Unrestricted	1,814,855	5,620,692	7,435,547
Total Net Position	\$ 30,982,267	\$ 36,963,137	\$ 67,945,404

CITY OF KLAMATH FALLS, OREGON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2013

	Business-Type Activities - Enterprise Funds		
	Wastewater	Water	Totals
Operating revenues:			
Charges for sales and services:			
Wastewater charges (net of allowances)	\$ 6,636,431	\$	\$ 6,636,431
Geothermal charges (net of allowances)		247,236	247,236
Water charges (net of allowances)		7,026,824	7,026,824
Total operating revenues	<u>6,636,431</u>	<u>7,274,060</u>	<u>13,910,491</u>
Operating expenses:			
Costs of sales and services	2,987,347	3,511,721	6,499,068
Administration	598,161	599,601	1,197,762
Depreciation and amortization	1,065,006	1,316,358	2,381,364
Total operating expenses	<u>4,650,514</u>	<u>5,427,680</u>	<u>10,078,194</u>
Operating income	<u>1,985,917</u>	<u>1,846,380</u>	<u>3,832,297</u>
Nonoperating revenues (expenses):			
Capitalized personnel services	3,794	14,128	17,922
Investment earnings	54,663	40,533	95,196
Interest expense	(346,193)	(155,148)	(501,341)
System development charges	155,179	163,428	318,607
Intergovernmental	350,919	-	350,919
Total nonoperating revenue (expenses)	<u>218,362</u>	<u>62,941</u>	<u>281,303</u>
Income before contributions and transfers	2,204,279	1,909,321	4,113,600
Capital contributions	33,214	43,961	77,175
Transfers in	41,136	49,568	90,704
Transfers out	-	(375,885)	(375,885)
Change in net position	<u>2,278,629</u>	<u>1,626,965</u>	<u>3,905,594</u>
Total net position - beginning	<u>28,703,638</u>	<u>35,336,172</u>	<u>64,039,810</u>
Total net position - ending	<u>\$ 30,982,267</u>	<u>\$ 36,963,137</u>	<u>\$ 67,945,404</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, 2013

	Business-type Activities - Enterprise Funds		
	Wastewater	Water	Totals
Cash Flows from Operating Activities			
Receipts from customers and users	\$ 6,463,033	\$ 6,691,371	\$ 13,154,404
Receipts from interfund services provided	29,682	289,972	319,654
Payments to suppliers	(961,719)	(1,480,026)	(2,441,745)
Payments to employees	(1,331,763)	(1,651,588)	(2,983,351)
Payments for interfund services used	(1,175,155)	(951,190)	(2,126,345)
Net Cash Provided by Operating Activities	<u>3,024,078</u>	<u>2,898,539</u>	<u>5,922,617</u>
Cash Flows from Noncapital Financing Activities			
Transfer to/from other funds	41,136	(326,317)	(285,181)
Net Cash (Used) by Noncapital Financing Activities	<u>41,136</u>	<u>(326,317)</u>	<u>(285,181)</u>
Cash Flows from Capital and Related Financing Activities			
Intergovernmental receipts	350,919	-	350,919
System development fees collected	155,179	163,428	318,607
Purchases and construction of capital assets	(1,195,544)	(1,893,145)	(3,088,689)
Principal paid on capital debt	(600,310)	(731,212)	(1,331,522)
Interest paid on capital debt	(340,909)	(168,590)	(509,499)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,630,665)</u>	<u>(2,629,519)</u>	<u>(4,260,184)</u>
Cash Flows from Investing Activities			
Proceeds from sales and maturities of investments		1,257,925	1,257,925
Interest and dividends received	54,663	45,085	99,748
Net Cash Provided (Used) by Investing Activities	<u>54,663</u>	<u>1,303,010</u>	<u>1,357,673</u>
Net Change in Cash and Cash Equivalents	1,489,212	1,245,713	2,734,925
Cash and Cash Equivalents - Beginning of Year	7,185,600	3,944,471	11,130,071
Cash and Cash Equivalents - End of Year	<u>\$ 8,674,812</u>	<u>\$ 5,190,184</u>	<u>\$ 13,864,996</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating income	\$ 1,985,917	\$ 1,846,380	\$ 3,832,297
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation and amortization expense	1,065,006	1,316,358	2,381,364
(Increase) decrease in assets			
Accounts receivable	(134,665)	(285,214)	(419,879)
Inventories	(2,054)	(23,488)	(25,542)
Prepaid items	(223)	(18,018)	(18,241)
Increases (decrease) in liabilities			
Accounts payable	90,674	37,261	127,935
Compensated absences	3,950	3,376	7,326
Customer deposits	725	1,038	1,763
Deferred revenue	-	3,167	3,167
Other post employment benefits	14,748	17,679	32,427
Total Adjustments	<u>1,038,161</u>	<u>1,052,159</u>	<u>2,090,320</u>
Net cash provided by operating activities	<u>\$ 3,024,078</u>	<u>\$ 2,898,539</u>	<u>\$ 5,922,617</u>
Noncash Investing, Capital, and Financing Activities			
Capital assets, contributed by others	<u>\$ 33,214</u>	<u>\$ 43,961</u>	<u>\$ 77,175</u>

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

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CITY OF KLAMATH FALLS, OREGON
STATEMENT OF FIDUCIARY NET POSITION
VETERAN'S MEMORIAL AGENCY FUND
June 30, 2013

	<u>Veterans Memorial Fund</u>
ASSETS	
Assets	
Cash and cash equivalents	\$ <u>154,366</u>
Total Assets	<u>\$ 154,366</u>
LIABILITIES AND NET ASSETS	
Liabilities	
Due to Veterans Associations	\$ <u>154,366</u>
Total Liabilities	<u>\$ 154,366</u>

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

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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, 2013

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 three non-major special revenue funds; the downtown urban renewal fund, the lakefront 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 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, 2013

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 *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. While this fund qualifies as a major fund, it is not a special revenue fund, and is reported in aggregate with the other capital projects funds.

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.

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

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 indicated 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 yearend). 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 Council adopts annual budgets and authorizes appropriations for all funds. The level of control established by the adopted budget is at the fund, department/division and category (e.g., personnel services, materials & services, debt service, capital outlay, etc.) level. Supplemental budgets and transfers of appropriations between departments/divisions or between categories of appropriations need special

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

approval from City Council, as described below. The detail budget document is required to contain more specific, detailed information for the above mentioned expenditure categories. All annual appropriations lapse at fiscal year end. If a project is not complete within the current budget year, it must be re-appropriated and become part of the subsequent year's budget.

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

Annual budgets are adopted 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.

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

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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:

CITY OF KLAMATH FALLS, OREGON
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. The government classifies deferred charges on bond issuances as deferred outflows of resources, as those items do not consume net position until future periods.

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. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, notes receivable, and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

8. *Compensated absences*

Vacation

The government’s policy permits employees to accumulate up to one year of earned but unused vacation benefits, which 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.

Sick Leave

The government’s policy permits employees to accumulate earned but unused sick pay 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. AFSME and Teamsters employees hired after July 1, 2011, will no longer qualify for a sick leave payout upon leaving the government. Exempt employees have two sick leave banks. All sick leave

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. 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 employees to accumulate up to 60 hours of earned but unpaid comparable time off at the rate of time and one-half for all overtime hours worked, which are eligible for payment upon separation from government service. All time over 60 hours 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.

9. 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 4.F.

10. 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, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred outflows of resources and amortized over the term of the related debt. Upon implementation of GASB 65, bond issuance costs will be fully expensed and will require restatements in the financial statements.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, 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.

11. 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

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

position is applied.

12. 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.

13. 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 2013.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. The City's financial policies were amended with Resolution 11-28 which state that the City's Fund Balance may be assigned by the Finance Director.

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. 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. 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.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 sales and services. The government also recognizes as operating revenue the portion of system development charges intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise 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.

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

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

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

One element of the reconciliation explains that “capital assets used in governmental activities are not financial

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

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

resources and, therefore, are not reported in the fund.” The details of this \$122,877,275 difference are as follows:

Land	\$ 13,347,096
Construction in progress	672,164
Intangible Assets	559,266
Buildings	17,301,186
Less: Accumulated depreciation-buildings	(3,412,454)
Machinery, equipment, and vehicles	10,378,529
Less: Accumulated depreciation-machinery, equipment, and vehicles	(7,178,361)
Infrastructure	188,187,791
Less: Accumulated depreciation-infrastructure	<u>(96,977,942)</u>
Net adjustment to increase fund balance – total governmental funds to arrive at net position – governmental activities	<u>\$ 122,877,275</u>

Another element of the reconciliation explains that “other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.” The details of this \$1,660,311 difference are as follows:

Claims and judgments	\$ 237,593
Property taxes	984,612
Other long-term receivables	323,626
Bond Issuance Costs – Deferred Charges	<u>114,480</u>
Net adjustment to increase fund balance – total governmental funds to arrive at net position – governmental activities	<u>\$ 1,660,311</u>

The final element of the reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$9,953,716 difference are as follows:

Claims and judgments	\$ 28,677
Accrued interest payable	28,888
Compensated absences	999,808
Notes payable	1,123,939
Bonds payable (net of unamortized discounts)	7,760,878
Post employment benefits	<u>284,526</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net position – governmental activities	<u>\$ 9,953,716</u>

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

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

One element of the reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$(4,445,825) difference are as follows:

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

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

Capital outlay	\$ 1,255,544
Depreciation expense	<u>(5,701,369)</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	<u>\$ (4,445,825)</u>

Another element of the reconciliation states that “The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position.” The details of this \$127,902 difference are as follows:

In the statement of activities, only the <i>loss</i> on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the capital assets sold.	
Donations of capital assets increase net position in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	\$ (40,310)
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities.	<u>168,212</u>
	<u>\$ 127,902</u>

Another element of the reconciliation states that “revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds”. The details of this \$24,659 difference are as follows:

Property taxes	\$ (5,855)
Special assessments against benefiting properties	113,910
Fines & forfeitures – non current portion	25,511
Note receivable – non current portion	<u>(108,907)</u>
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 24,659</u>

Another element of the reconciliation states that “the issuance of long-term debt (e.g., bonds, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effects of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.” The details of this \$472,086 difference are as follows:

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

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

Debt issued or incurred:	
Issuance of notes payable	\$ (600,000)
Principal repayments:	
Notes payable repayments	813,193
Bond repayments	265,000
Amortization of bond issuance costs	<u>(6,107)</u>
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities.	<u>\$ 472,086</u>

The final element of the reconciliation states that “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 the governmental funds”. The details of this \$(60,559) difference are as follows:

Interest payable	\$ 3,158
Compensated absences	2,880
Post Employment Benefits	<u>(66,597)</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	<u>\$ (60,559)</u>

NOTE 3 – 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.

NOTE 4 – DETAILED NOTES ON ALL ACTIVITIES AND FUND

A. Cash, cash equivalents and investments

At June 30, 2013 the government’s cash, cash equivalents and investments were comprised of the following:

Cash on hand	\$ 1,900
Deposits with financial institutions	483,622
Investments:	
Oregon State Treasurer’s Local Government Investment Pool	32,434,337
Certificates of deposit	747,475
U.S. agency obligations	<u>1,033,070</u>
Total cash and investments	<u>\$ 34,700,405</u>

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 – DETAILED NOTES ON ALL ACTIVITIES AND FUND (continued)

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

	Governmental Activities	Business-Type Activities	Total
Cash and cash equivalents	\$ 19,054,864	\$13,864,996	\$32,919,860
Investments	1,033,070	747,475	1,780,545
	\$20,087,934	\$ 14,612,471	\$ 34,700,405

Deposits with financial institutions. 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, 2013 the government’s bank balances were \$870,760 (\$7,911 of which belongs to the Veteran’s Memorial Fund) and \$340,343 of that amount was exposed to custodial credit risk because it was uninsured.

As of June 30, 2013, the government had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Oregon State Treasurer’s Local Government Investment Pool	\$ 32,434,337	.55
Negotiable Certificates of Deposits	747,475	.79
U.S. Agency Bonds	1,033,070	2.51
Total Fair Value	\$ 34,361,187	
Portfolio Weighted Average Maturity		.61

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 and nonoperating investments may be invested for up to ten years. Management has elected to maintain shorter durations except where directed to longer term investments by bond indentures.

Credit risk. The 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, 2013 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. The government’s investment in FHLB U.S. Agency bonds are rated AA+ by Standard & Poor’s, and AA by Moody’s Investor Service. Other investments held by the government remain unrated.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 – DETAILED NOTES ON ALL ACTIVITIES AND FUND (continued)

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:

<u>General Fund</u>	<u>Municipal Court</u>	<u>Code Enforcement</u>	<u>Other</u>	<u>Total General Fund</u>
Gross Accounts Receivable	\$ 2,156,037	\$ 571,625	\$ 244,299	\$ 2,971,961
Uncollectibles	(1,954,119)	(542,632)		(2,496,751)
Net Accounts Receivable	<u>\$ 201,918</u>	<u>\$ 28,993</u>	<u>\$ 244,299</u>	<u>\$ 475,210</u>

Governmental Activities

	<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	\$ 2,971,961	\$ 192,138	\$ 359,242	\$ 173,051	\$ 3,696,392
Uncollectibles	(2,496,751)				(2,496,751)
Net Accounts Receivable	<u>\$ 475,210</u>	<u>\$ 192,138</u>	<u>\$ 359,242</u>	<u>\$ 173,051</u>	<u>\$ 1,199,641</u>

Business-type Activities

	<u>Wastewater Fund</u>	<u>Water Fund</u>	<u>Total Business-type Activities</u>
Gross Accounts Receivable	\$ 873,969	\$1,222,517	\$ 2,096,486
Uncollectibles	(31,014)	(37,710)	(68,724)
Net Accounts Receivable	<u>\$ 842,955</u>	<u>\$ 1,184,807</u>	<u>\$ 2,027,762</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 \$6,165,805 and the carrying value was \$4,243,462. Payments received in the current year were \$646,339.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 – DETAILED NOTES ON ALL ACTIVITIES AND FUND (continued)

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

2014	\$ 450,642
2015	310,256
2016	292,392
2017	284,600
2018	284,600
2019-2023	1,334,964
2024-2028	1,029,121
2029-2033	648,292
2034-2038	40,662
2039-2043	12,099
2044-2048	1,574
Total	<u>\$ 4,689,202</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, 2013 was as follows:

Governmental Activities:

	Balance July 1, 2012	Increases	Decreases & Transfers	Placed in Service	Balance June 30, 2013
Capital assets, not being depreciated:					
Land	\$ 13,374,957	\$ 5,151	\$ (33,012)	\$ -	\$ 13,347,096
Construction in progress	545,973	645,911	(51,194)	(468,526)	672,164
Intangible assets	526,886	11,185	-	21,195	559,266
Total capital assets, not being depreciated	<u>14,447,816</u>	<u>662,247</u>	<u>(84,206)</u>	<u>(447,331)</u>	<u>14,578,526</u>
Capital assets, being depreciated:					
Buildings	17,201,514	154,082	(54,410)	-	17,301,186
Machinery, equipment, and vehicles	9,754,335	434,120	(68,521)	258,595	10,378,529
Infrastructure	187,825,748	173,307	-	188,736	188,187,791
Total capital assets being depreciated	<u>214,781,597</u>	<u>761,509</u>	<u>(122,931)</u>	<u>447,331</u>	<u>215,867,506</u>
Less accumulated depreciation for:					
Buildings	(2,864,949)	(547,811)	306	-	(3,412,454)
Machinery, equipment, and vehicles	(6,615,758)	(631,124)	68,521	-	(7,178,361)
Infrastructure	(92,455,508)	(4,522,434)	-	-	(96,977,942)
Total accumulated depreciation	<u>(101,936,215)</u>	<u>(5,701,369)</u>	<u>68,827</u>	<u>-</u>	<u>(107,568,757)</u>
Total capital assets, being depreciated, net	<u>112,845,382</u>	<u>(4,939,860)</u>	<u>(54,104)</u>	<u>447,331</u>	<u>108,298,749</u>
Government activities capital assets, net	<u>\$ 127,293,198</u>	<u>\$ (4,277,613)</u>	<u>\$ (138,310)</u>	<u>\$ -</u>	<u>\$ 122,877,275</u>

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 – DETAILED NOTES ON ALL ACTIVITIES AND FUND (continued)

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	\$ 184,599
Public safety	436,498
Highways and streets	3,326,024
Culture and recreation	161,640
Airport	1,592,608
<u>Total depreciation expense – governmental activities</u>	<u>\$ 5,701,369</u>

Business-type Activities:

	Balance July 1, 2012	Increases	Decreases & Transfers	Placed in Service	Balance June 30, 2013
Capital assets, not being depreciated:					
Land	\$ 1,545,876	\$ -	\$ -	\$ -	\$ 1,545,876
Construction in progress	494,669	3,084,099	-	(3,181,326)	397,442
Intangible assets	138,256	-	-	29,236	167,492
<u>Total capital assets, not being depreciated</u>	<u>2,178,801</u>	<u>3,084,099</u>	<u>-</u>	<u>(3,152,090)</u>	<u>2,110,810</u>
Capital assets, being depreciated:					
Buildings	7,214,765	-	-	-	7,214,765
Machinery and equipment	16,350,580	5,096	-	321,695	16,677,371
Infrastructure	72,656,995	94,592	-	2,830,395	75,581,982
<u>Total capital assets being depreciated</u>	<u>96,222,340</u>	<u>99,688</u>	<u>-</u>	<u>3,152,090</u>	<u>99,474,118</u>
Less accumulated depreciation for:					
Buildings	(3,442,302)	(126,528)	-	-	(3,568,830)
Machinery and equipment	(9,071,077)	(657,507)	-	-	(9,728,584)
Infrastructure	(24,070,214)	(1,550,501)	-	-	(25,620,715)
<u>Total accumulated depreciation</u>	<u>(36,583,593)</u>	<u>(2,334,536)</u>	<u>-</u>	<u>-</u>	<u>(38,918,129)</u>
<u>Total capital assets, being depreciated, net</u>	<u>59,638,747</u>	<u>(2,234,848)</u>	<u>-</u>	<u>3,152,090</u>	<u>60,555,989</u>
<u>Business-type activities capital assets, net</u>	<u>\$ 61,817,548</u>	<u>\$ 849,251</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 62,666,799</u>

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 – DETAILED NOTES ON ALL ACTIVITIES AND FUND (continued)

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

Business-type activities:		
Water	\$	1,292,146
Sewer		1,042,390
Total depreciation expense – business-type activities	\$	<u>2,334,536</u>

Net investments in capital assets

	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>
Total capital assets	\$ 230,446,032	\$101,584,928	\$ 332,030,960
Less: accumulated depreciation	(107,568,757)	(38,918,129)	(146,486,886)
Less: outstanding principal of capital-related debt	(7,780,450)	(11,219,654)	(19,000,104)
Net investment in capital assets	<u>\$ 115,096,825</u>	<u>\$ 51,447,145</u>	<u>\$ 166,543,970</u>
Capital related debt	\$ 7,780,450	\$ 11,219,654	\$ 19,000,104
Non-capital related debt	1,104,366	0	1,104,366
Total debt	<u>\$ 8,884,816</u>	<u>\$ 11,219,654</u>	<u>\$ 20,104,470</u>

E. Pension obligations

Oregon Public Employees Retirement System (PERS)

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

Both PERS plans provide retirement and disability benefits, post employment healthcare benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS is administered under Oregon Revised Statute Chapter 238, which establishes the Public Employees Retirement Board as the governing body of PERS. PERS issues a publicly available financial report that includes financial statements and required supplementary information.

The report may be obtained by writing to PERS, PO Box 23700, Tigard, OR, 97281-3700 or by calling 503-598-7377.

Funding Policy. Members of PERS are required to contribute 6% of their salary covered under the plan but the employer is allowed to pay all of the employee’s contribution, which is invested in the OPSRP Individual Account Program. The government has elected to contribute the 6% “pickup” or \$519,031 for the year ended June 30, 2013. The government is required by ORS 238.225 to contribute at an actuarially

CITY OF KLAMATH FALLS, OREGON
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JUNE 30, 2013

NOTE 4 – DETAILED NOTES ON ALL ACTIVITIES AND FUND (continued)

determined rate for the qualifying employees under the OPERF plan, and a general service rate for the qualifying employees under the OPSRP plan. The OPERF and the OPSRP rates in effect for the year ended June 30, 2013 were 9.41% and 5.25% respectively. The OPSRP rate in effect for the year ended June 30, 2013, for public safety employees was 7.96%.

Annual Pension Cost. The government’s contributions to PERS for the years ending June 30, 2011, 2012 and 2013 were \$403,586, \$723,762, and \$710,265 respectively, which equaled the required contribution for the year.

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 collects insurance premiums from all retirees each month and deposits them in the general fund. The government then pays health and dental insurance premiums for all retirees at the tiered rate for each family classification. The required contributions include the employer’s pay-as-you-go amount, an amount paid by retirees. For fiscal year 2013, the government retirees paid 100% of their premium costs. The government has elected to not prefund the actuarially determined future cost amount of \$822,372.

The required monthly contributions of the plan members were as follows for the year ended June 30, 2013:

	<u>Medical/Vision</u>	<u>Dental</u>
Employee	\$ 500.42	\$ 44.07
Employee + Child	930.06	67.43
Employee + Children	1,243.16	115.56
Employee + Spouse	1,060.89	76.63
Full Family	1,430.78	132.69

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.

Employer’s Normal Cost	\$ 78,292
Amortization of UAAL	79,469
Annual Required Contribution (ARC)	<u>157,761</u>
Interest	12,871
Adjustment to ARC	(21,867)
Implicit Benefit Payments	<u>(49,741)</u>
Contribution Deficiency (ARC less current year payments)	99,024
OPEB Obligation at Beginning of Year (7/1/2012)	<u>321,765</u>
OPEB obligation at end of year (6/30/2013)	<u><u>\$ 420,789</u></u>

CITY OF KLAMATH FALLS, OREGON
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NOTE 4 – DETAILED NOTES ON ALL ACTIVITIES AND FUND (continued)

The government’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percent of Annual OPEB Cost Contribution	Net OPEB Obligation
6/30/11	137,099	21%	210,212
6/30/12	141,400	21%	321,765
6/30/13	148,765	33%	420,789

Funded Status and Funding Progress. The funded status of the plan as of August 1, 2012 (the date of the most recent actuarial valuation), was as follows:

Actuarial accrued liability (AAL)	\$ 822,372
Actuarial value of plan assets	<u>0</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 822,372</u>
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	\$ 6,007,311
UAAL as a percentage of covered payroll	13.69%

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.

In the August 1, 2012 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 7.25 percent initially, 6.5 percent after the second year, 6.0 percent in the third year, 5.75 percent in the fourth through seventeenth years, then averaging 6.0 percent through the forty-second year. 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 2011 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

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 4 – DETAILED NOTES ON ALL ACTIVITIES AND FUND (continued)

cost-sharing multiple-employer defined benefit 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 each year by OPERS.

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. Of the 9.41%, 0.50% goes to RHIA, of the 5.25%, 0.50% goes to RHIA, and of the 7.96%, 0.50% goes to the RHIA.

The government's contributions to RHIA for the years ending June 30, 2011, 2012 and 2013 were \$17,201, \$43,621, and \$43,253 which equaled the required contribution for the year.

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 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. Nationwide Retirement Solutions and ICMA-RC are both administrators and fund providers 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 \$215,911 and \$86,083 to the section 457 and the section 401(k) plans in 2013, respectively.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 – DETAILED NOTES ON ALL ACTIVITIES AND FUND (continued)

G. Construction and other significant commitments

The government has active construction and professional service contracts as of June 30, 2013. The construction contracts include the following projects: downtown bench refinishing; North 9th Street wastewater collection, street, and water systems improvements; Washburn Way and Eberlein Avenue sidewalks and crosswalk flasher; Crescent Avenue alley wastewater collection improvements; and Main Street and Esplanade Avenue completion of emergency water system repairs. Professional service contracts include: airport taxiway repair, environmental mitigation, design for an airport carwash; downtown landscaping; Washburn Way and Eberlein Avenue engineering; municipal utility district feasibility study; wastewater collections master plan; wastewater treatment joint operations study, pre-design for methane recapture, effluent discharge legal fees; and water distribution project engineering and design. At year-end the government’s contract commitments were as follows:

<u>Project</u>	<u>Cost to date</u>	<u>Commitment</u>
Airport professional service contracts	\$ 80,407	\$ 456,425
Parks professional service contracts	21,851	7,049
Streets construction project	8,057	110,247
Footpath/bicycle trail professional service contracts	3,866	11,634
Footpath/bicycle trail construction contracts	-	509,753
Water construction project	75,562	34,232
Water professional service contracts	8,635	1,200
Wastewater construction project	80,696	63,400
Wastewater professional service contracts	189,639	65,496
Escrow reserve professional service contracts	9,918	30,082
Downtown urban renewal construction projects	-	7,800
Total	<u>\$ 478,631</u>	<u>\$ 1,297,318</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.

An employee was injured on the job in 1990 while the City was self-insured for workers compensation. The employee experienced health problems in fiscal year 2013 as a result of that injury. Costs for this claim were \$40,995. There are no future costs related to this claim.

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.

	<u>Year Ended June 30, 2013</u>	<u>Year Ended June 30, 2012</u>
Unpaid claims, beginning	\$ -	\$ -
Incurred claims (including IBNRs)	29,463	56,011
Claims paid	(29,463)	(56,011)
Unpaid claims, ending	<u>\$ -</u>	<u>\$ -</u>

CITY OF KLAMATH FALLS, OREGON
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2013

NOTE 4 – DETAILED NOTES ON ALL ACTIVITIES AND FUND (continued)

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, 2013	Year Ended June 30, 2012
Unpaid claims, beginning	\$ -	\$ -
Incurred claims (including IBNRs)	8,819	6,032
Claims paid	(8,819)	(6,032)
Unpaid claims, ending	\$ -	\$ -

I. Lease obligations

1. Operating lease

The government has operating lease agreements for building space, two land leases, three copier/printer leases and one postage machine lease. Lease payments of \$28,046 were made during the year ended June 30, 2013.

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

2014	\$ 24,879
2015	4,835
2016	3,344
2017	2,599
2018	650
Total	\$ 36,307

J. Long-Term Liabilities

Compensated Absences

Compensated absences are comprised of vacation leave 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.

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 amount are as of June 30, 2013.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 – DETAILED NOTES ON ALL ACTIVITIES AND FUND (continued)

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 37% of net revenues. The total principal and interest remaining to be paid on the bonds is \$439,275. Principal and interest paid in the current year and total net revenues were \$148,325 and \$401,564 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. The purchase of the land and the promissory note took place in June 2006. Payments are due in monthly installments of \$587 including interest of 6.50%. The note is payable solely from the net revenues of the off street parking special revenue fund and is payable through fiscal year 2017. The total principal and interest remaining to be paid on the land is \$21,629. Principal and interest paid for the current year was \$7,047 and total off street parking fund net revenues over expenditures before debt service payments was \$21,500.

Oregon Housing and Community Services – Off Street Parking Fund

The government has pledged future off street parking fund revenues, net of specified operating expenses, to repay \$40,000 in loaned funds from the Oregon Housing and Community Services department that were received in January 2008. The funds were used to help pave and landscape land that was purchased for a parking lot known as the 7th and Klamath Lot. Payments are due annually over 5 years at 3.0% interest. The loan is payable solely from the net revenues of the off street parking special revenue fund. The loan was paid off in 2013. Principal and interest paid for the current year was \$8,741.

Washington Federal – Lakefront Urban Renewal

The government has pledged future tax increment revenues to repay \$225,000 for a loan from Washington Federal (formerly South Valley Bank & Trust) received in February of 2011. Payments were to be made in two annual installments of \$82,105 and one irregular payment of \$77,181. The funds from the loan were used to finance storm drains, water system, sanitary sewer and geothermal heat for the Lakefront Urban Renewal District. The interest rate is subject to change annually based on prime plus 1.50% (currently 4.750%) in accordance with the highest prime rate as published in the West Coast Edition of the Wall Street Journal (the “Index”). The loan is payable solely from the property tax increment revenues of properties within the district boundaries. Total principal and interest remaining on the loan at June 30, 2013 is \$46,608. For the current year, principal and interest paid and total incremental property tax revenues were \$83,081 and \$113,179 respectively.

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 Prim Rate (the “Index”) which will not change more than daily. The government uses 100% of the increment property taxes to pay the loan. Total principal and interest remaining on the loan at June 30, 2013 is \$1,291,620. For the current year, principal and interest paid and total incremental property tax revenues were \$171,574 and \$178,089, respectively.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 – 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. The loan is payable solely from the geothermal customers net revenues. Annual principal and interest payments on the loan are expected to require approximately 8.5% of the geothermal net revenues. The total principal and interest remaining to be paid on the loan is \$75,812. Principal and interest paid and total revenue for the current year was \$8,424 and \$99,247 respectively.

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 funds were received in June 2010 and accrue interest at 2.3% per annum until the next Oregon Bond Bank Sale at which time the permanent financing will be set for a 20 year period at a yet to be determined interest rate. The government has pledged future revenues from geothermal customers, net of specified operating expenses to repay the loan. Total principal and interest remaining on the loan at June 30, 2012 is \$696,127. Principal and interest payments of \$58,000 were made in the current year, which required approximately 58% of the geothermal net revenues which were \$99,247.

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 less than 2% of net revenues. The total principal and interest remaining to be paid on the loan is \$1,087,301. Principal and interest paid in the current year and total customer net revenues were \$63,099 and \$3,245,994 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 24% of net revenues. The total principal and interest remaining to be paid on the bonds is \$1,735,600. Principal and interest paid in the current year and total customer net revenues were \$770,281 and \$3,245,994, 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

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 – DETAILED NOTES ON ALL ACTIVITIES AND FUND (continued)

require less than 28% of net revenues. The total principal and interest remaining to be paid on the bonds is \$10,438,659. Interest and principal paid in the current year and total customer net revenues were \$887,825 and \$3,176,912, respectively.

Special Public Works Fund (Klamath Falls Industrial Park) – Wastewater Fund

The government's wastewater fund has also pledged future customer revenues, net of specified operating expenses, to repay a \$606,017 special public works fund (SPWF) loan received in December 1992. The funds were used to construct wastewater infrastructure within the Klamath Falls Industrial Park located near the airport. Payments are due annually over 20 years at 6.13% interest. The loan is payable solely from wastewater customer net revenues. The loan was paid off in fiscal year 2013. Principal and interest paid in the current year and total customer net revenues were \$53,394 and \$3,176,912, respectively.

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%. The total principal and interest remaining to be paid on the bonds is \$7,006,026. 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 totaled \$205,525.

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 4.6% of the total non-restricted property taxes collected in any given fiscal year. The total principal and interest remaining to be paid on the bonds is \$4,682,009. Principal and interest paid in the current year and total non-restricted property taxes collected were \$291,208 and \$6,306,263 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 yet to draw down the funds or begin work on the project. 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 (September 30, 2013), 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.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 – DETAILED NOTES ON ALL ACTIVITIES AND FUND (continued)

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 yet to draw down the funds or begin work on the project. 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 (September 30, 2013) 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.

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 yet to draw down the funds or begin work on the project. 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 (September 30, 2014) 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.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 - DETAILED NOTES ON ALL ACTIVITIES AND FUND (continued)

Long-term liability activity for the year ended June 30, 2013	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Amounts Due Within One Year
Governmental Activities					
Bonds, notes and leases payable					
Airport Revenue Bonds, Series 1996:	\$ 515,000	\$ -	\$ 120,000	\$ 395,000	\$ 125,000
Oregon Housing and Community Services:	8,480	-	8,480	-	-
Washington Federal (Lakefront Urban Renewal):	125,000	-	78,825	46,175	46,175
Washington Federal (Town Center Urban Renewal):	1,178,500	-	120,309	1,058,191	99,278
Renold Passien:	25,152	-	5,579	19,573	5,981
General Obligation Bonds, Series 2008	4,000,000	-	-	4,000,000	-
Add issuance premiums and discounts, net	27,312	-	1,054	26,258	-
Full Faith and Credit Bonds, Series 2008:	3,460,000	-	145,000	3,315,000	150,000
Add issuance premiums and discounts, net	26,166	-	1,547	24,619	-
Total bonds, notes and leases payable	9,365,610	-	480,794	8,884,816	426,434
Other Liabilities					
Compensated Absences:					
General Fund	573,475	850,549	875,197	548,827	274,414
Airport Fund	45,571	36,329	29,005	52,895	26,447
Parks Fund	34,625	45,936	44,885	35,676	17,838
Street Fund	74,661	81,649	69,983	86,327	43,163
Parking Fund	99	3,478	1,832	1,745	873
Street Lighting Fund	1,257	1,086	1,005	1,338	669
Total governmental activities compensated absences	729,688	1,019,027	1,021,907	726,808	363,404
Governmental activities long-term liabilities	\$ 10,095,298	\$ 1,019,027	\$ 1,502,701	\$ 9,611,624	\$ 789,838
Business-Type Activities					
Bonds and notes payable					
Water Revenue Refunding Bonds, Series 2001:	2,230,000	-	655,000	1,575,000	685,000
Add issuance premiums and discounts, net	50,628	-	12,657	37,971	-
Wastewater Revenue Refunding Bonds, Series 2005	8,765,000	-	550,000	8,215,000	570,000
Less issuance discounts	(115,170)	-	(8,916)	(106,254)	-
Special Public Works Fund (Klamath Falls Industrial Park):	50,310	-	50,310	-	-
Special Public Works Fund (Geothermal service line extension):	63,251	-	4,894	58,357	5,167
Special Public Works Fund (Geothermal rehabilitation):	721,500	-	41,024	680,476	680,476
Special Public Works Fund (Water line service extension):	789,398	-	30,294	759,104	30,479
Total bonds, notes, and leases payable	12,554,917	-	1,335,263	11,219,654	1,971,122
Other Liabilities					
Compensated Absences:					
Wastewater Fund	109,244	144,402	140,453	113,193	56,597
Water Fund	122,470	139,387	136,011	125,846	62,923
Total business-type activities compensated absences	231,714	283,789	276,464	239,039	119,520
Business-type activities long-term liabilities	\$ 12,786,631	\$ 283,789	\$ 1,611,727	\$ 11,458,693	\$ 2,090,642

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 - 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>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Airport Revenue Bonds, Series 1996				
Principal	\$ 125,000	\$ 130,000	\$ 140,000	\$
Interest	21,725	14,850	7,700	
Water Revenue Refunding Bonds, Series 2001				
Principal	685,000	435,000	455,000	
Interest	86,625	48,950	25,025	
Wastewater Refunding Bonds, Series 2005				
Principal	570,000	590,000	595,000	615,000
Interest	<u>315,825</u>	<u>293,025</u>	<u>272,375</u>	<u>251,253</u>
Total Revenue Bonds	<u>\$ 1,804,175</u>	<u>\$ 1,511,825</u>	<u>\$ 1,495,100</u>	<u>\$ 866,253</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	\$	\$	\$	\$
Interest	205,525	205,525	205,525	205,525
Total General Obligation Bonds	<u>\$ 205,525</u>	<u>\$ 205,525</u>	<u>\$ 205,525</u>	<u>\$ 205,525</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	\$ 150,000	\$ 150,000	\$ 165,000	\$ 170,000
Interest	141,133	135,883	130,633	124,445
Total Full Faith and Credit Bonds	<u>\$ 291,133</u>	<u>\$ 285,883</u>	<u>\$ 295,633</u>	<u>\$ 294,445</u>

Other Long-term Liabilities

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

SPWF - Geothermal service line extension				
Principal	\$ 5,167	\$ 5,456	\$ 5,760	\$ 6,081
Interest	3,256	2,968	2,664	2,342
SPWF - Geothermal rehabilitation				
Principal	680,476			
Interest	15,651			
SPWF - Water line service extension				
Principal	30,479	35,671	35,870	36,082
Interest	31,744	30,677	29,428	28,128
SVBT - Lakefront Urban Renewal				
Principal	46,175			
Interest	433			
SVBT - Town Center Urban Renewal				
Principal	99,278	103,430	107,756	112,177
Interest	44,257	40,105	35,779	31,358
Passien				
Principal	5,981	6,382	7,211	
Interest	<u>1,096</u>	<u>696</u>	<u>263</u>	
Total other long-term liabilities	<u>\$ 963,993</u>	<u>\$ 225,385</u>	<u>\$ 224,731</u>	<u>\$ 216,168</u>
Total Long-term Liabilities	<u>\$ 3,264,826</u>	<u>\$ 2,228,618</u>	<u>\$ 2,220,989</u>	<u>\$ 1,582,391</u>

<u>2018</u>	<u>2019-2023</u>	<u>2024-2028</u>	<u>2029-2033</u>	<u>2033-2038</u>	<u>Total</u>
\$	\$	\$	\$	\$	\$ 395,000
					44,275
					1,575,000
					160,600
635,000	3,575,000	1,635,000			8,215,000
229,113	763,308	98,760			2,223,659
<u>\$ 864,113</u>	<u>\$ 4,338,308</u>	<u>\$ 1,733,760</u>	<u>\$</u>	<u>\$</u>	<u>\$ 12,613,534</u>
\$ 40,000	\$ 345,000	\$ 680,000	\$ 1,145,000	\$ 1,790,000	\$ 4,000,000
205,525	191,938	863,563	639,650	283,250	3,006,026
<u>\$ 245,525</u>	<u>\$ 536,938</u>	<u>\$ 1,543,563</u>	<u>\$ 1,784,650</u>	<u>\$ 2,073,250</u>	<u>\$ 7,006,026</u>
\$ 175,000	\$ 995,000	\$ 1,230,000	\$ 280,000	\$	\$ 3,315,000
117,645	472,100	232,570	12,600		1,367,009
<u>\$ 292,645</u>	<u>\$ 1,467,100</u>	<u>\$ 1,462,570</u>	<u>\$ 292,600</u>	<u>\$</u>	<u>\$ 4,682,009</u>
\$ 6,421	\$ 29,471	\$	\$	\$	\$ 58,356
2,003	4,223				17,456
					680,476
					15,651
36,310	205,555	258,764	120,373		759,104
26,775	110,628	62,682	8,135		328,197
					46,175
					433
116,955	518,594				1,058,190
26,580	55,351				233,430
					19,574
					2,055
<u>\$ 215,044</u>	<u>\$ 923,822</u>	<u>\$ 321,446</u>	<u>\$ 128,508</u>	<u>\$ -</u>	<u>\$ 3,219,097</u>
<u>\$ 1,617,327</u>	<u>\$ 7,266,168</u>	<u>\$ 5,061,339</u>	<u>\$ 2,205,758</u>	<u>\$ 2,073,250</u>	<u>\$ 27,520,666</u>

CITY OF KLAMATH FALLS, OREGON
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2013

NOTE 4 – DETAILED NOTES ON ALL ACTIVITIES AND FUND (continued)

K. Short-term debt:

Washington Federal – Downtown Urban Renewal

The government has pledged future tax increment revenues to repay a renewable loan (similar to a line of credit) of \$1,450,000 from Washington Federal (formerly South Valley Bank and Trust) received in April 2009. From April 2009 to June 2013 the City borrowed \$2,843,500 and paid back \$2,843,500 in principal. The loan funds have been used to complete various capital projects in the Downtown Urban Renewal District over the years. Monthly payments of interest are required to be paid at a variable interest of prime plus .75% (currently 4.000%) until maturity on July 1, 2013, at which time the principal was due in full. The interest rate is based on the Lender’s Prime Rate (the “Index”) and will not change more often than daily. The government will pay down the loan using 100% of the incremental property taxes received. 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 \$601,029 and \$613,453 respectively. The loan was paid in full.

In the current year, the City drew down \$600,000 on the line of credit. Under ORS 457.435 and 457.440, tax increment collections may only be spent to pay principal and interest on indebtedness. Tax increment collections are expected to be sufficient to meet debt service requirements for outstanding long-term debt. The City drew down the funds in order to release excess property tax collections for capital projects. The City drew down and paid off the funds within 6 days. At June 30, 2013, there was no debt outstanding with Downtown Urban Renewal District.

On July 10, 2013, the City renewed the loan with Washington Federal for \$415,000. Monthly payments of interest are required to be paid at a variable interest of prime (currently 3.250%) until maturity on July 01, 2014, at which time the principal will be due in full. The City intends to use the line of credit as a short-term borrowing similar to in the current fiscal year.

Short-term debt activity of the fiscal year ended June 30, 2013 was as follows:

	<u>Balance</u> <u>7/1/2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2013</u>
Washington Federal	-	600,000	600,000	-

CITY OF KLAMATH FALLS, OREGON
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2013

NOTE 4 – DETAILED NOTES ON ALL ACTIVITIES AND FUND (continued)

L. Fund balance

Fund Balance as of June 30, 2013 is detailed as follows:

	General Fund	Airport Fund	Street Fund	Other Governmental Funds	Total Governmental Funds
Fund Balances:					
Nonspendable:					
Prepays	96,586	5,440	13,624	20,414	136,064
Inventory			3,625	48,007	51,632
Restricted for:					
Capital projects		91,017		77,151	168,168
Debt service		146,725			146,725
Forfeiture Money	56,596				56,596
Parks Master Plan				52,330	52,330
Traffic signals			6,807		6,807
Third party claims				1,059,332	1,059,332
Urban renewal				767,732	767,732
Assigned for:					
Capital projects			65,530	8,178,803	8,244,333
Community program	49,638				49,638
Debt service				56,975	56,975
Operations		821,243	2,824,331	1,957,913	5,603,487
Unassigned:					
Unassigned	4,150,530				4,150,530
Total Fund Balances	<u>4,353,350</u>	<u>1,064,425</u>	<u>2,913,917</u>	<u>12,218,657</u>	<u>20,550,349</u>

Stabilization Arrangement. Per GASB 54, governments that establish stabilization arrangements, even if an arrangement does not meet the criteria to be classified as restricted or committed, should be disclosed. The City’s stabilization arrangement is the PERS Reserve Fund. City Council established the fund with a resolution in 2004. Additions to the reserve must be approved by the Budget Committee and adopted by the City Council. Amounts can only be spent to supplement increases in the PERS retirement annual contribution. The remaining funds were transferred out of the PERS Reserve fund in the current year and the City is closing the fund in fiscal year 2014.

Per implementation of GASB 54, operating reserves were eliminated; therefore the City combined the PERS Reserve Fund with the General Fund. Per Oregon Budget Law, operating reserves are budgeted separately. The City provides a separate schedule combining the two. See schedule H-4 in the Other Supplementary Schedules section.

M. Interfund receivables and payables

The composition of interfund balances as of June 30, 2013 is as follows:

Advances from / to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Escrow Fund	Airport Fund	<u>\$325,000</u>

An interfund loan in an amount not to exceed \$1,500,000 from the escrow fund to the airport fund was

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 – DETAILED NOTES ON ALL ACTIVITIES AND FUND (continued)

authorized by the government’s council in March 2010. 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 fund was \$900,000 with repayment of \$400,000, including 4.625% interest per annum in fiscal year 2010, \$125,000 in principal and \$23,125 in interest (at the rate of 4.625%) in fiscal year 2011, \$25,000 in principal and \$17,344 in interest in fiscal year 2012, and \$25,000 in principal and \$16,188 in interest in fiscal year 2013.

N. Interfund transfers

The composition of interfund transfers for the year ended June 30, 2013 is as follows:

Interfund transfers:

Transfer out	Transfer in	Amount
General Fund	Airport Fund	\$ 16,589
General Fund	Nonmajor Governmental Funds	369,959
General Fund	Street Fund	29,786
General Fund	Wastewater Fund	41,136
General Fund	Water Fund	49,568
Water Fund	Nonmajor Governmental Fund	375,885
Escrow Reserve Fund	Economic Development Fund	200,000
Nonmajor Governmental Fund	Escrow Reserve Fund	1,822,189
Total		\$ 2,905,112

Transfers are used to 1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due, 2) move restricted amounts from borrowings to the debt service fund to establish mandatory reserve accounts, 3) move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs, and 4) move amounts from reserve accounts to various departments to fund PERS increases.

In the year ended June 30, 2013, the government made the following transfers:

The general fund transferred \$291,225 to the debt service fund for payment on the full faith and credit bonds that were sold in September of 2008, and \$60,000 to the technology reserve fund for future replacement of the ERP system.

The water fund transferred \$375,885 to the parks fund to support parks operations and for capital improvements.

\$155,813 was transferred from the PERS reserve fund to various funds to offset future employer rate increases that took effect on July 1, 2012.

The escrow reserve fund transferred \$200,000 to the economic development fund for future economic development.

The cogeneration fund transferred \$1,822,189 to the escrow reserve fund for capital.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 5 – 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 TMDLs (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 TMDLs 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 TMDLs in December of 2011. The City requested that DEQ hold off on adopting the TMDLs 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 TMDLs 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 6 – SUBSEQUENT EVENTS

As of July 1, 2013 the government's AFSCME represented employees began paying the employee portion of PERS of 6% and as of August 1, 2013 the government's non-represented employees began paying the employee portion of PERS. Wage increases went into effect at the same time to offset the financial impact to employees. Because of this wage offset the financial impact to the government has been minimal as well.

Currently, the government is still contributing the employee portion of PERS for all Teamsters represented employees.

On November 5, 2013 the Lakefront Urban Renewal Fund borrowed \$900,000 from the Escrow Reserve Fund through an interfund loan to reimburse a developer for development costs owed. The loan will be paid back at a fixed rate of 3.75% over a ten year period using 100% of property tax increment revenues.

NOTE 7- ACCOUNTING PRONOUNCEMENTS

The government adopted GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, required for fiscal periods beginning after December 15, 2011, in fiscal year 2013. This statement addresses how to account for and report service concession arrangements. The adoption of this Statement had no impact on the government's financial statements.

The government adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, required for fiscal periods beginning after June 15, 2012, in fiscal year 2013. This Statement is designed to improve

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 7- ACCOUNTING PRONOUNCEMENTS(continued)

financial reporting for governmental entities by amending the requirements of GASB Statement No. 14 and 34, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued.

The government adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, required for fiscal periods beginning after December 15, 2011 in fiscal year 2013. This Statement is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements.

The government adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, required for fiscal periods beginning after December 15, 2011, in fiscal year 2013. This statement is intended to improve financial reporting by providing citizens and other users of state and local government reports with information about how past transactions will continue to impact a government's financial statements in the future.

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

The government plans to adopt GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*, required for fiscal periods beginning after December 15, 2012, in fiscal year 2014. This Statement improves accounting and financial reporting by resolving conflicting guidance that resulted from the issuance of Statements No. 54 and No. 62.

The government plans to adopt GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, required for fiscal periods beginning after June 15, 2013 in fiscal year 2014. This Statement improves financial reporting by state and local government pension plans.

The government plans to adopt GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, required for fiscal periods beginning after June 15, 2014, in fiscal year 2015. This Statement improves accounting and financial reporting by state and local governments for pensions.

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

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

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

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 Klamath Falls Airport and Kingsley Field. Revenues consist of property taxes, rental revenue, landing fees, FAA grants and other intergovernmental revenues. Expenditures are restricted for maintenance, repairs and capital improvements to the City's Airport facilities.

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

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CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2013

Schedule A-1

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 4,823,300	\$ 4,823,300	\$ 4,816,051	\$ (7,249)
Special assessments	-	-	96,992	96,992
Intergovernmental	2,420,025	2,442,325	622,134	(1,820,191)
Licenses, fees and permits	156,500	156,500	149,489	(7,011)
Franchise fees	1,020,275	1,020,275	1,105,647	85,372
Charges for services	4,345,375	4,345,375	3,683,227	(662,148)
Fines and forfeits	348,275	348,275	373,475	25,200
Investment income	31,900	31,900	67,977	36,077
Miscellaneous revenues	15,000	15,000	17,117	2,117
Total Revenues	13,160,650	13,182,950	10,932,109	(2,250,841)
Expenditures				
Police department				
Personnel services	4,724,650	4,674,650	4,397,123	277,527
Materials and services	1,303,225	1,472,525	1,324,721	147,804
Capital outlay	83,000	163,000	153,902	9,098
Code enforcement				
Personnel services	175,225	175,225	150,676	24,549
Materials and services	165,925	165,925	94,988	70,937
Municipal court				
Personnel services	172,325	175,000	171,887	3,113
Materials and services	70,300	70,300	62,909	7,391
Maintenance department				
Personnel services	912,625	912,625	753,854	158,771
Materials and services	105,275	105,275	81,608	23,667
Legislative department				
Personnel services	68,125	68,125	57,602	10,523
Materials and services	49,375	49,375	42,588	6,787
Legal department				
Personnel services	208,250	208,250	197,524	10,726
Materials and services	35,750	35,750	24,075	11,675
City manager department				
Personnel services	383,850	395,850	369,571	26,279
Materials and services	48,100	84,850	66,133	18,717
Finance department				
Personnel services	666,075	666,075	639,811	26,264
Materials and services	163,650	163,650	142,703	20,947
Human resources department				
Personnel services	226,075	226,075	219,111	6,964
Materials and services	33,775	33,775	29,503	4,272
Capital outlay	1,000	1,000	641	359
Information systems department				
Personnel services	272,825	272,825	271,765	1,060
Materials and services	126,350	126,350	96,669	29,681
Planning department				
Personnel services	423,300	423,300	416,435	6,865
Materials and services	72,075	72,075	46,908	25,167
Public works engineering department				
Personnel services	672,825	672,825	530,457	142,368
Materials and services	143,575	143,575	92,698	50,877
Other general fund programs				
Materials and services	1,975,975	1,973,300	139,918	1,833,382
Capital outlay	52,000	52,000	-	52,000
Contingency	1,791,375	2,066,300	-	2,066,300
Total Expenditures	15,126,875	15,649,850	10,575,780	5,074,070
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,966,225)	(2,466,900)	356,329	2,823,229
Other Financing Sources (Uses)				
Transfers (out)	(507,375)	(507,375)	(507,039)	336
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	(2,473,600)	(2,974,275)	(150,710)	2,823,565
Fund Balance - Beginning	4,091,250	4,932,850	4,504,060	(428,790)
Fund Balance - Ending	\$ 1,617,650	\$ 1,958,575	\$ 4,353,350	\$ 2,394,775

CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
AIRPORT FUND
For the Year Ended June 30, 2013

Schedule A-2

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 522,950	\$ 522,950	\$ 522,070	\$ (880)
Intergovernmental	1,586,175	1,586,175	725,903	(860,272)
Charges for services	699,600	699,600	638,833	(60,767)
Investment income	4,550	4,550	11,881	7,331
Miscellaneous revenues	-	-	17,146	17,146
Total Revenues	2,813,275	2,813,275	1,915,833	(897,442)
Expenditures				
Operations department				
Personnel services	561,550	561,550	511,920	49,630
Materials and services	689,525	716,025	590,716	125,309
Capital Outlay	31,000	71,000	38,418	32,582
Debt service	189,525	189,525	189,513	12
Contingency	774,725	528,225		528,225
FAA grants department				
Capital Outlay	1,384,350	1,635,600	449,118	1,186,482
Total Expenditures	3,630,675	3,701,925	1,779,685	1,922,240
Excess (Deficiency) of Revenues Over (Under) Expenditures	(817,400)	(888,650)	136,148	1,024,798
Other Financing Sources (Uses)				
Transfers in	16,625	16,625	16,589	(36)
Total Other Financing Sources and (Uses)	16,625	16,625	16,589	(36)
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	(800,775)	(872,025)	152,737	1,024,762
Fund Balance - Beginning	800,775	872,025	886,688	14,663
Fund Balance - Ending	\$ -	\$ -	\$ 1,039,425	\$ 1,039,425
Reconciliation				
Interfund Loan			25,000	
Fund Balance - Ending (GAAP)			\$ 1,064,425	

CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
STREET FUND
For the Year Ended June 30, 2013

Schedule A-3

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 3,163,625	\$ 3,163,625	\$ 1,412,512	\$ (1,751,113)
Franchise fees	787,150	787,150	861,399	74,249
Charges for services	190,700	190,700	277,703	87,003
Investment income	9,025	9,025	13,082	4,057
Miscellaneous revenues	-	-	4,384	4,384
Total Revenues	4,150,500	4,150,500	2,569,080	(1,581,420)
Expenditures				
Operations department				
Personnel services	869,350	869,350	724,090	145,260
Materials and services	1,259,750	1,257,175	935,439	321,736
Capital outlay	2,126,325	2,126,325	125,276	2,001,049
Contingency	558,075	558,075		558,075
Public works administration department				
Personnel services	70,350	72,925	71,893	1,032
Materials and services	17,925	17,925	12,117	5,808
Capital outlay	3,975	3,975	2,548	1,427
Vehicle maintenance department				
Personnel services	157,050	157,050	151,653	5,397
Materials and services	44,300	44,300	37,828	6,472
Total Expenditures	5,107,100	5,107,100	2,060,844	3,046,256
Excess (Deficiency) of Revenues Over (Under) Expenditures	(956,600)	(956,600)	508,236	1,464,836
Other Financing Sources (Uses)				
Transfers in	29,850	29,850	29,786	(64)
Total Other Financing Sources and (Uses)	29,850	29,850	29,786	(64)
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	(926,750)	(926,750)	538,022	1,464,772
Fund Balance - Beginning	2,176,750	2,176,750	2,375,895	199,145
Fund Balance - Ending	<u>\$ 1,250,000</u>	<u>\$ 1,250,000</u>	<u>\$ 2,913,917</u>	<u>\$ 1,663,917</u>

CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF FUNDING PROGRESS
JUNE 30, 2013

Schedule A-4

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, 2006	\$ -	\$ 503,376	\$ 503,376	-	\$ 6,034,263	8.34%
July 1, 2009	-	930,240	930,240	-	5,843,381	15.92%
August 1, 2012	-	822,372	822,372	-	6,007,311	13.69%

**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, 2013

Schedule B-1

	Special Revenue Funds	Capital Projects Funds	Debt Service Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,933,842	\$ 7,877,374	\$ 51,965	\$ 9,863,181
Accounts receivable	157,348	1,031	7,991	166,370
Taxes receivable	234,424		27,083	261,507
Loans receivable	100,344			100,344
Interest receivable	47,099		5,119	52,218
Internal balances				
Advances to other funds		325,000		325,000
Inventories	48,006			48,006
Prepaid items	20,415			20,415
Temporarily restricted assets				
Cash and cash equivalents	817,990	180,666		998,656
Investments	193,376			193,376
Interest receivable	10,632			10,632
Long-term investments				
Temporarily restricted investments	839,695			839,695
 Total Assets	\$ 4,403,171	\$ 8,384,071	\$ 92,158	\$ 12,879,400
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 89,106	\$ 25,959	\$	\$ 115,065
Deposits payable	3,000			3,000
Interest payable	59			59
Unearned revenue	405,278	102,158	35,183	542,619
 Total Liabilities	497,443	128,117	35,183	660,743
Fund Balances:				
Nonspendable	68,421			68,421
Restricted	1,879,394	77,151		1,956,545
Assigned	1,957,913	8,178,803	56,975	10,193,691
 Total Fund Balances	3,905,728	8,255,954	56,975	12,218,657
 Total Liabilities and Fund Balances	\$ 4,403,171	\$ 8,384,071	\$ 92,158	\$ 12,879,400

CITY OF KLAMATH FALLS, OREGON
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2013

Schedule B-2

	Special Revenue Funds	Capital Project Funds	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues				
Taxes	\$ 1,658,891	\$	\$ 213,991	\$ 1,872,882
Special assessments			235	235
Intergovernmental	278,068	119,500		397,568
Licenses, fees and permits	44,741			44,741
Franchise fees	326,721			326,721
Charges for services	333,713			333,713
Fines and forfeits	58,581			58,581
Investment income	43,340	55,719	3,185	102,244
Miscellaneous revenues	244,463	54,000		298,463
	2,988,518	229,219	217,411	3,435,148
Expenditures				
Current:				
General government	230,115	29,674		259,789
Culture and recreation	1,224,762			1,224,762
Highways and streets	415,677			415,677
Debt service:				
Principal	813,192		145,000	958,192
Interest	58,263		351,733	409,996
Capital outlay:				
General government	84,609	11,080		95,689
Culture and recreation	224,123			224,123
Public Safety				
Highways and streets	48,951	109,507		158,458
	3,099,692	150,261	496,733	3,746,686
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(111,174)</u>	<u>78,958</u>	<u>(279,322)</u>	<u>(311,538)</u>
Other Financing Sources (Uses)				
Proceeds from sale of asset	23,718			23,718
Transfers in	594,619	1,882,189	291,225	2,768,033
Transfers out	(1,822,189)	(200,000)		(2,022,189)
Issuance of debt	600,000			600,000
	(603,852)	1,682,189	291,225	1,369,562
Net Change in Fund Balances	<u>(715,026)</u>	<u>1,761,147</u>	<u>11,903</u>	<u>1,058,024</u>
Fund Balance - Beginning	4,620,754	6,494,807	45,072	11,160,633
Fund Balances - Ending	<u>\$ 3,905,728</u>	<u>\$ 8,255,954</u>	<u>\$ 56,975</u>	<u>\$ 12,218,657</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 Cemetery Fund accounts for the revenue from the sale of the Cemetery.

The Parks Fund accounts for the operation of the City's park system. Revenue consists of property taxes and intergovernmental revenues, which are assigned or restricted for operation of the City's park and recreation system. Other revenues consist primarily of charges for services.

The Downtown, Lakefront, and Town Center Urban Renewal Funds account for receipts from the property tax increment for the specified area. The Downtown Redevelopment District funds are restricted for maintenance and capital improvements. The Lakefront and Town Center District funds are restricted for capital improvements.

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 and charges for services. The funds are designated for maintenance and repairs and capital improvements of the street lighting system.

The Downtown Maintenance 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.

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

CITY OF KLAMATH FALLS, OREGON
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 June 30, 2013

	Cemetery Fund	Parks Fund	Downtown Urban Renewal Fund	Lakefront Urban Renewal Fund
ASSETS				
Cash and cash equivalents	\$ 374,038	\$ 798,854	\$	\$
Receivables				
Accounts		99,439		
Taxes		107,011	89,712	14,463
Loans		4,062	96,282	
Interest		20,200	18,410	3,157
Inventories			22,543	
Prepaid items		18,202		
Temporarily restricted assets				
Cash and cash equivalents		52,330	671,048	49,428
Investments				
Interest receivable				
Long-term investments				
Temporarily restricted investments				
Total Assets	\$ 374,038	\$ 1,100,098	\$ 897,995	\$ 67,048
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$	\$ 58,230	\$ 4,526	\$
Deposits payable		3,000		
Interest payable				
Unearned revenue		130,964	189,261	15,014
Total Liabilities	-	192,194	193,787	15,014
Fund Balances:				
Nonspendable		18,202	22,543	
Restricted		52,330	681,665	52,034
Assigned	374,038	837,372		
Total Fund Balances	374,038	907,904	704,208	52,034
Total Liabilities and Fund Balances	\$ 374,038	\$ 1,100,098	\$ 897,995	\$ 67,048

Schedule C-1

Town Center Urban Renewal Fund	Off-Street Parking Fund	Street Lighting Fund	Downtown Maintenance Fund	Economic Development Fund	Cogeneration Fund	Total
\$	\$ 90,203	\$ 380,206	\$ 20,534	\$ 270,007	\$	\$ 1,933,842
		51,588	6,321			157,348
23,238						234,424
						100,344
5,332		25,463				47,099
	2,064	149				48,006
						20,415
29,555					15,629	817,990
					193,376	193,376
					10,632	10,632
					839,695	839,695
<u>\$ 58,125</u>	<u>\$ 92,267</u>	<u>\$ 457,406</u>	<u>\$ 26,855</u>	<u>\$ 270,007</u>	<u>\$ 1,059,332</u>	<u>\$ 4,403,171</u>
\$	\$ 1,348	\$ 16,225	\$ 1,380	\$ 7,397	\$	\$ 89,106
	59					3,000
24,092	30,255		15,692			59
						405,278
24,092	31,662	16,225	17,072	7,397	-	497,443
	2,064	25,612				68,421
34,033	58,541	415,569	9,783	262,610	1,059,332	1,879,394
						1,957,913
34,033	60,605	441,181	9,783	262,610	1,059,332	3,905,728
<u>\$ 58,125</u>	<u>\$ 92,267</u>	<u>\$ 457,406</u>	<u>\$ 26,855</u>	<u>\$ 270,007</u>	<u>\$ 1,059,332</u>	<u>\$ 4,403,171</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, 2013

	Cemetery Fund	Parks Fund	Downtown Urban Renewal Fund	Lakefront Urban Renewal Fund
Revenues				
Taxes	\$	\$ 754,170	\$ 613,453	\$ 113,179
Intergovernmental		271,120		
Licenses, fees and permits				
Franchise fees				
Charges for services		44,213	71,327	
Fines and forfeits				
Investment income	4,953	11,107	11,327	1,124
Miscellaneous revenues	114,776	122,140	23	
Total Revenues	<u>119,729</u>	<u>1,202,750</u>	<u>696,130</u>	<u>114,303</u>
Expenditures				
Current:				
General government			144,714	121
Culture and recreation		1,224,762		
Highways and streets				
Debt service:				
Principal			600,000	78,825
Interest			1,029	4,256
Capital outlay:				
General government			84,609	
Culture and recreation		224,123		
Highways and streets				
Total Expenditures	<u>-</u>	<u>1,448,885</u>	<u>830,352</u>	<u>83,202</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>119,729</u>	<u>(246,135)</u>	<u>(134,222)</u>	<u>31,101</u>
Other Financing Sources (Uses)				
Proceeds from sale of asset			23,718	
Transfers in		392,948		
Transfers out				
Issuance of debt			600,000	
Total Other Financing Sources and (Uses)	<u>-</u>	<u>392,948</u>	<u>623,718</u>	<u>-</u>
Net Change in Fund Balances	<u>119,729</u>	<u>146,813</u>	<u>489,496</u>	<u>31,101</u>
Fund Balance - Beginning	<u>254,309</u>	<u>761,091</u>	<u>214,712</u>	<u>20,933</u>
Fund Balances - Ending	<u>\$ 374,038</u>	<u>\$ 907,904</u>	<u>\$ 704,208</u>	<u>\$ 52,034</u>

Schedule C-2

Town Center Urban Renewal Fund	Off-Street Parking Fund	Street Lighting Fund	Downtown Maintenance Fund	Economic Development Fund	Cogeneration Fund	Total
\$ 178,089	\$	\$ 6,948	\$	\$	\$	\$ 1,658,891
	44,741					278,068
		326,721				44,741
		188,929	17,237	12,007		326,721
	58,581					333,713
1,835	421	1,646	102	1,511	9,314	58,581
		7,524				43,340
						244,463
<u>179,924</u>	<u>103,743</u>	<u>531,768</u>	<u>17,339</u>	<u>13,518</u>	<u>9,314</u>	<u>2,988,518</u>
121			15,177	68,482	1,500	230,115
	80,019	335,658				1,224,762
						415,677
120,309	14,058					813,192
51,265	1,713					58,263
						84,609
						224,123
	2,224	46,727				48,951
<u>171,695</u>	<u>98,014</u>	<u>382,385</u>	<u>15,177</u>	<u>68,482</u>	<u>1,500</u>	<u>3,099,692</u>
8,229	5,729	149,383	2,162	(54,964)	7,814	(111,174)
						23,718
	1,297	374		200,000		594,619
					(1,822,189)	(1,822,189)
						600,000
<u>-</u>	<u>1,297</u>	<u>374</u>	<u>-</u>	<u>200,000</u>	<u>(1,822,189)</u>	<u>(603,852)</u>
8,229	7,026	149,757	2,162	145,036	(1,814,375)	(715,026)
25,804	53,579	291,424	7,621	117,574	2,873,707	4,620,754
<u>\$ 34,033</u>	<u>\$ 60,605</u>	<u>\$ 441,181</u>	<u>\$ 9,783</u>	<u>\$ 262,610</u>	<u>\$ 1,059,332</u>	<u>\$ 3,905,728</u>

CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
CEMETERY FUND
For the Year Ended June 30, 2013

	Budgeted Amounts			Schedule C-3
	Original	Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Investment income	\$ 5,225	\$ 5,225	\$ 4,953	\$ (272)
Miscellaneous revenues	115,050	115,050	114,776	(274)
Total Revenues	120,275	120,275	119,729	(546)
Expenditures				
Cemetery				
Contingency	374,450	374,450	-	374,450
Total Expenditures	374,450	374,450	-	374,450
Excess (Deficiency) of Revenues Over (Under) Expenditures	(254,175)	(254,175)	119,729	373,904
Fund Balance - Beginning	254,175	254,175	254,309	134
Fund Balance - Ending	\$ -	\$ -	\$ 374,038	\$ 374,038

CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
PARKS FUND
For the Year Ended June 30, 2013

Schedule C-4

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 755,350	\$ 755,350	\$ 754,170	\$ (1,180)
Intergovernmental	1,055,400	1,055,400	271,120	(784,280)
Charges for services	8,700	8,700	44,213	35,513
Investment income	7,125	7,125	11,107	3,982
Miscellaneous revenues	20,125	20,125	122,140	102,015
Total Revenues	1,846,700	1,846,700	1,202,750	(643,950)
Expenditures				
Operations department				
Personnel services	596,700	622,250	593,058	29,192
Materials and services	730,075	704,525	631,704	72,821
Capital outlay	1,060,000	1,060,000	224,123	835,877
Contingency	422,775	422,775	-	422,775
Total Expenditures	2,809,550	2,809,550	1,448,885	1,360,665
Excess (Deficiency) of Revenues Over (Under) Expenditures	(962,850)	(962,850)	(246,135)	716,715
Other Financing Sources (Uses)				
Transfers in	361,600	361,600	392,948	31,348
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	(601,250)	(601,250)	146,813	748,063
Fund Balance - Beginning	601,250	601,250	761,091	159,841
Fund Balance - Ending	\$ -	\$ -	\$ 907,904	\$ 907,904

CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
DOWNTOWN URBAN RENEWAL FUND
For the Year Ended June 30, 2013

Schedule C-5

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 743,800	\$ 603,800	\$ 613,453	\$ 9,653
Charges for services	66,475	66,475	71,327	4,852
Investment income	5,450	5,450	11,327	5,877
Miscellaneous revenues	-	-	23	23
Total Revenues	815,725	675,725	696,130	20,405
Expenditures				
Downtown urban renewal agency				
Materials and services	164,175	194,175	144,714	49,461
Capital outlay	704,725	785,400	84,609	700,791
Debt service	758,550	601,125	601,029	96
Contingency	14,000	14,000		14,000
Total Expenditures	1,641,450	1,594,700	830,352	764,348
Excess (Deficiency) of Revenues Over (Under) Expenditures	(825,725)	(918,975)	(134,222)	784,753
Other Financing Sources (Uses)				
Proceeds from sale of asset	-	-	23,718	23,718
Issuance of debt	725,000	707,575	600,000	(107,575)
Total Other Financing Sources and (Uses)	725,000	707,575	623,718	(83,857)
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	(100,725)	(211,400)	489,496	700,896
Fund Balance - Beginning	100,725	211,400	214,712	3,312
Fund Balance - Ending	\$ -	\$ -	\$ 704,208	\$ 704,208

CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
LAKEFRONT URBAN RENEWAL FUND
For the Year Ended June 30, 2013

Schedule C-6

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 115,625	\$ 115,625	\$ 113,179	\$ (2,446)
Investment income	675	675	1,124	449
Total Revenues	116,300	116,300	114,303	(1,997)
Expenditures				
Lakefront urban renewal agency				
Materials and Services	15,450	15,450	121	15,329
Debt service	115,625	115,625	83,081	32,544
Contingency	5,000	5,000		5,000
Total Expenditures	136,075	136,075	83,202	52,873
Excess (Deficiency) of Revenues Over (Under) Expenditures	(19,775)	(19,775)	31,101	50,876
Fund Balance - Beginning	19,775	19,775	20,933	1,158
Fund Balance - Ending	\$ -	\$ -	\$ 52,034	\$ 52,034

CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
TOWN CENTER URBAN RENEWAL FUND
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Schedule C-7 Variance with Final Budget - Positive (Negative)
	Original	Final	Amounts	
Revenues				
Taxes	\$ 182,750	\$ 182,750	\$ 178,089	\$ (4,661)
Investment income	1,050	1,050	1,835	785
Total Revenues	183,800	183,800	179,924	(3,876)
Expenditures				
Town Center urban renewal agency				
Materials and services	725,150	725,150	121	725,029
Debt service	188,250	188,250	171,574	16,676
Contingency	19,250	19,250	-	19,250
Total Expenditures	932,650	932,650	171,695	760,955
Excess (Deficiency) of Revenues Over (Under) Expenditures	(748,850)	(748,850)	8,229	757,079
Other Financing Sources (Uses)				
Issuance of debt	725,000	725,000	-	(725,000)
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	(23,850)	(23,850)	8,229	32,079
Fund Balance - Beginning	23,850	23,850	25,804	1,954
Fund Balance - Ending	\$ -	\$ -	\$ 34,033	\$ 34,033

CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
OFF STREET PARKING FUND
For the Year Ended June 30, 2013

Schedule C-8

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Licenses, fees and permits	\$ 47,100	\$ 47,100	\$ 44,741	\$ (2,359)
Fines and forfeits	46,600	46,600	58,581	11,981
Investment income	125	125	421	296
Total Revenues	<u>93,825</u>	<u>93,825</u>	<u>103,743</u>	<u>9,918</u>
Expenditures				
Off street parking				
Personnel services	59,525	59,525	51,996	7,529
Materials and services	30,375	30,375	28,023	2,352
Capital Outlay	-	37,200	2,224	34,976
Debt service	15,800	15,800	15,771	29
Contingency	14,475	14,475		14,475
Total Expenditures	<u>120,175</u>	<u>157,375</u>	<u>98,014</u>	<u>59,361</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(26,350)	(63,550)	5,729	69,279
Other Financing Sources (Uses)				
Transfers in	1,300	1,300	1,297	(3)
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	(25,050)	(62,250)	- 7,026	- 69,276
Fund Balance - Beginning	<u>25,050</u>	<u>62,250</u>	<u>53,579</u>	<u>(8,671)</u>
Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,605</u>	<u>\$ 60,605</u>

CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
STREET LIGHTING FUND
For the Year Ended June 30, 2013

Schedule C-9

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 98,775	\$ 98,775	\$ 6,948	\$ (91,827)
Franchise fees	279,075	279,075	326,721	47,646
Charges for services	190,875	190,875	188,929	(1,946)
Investment income	650	650	1,646	996
Miscellaneous revenues	-	-	7,524	7,524
Total Revenues	569,375	569,375	531,768	(37,607)
Expenditures				
Operations department				
Materials and services	370,625	370,200	321,108	49,092
Capital outlay	157,525	157,525	46,262	111,263
Contingency	308,100	308,100	-	308,100
Public works administration department				
Personnel services	12,325	12,750	12,522	228
Materials and services	3,500	3,500	2,028	1,472
Capital outlay	725	725	465	260
Total Expenditures	852,800	852,800	382,385	470,415
Excess (Deficiency) of Revenues Over (Under) Expenditures	(283,425)	(283,425)	149,383	432,808
Other Financing Sources (Uses)				
Transfers in	375	375	374	(1)
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	(283,050)	(283,050)	149,757	432,807
Fund Balance - Beginning	283,050	283,050	291,424	8,374
Fund Balance - Ending	\$	\$	\$ 441,181	\$ 441,181

CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
DOWNTOWN MAINTENANCE DISTRICT
For the Year Ended June 30, 2013

Schedule C-10

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Charges for services	\$ 18,950	\$ 18,950	\$ 17,237	\$ (1,713)
Investment income	50	50	102	52
Total Revenues	19,000	19,000	17,339	(1,661)
Expenditures				
Downtown maintenance district				
Materials and services	19,000	19,000	15,177	3,823
Contingency	5,000	5,000	-	5,000
Total Expenditures	24,000	24,000	15,177	8,823
Excess (Deficiency) of Revenues Over (Under) Expenditures	(5,000)	(5,000)	2,162	7,162
Fund Balance - Beginning	5,000	5,000	7,621	2,621
Fund Balance - Ending	\$ -	\$ -	\$ 9,783	\$ 9,783

CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
ECONOMIC DEVELOPMENT/PROPERTY FUND
For the Year Ended June 30, 2013

Schedule C-11

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Charges for services	\$ 11,400	\$ 11,400	\$ 12,007	\$ 607
Investment income	850	850	1,511	661
Miscellaneous	525	525	-	(525)
Total Revenues	<u>12,775</u>	<u>12,775</u>	<u>13,518</u>	<u>743</u>
Expenditures				
Economic development/property				
Materials and services	97,625	97,625	68,482	29,143
Contingency	207,500	207,500	-	207,500
Total Expenditures	<u>305,125</u>	<u>305,125</u>	<u>68,482</u>	<u>236,643</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(292,350)	(292,350)	(54,964)	237,386
Other Financing Sources (Uses)				
Transfers in	200,000	200,000	200,000	-
Total Other Financing Sources and (Uses)	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	<u>-</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	(92,350)	(92,350)	145,036	237,386
Fund Balance - Beginning	92,350	92,350	117,574	25,224
Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 262,610</u>	<u>\$ 262,610</u>

CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
COGENERATION FUND
For the Year Ended June 30, 2013

Schedule C-12

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Investment income	\$ 96,250	\$ 96,250	\$ 9,314	\$ (86,936)
Total Revenues	96,250	96,250	9,314	(86,936)
Expenditures				
Cogeneration				
Materials and services	1,500	1,500	1,500	-
Total Expenditures	1,500	1,500	1,500	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	94,750	94,750	7,814	(86,936)
Other Financing Sources (Uses)				
Transfers out	(1,855,000)	(1,855,000)	(1,822,189)	32,811
Total Other Financing Sources and (Uses)	(1,760,250)	(1,855,000)	(1,822,189)	32,811
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	(1,760,250)	(1,760,250)	(1,814,375)	(54,125)
Fund Balance - Beginning	3,024,925	3,024,925	2,873,707	(151,218)
Fund Balance - Ending	<u>\$ 1,264,675</u>	<u>\$ 1,264,675</u>	<u>\$ 1,059,332</u>	<u>\$ (205,343)</u>

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CITY OF KLAMATH FALLS, OREGON
NONMAJOR GOVERNMENTAL FUNDS

Capital Project 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 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. In the previous fiscal year, the main source of revenue was from the 2008 general obligation bonds and the 2008 full faith and credit bonds. The sole source of revenue currently is investment income. The major expenditure of the bond funds is the City's new police station.

The Escrow Fund 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.

Debt Services Fund

Debt service funds are used to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

The Debt Service Fund accounts for the collection of assessments from benefited property owners, revenues from City owned property, and the payment of principal and interest on Special Public Works Fund debts related to streets, water and wastewater line extensions for Electro Scientific Industries.

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
 CAPITAL PROJECTS FUNDS
 June 30, 2013

Schedule D-1

	Footpaths/Bicycle Trails Fund	Technology Services Fund	Building Fund	Escrow Reserve Fund	Total
ASSETS					
Cash and cash equivalents	\$	\$ 295,926	\$ 1,025,852	\$ 6,555,596	\$ 7,877,374
Accounts receivable	1,031				1,031
Advances to other funds				325,000	325,000
Temporarily restricted assets					
Cash and cash equivalents	<u>180,666</u>				<u>180,666</u>
Total Assets	<u>\$ 181,697</u>	<u>\$ 295,926</u>	<u>\$ 1,025,852</u>	<u>\$ 6,880,596</u>	<u>\$ 8,384,071</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 2,388	\$	\$	\$ 23,571	\$ 25,959
Deferred revenue	<u>102,158</u>				<u>102,158</u>
Total Liabilities	<u>104,546</u>	<u>-</u>	<u>-</u>	<u>23,571</u>	<u>128,117</u>
Fund Balances					
Restricted	77,151				77,151
Assigned		295,926	1,025,852	6,857,025	8,178,803
Total Fund Balances	<u>77,151</u>	<u>295,926</u>	<u>1,025,852</u>	<u>6,857,025</u>	<u>8,255,954</u>
Total Liabilities and Fund Balances	<u>\$ 181,697</u>	<u>\$ 295,926</u>	<u>\$ 1,025,852</u>	<u>\$ 6,880,596</u>	<u>\$ 8,384,071</u>

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, 2013

Schedule D-2

	Footpaths/Bicycle Trails Fund	Technology Services Fund	Building Fund	Escrow Reserve Fund	Total
Revenues					
Intergovernmental	\$ 119,500	\$	\$	\$	\$ 119,500
Investment Income	500	1,657	5,600	47,962	55,719
Miscellaneous	<u> </u>	<u> </u>	54,000	<u> </u>	54,000
Total Revenues	<u>120,000</u>	<u>1,657</u>	<u>59,600</u>	<u>47,962</u>	<u>229,219</u>
Expenditures					
Materials and services	<u> </u>	<u> </u>	<u> </u>	29,674	29,674
Capital Outlay	109,507	460	10,620	<u> </u>	120,587
Total Expenditures	<u>109,507</u>	<u>460</u>	<u>10,620</u>	<u>29,674</u>	<u>150,261</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	10,493	1,197	48,980	18,288	78,958
Other Financing Sources (Uses)					
Transfers in	<u> </u>	60,000	<u> </u>	1,822,189	1,882,189
Transfers out	<u> </u>	<u> </u>	<u> </u>	(200,000)	(200,000)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	10,493	61,197	48,980	1,640,477	1,761,147
Fund Balances - Beginning	<u>66,658</u>	<u>234,729</u>	<u>976,872</u>	<u>5,216,548</u>	<u>6,494,807</u>
Fund Balances - Ending	<u>\$ 77,151</u>	<u>\$ 295,926</u>	<u>\$ 1,025,852</u>	<u>\$ 6,857,025</u>	<u>\$ 8,255,954</u>

CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOOTPATHS/BICYCLE TRAILS FUND
For the Year Ended June 30, 2013

Schedule D-3

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 431,850	\$ 431,850	\$ 119,500	\$ (312,350)
Investment income	250	250	500	250
Total Revenues	432,100	432,100	120,000	(312,100)
Expenditures				
Footpaths/bicycle trails				
Capital outlay	466,825	466,825	109,507	357,318
Contingency	15,275	15,275		15,275
Total Expenditures	482,100	482,100	109,507	372,593
Excess (Deficiency) of Revenues Over (Under) Expenditures	(50,000)	(50,000)	10,493	60,493
Fund Balance - Beginning	50,000	50,000	66,658	16,658
Fund Balance - Ending	\$ -	\$ -	\$ 77,151	\$ 77,151

CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS - BUDGET AND ACTUAL
TECHNOLOGY RESERVE FUND
For the Year Ended June 30, 2013

Schedule D-4

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Investment income	\$ 1,675	\$ 1,675	\$ 1,657	\$ (18)
Total Revenues	<u>1,675</u>	<u>1,675</u>	<u>1,657</u>	<u>(18)</u>
Expenditures				
Technology reserve				
Capital outlay	493,475	493,475	460	493,015
Debt service	90,000	90,000		90,000
Contingency	332,000	332,000		332,000
Total Expenditures	<u>915,475</u>	<u>915,475</u>	<u>460</u>	<u>915,015</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(913,800)</u>	<u>(913,800)</u>	<u>1,197</u>	<u>914,997</u>
Other Financing Sources (Uses)				
Interfund loan	327,900	327,900	-	327,900
Loan proceeds	327,900	327,900	-	327,900
Transfers in	60,000	60,000	60,000	-
Total Other Financing Sources and (Uses)	<u>715,800</u>	<u>715,800</u>	<u>60,000</u>	<u>655,800</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	<u>(198,000)</u>	<u>(198,000)</u>	<u>61,197</u>	<u>259,197</u>
Fund Balance - Beginning	<u>198,000</u>	<u>198,000</u>	<u>234,729</u>	<u>36,729</u>
Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 295,926</u>	<u>\$ 295,926</u>

CITY OF KLAMATH FALLS, OREGON
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS - BUDGET AND ACTUAL
 BUILDING RESERVE FUND
 For the Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Schedule D-5 Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Investment income	\$ 5,000	\$ 5,000	\$ 5,600	\$ 600
Charges for services	54,000	54,000	54,000	-
Total Revenues	59,000	59,000	59,600	600
Expenditures				
Building				
Capital outlay	29,000	60,725	10,620	50,105
Contingency	1,030,000	975,000		975,000
Total Expenditures	1,059,000	1,035,725	10,620	1,025,105
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,000,000)	(976,725)	48,980	1,025,705
Fund Balance - Beginning	1,000,000	976,725	976,872	147
Fund Balance - Ending	\$ -	\$ -	1,025,852	\$ 1,025,852

CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
ESCROW RESERVE FUND
For the Year Ended June 30, 2013

Schedule D-6

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Investment Income	\$ 43,175	\$ 43,175	\$ 47,962	\$ 4,787
Total Revenues	<u>43,175</u>	<u>43,175</u>	<u>47,962</u>	<u>4,787</u>
Expenditures				
Capital				
Materials and services	126,575	126,575	29,674	96,901
Capital outlay	2,894,000	2,894,000	-	2,894,000
Contingency	2,844,650	2,844,650	-	2,844,650
Total Expenditures	<u>5,865,225</u>	<u>5,865,225</u>	<u>29,674</u>	<u>5,835,551</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(5,822,050)	(5,822,050)	18,288	5,840,338
Other Financing Sources (Uses)				
Interfund loan	(327,900)	(327,900)	-	327,900
Interfund loan repayment	25,000	25,000	25,000	-
Transfers in	1,855,000	1,855,000	1,822,189	(32,811)
Transfers out	(200,000)	(200,000)	(200,000)	-
Total Other Financing Sources and (Uses)	<u>1,352,100</u>	<u>1,352,100</u>	<u>1,647,189</u>	<u>295,089</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	<u>(4,469,950)</u>	<u>(4,469,950)</u>	<u>1,665,477</u>	<u>6,135,427</u>
Fund Balance - Beginning	<u>4,469,950</u>	<u>4,469,950</u>	<u>5,216,548</u>	<u>746,598</u>
Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>6,882,025</u>	<u>\$ 6,882,025</u>
Reconciliation				
Interfund Loan			(25,000)	
Fund Balance - Ending (GAAP)			<u>\$ 6,857,025</u>	

CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
DEBT SERVICE FUND
For the Year Ended June 30, 2013

Schedule E-1

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 211,725	\$ 211,725	\$ 213,991	\$ 2,266
Special Assessments	-	-	235	235
Investment income	675	675	3,185	2,510
Total Revenues	212,400	212,400	217,411	5,011
Expenditures				
Debt service				
Debt service	496,750	496,750	496,733	17
Contingency	42,475	42,475	-	42,475
Total Expenditures	539,225	539,225	496,733	42,492
Excess (Deficiency) of Revenues Over (Under) Expenditures	(326,825)	(326,825)	(279,322)	47,503
Other Financing Sources (Uses)				
Transfers in	291,225	291,225	291,225	-
Total Other Financing Sources and (Uses)	291,225	291,225	291,225	-
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	(35,600)	(35,600)	11,903	47,503
Fund Balances - Beginning	35,600	35,600	45,072	9,472
Fund Balances - Ending	\$ -	\$ -	\$ 56,975	\$ 56,975

CITY OF KLAMATH FALLS, OREGON
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
VETERAN'S MEMORIAL AGENCY FUND
For the Year Ended June 30, 2013

Schedule F-1

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
ASSETS				
<i>Assets</i>				
Cash and cash equivalents	\$ 141,717	\$ 24,656	\$ 12,007	\$ 154,366
Accounts Receivable	-	24,656	24,656	-
Total Assets	\$ 141,717	\$ 49,312	\$ 36,663	\$ 154,366
LIABILITIES AND NET ASSETS				
<i>Liabilities</i>				
Accounts payable	\$ 1,240	\$ 10,767	12,007	\$ -
Due to Veterans Associations	140,477	13,889		154,366
Total Liabilities	\$ 141,717	\$ 24,656	\$ 12,007	\$ 154,366

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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. Revenues consist primarily of charges for services.

CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS - BUDGET AND ACTUAL
WASTEWATER FUND
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Schedule G-1 Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 343,200	\$ 343,200	\$ 350,919	\$ 7,719
Charges for services	6,606,600	6,606,600	6,634,850	28,250
Investment income	34,750	34,750	54,663	19,913
Miscellaneous revenues	34,875	34,875	156,760	121,885
Total Revenues	7,019,425	7,019,425	7,197,192	177,767
Expenditures				
Collections department				
Personnel services	577,450	577,450	493,930	83,520
Materials and services	1,070,800	1,070,800	866,548	204,252
Capital outlay	1,303,000	1,303,000	1,155,645	147,355
Treatment department				
Personnel services	689,450	689,450	637,150	52,300
Materials and services	1,863,250	1,862,000	1,245,533	616,467
Capital outlay	1,286,050	1,286,050	74,359	1,211,691
Utility billing department				
Personnel services	138,225	138,225	128,821	9,404
Materials and services	123,275	123,275	110,833	12,442
Debt service	946,550	946,550	941,219	5,331
Public works administration department				
Personnel services	71,675	72,925	71,893	1,032
Materials and services	17,925	17,925	12,102	5,823
Capital outlay	3,975	3,975	2,548	1,427
Other wastewater				
Contingency	1,040,275	1,040,275		1,040,275
Total Expenditures	9,131,900	9,131,900	5,740,581	3,391,319
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,112,475)	(2,112,475)	1,456,611	3,569,086
Other Financing Sources (Uses)				
Issuance of debt	1,000,000	1,000,000	-	(1,000,000)
Transfers in	41,225	41,225	41,136	(89)
Total Other Financing Sources and (Uses)	1,041,225	1,041,225	41,136	(1,000,089)
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	(1,071,250)	(1,071,250)	1,497,747	2,568,997
Net Assets - Beginning	7,071,250	7,071,250	28,703,638	21,632,388
Net Assets - Ending	\$ 6,000,000	\$ 6,000,000	30,201,385	\$ 24,201,385
Reconciliation				
Capitalized Personnel services			3,794	
Capital assets, net of accumulated depreciator			190,162	
Capital assets, contributed by others			33,214	
OPEB implicit subsidy			(14,748)	
Compensated absences			(3,950)	
Bond issuance cost, net of amortization			(22,616)	
Accrued interest			(5,284)	
Loans payable			50,310	
Bonds payable			550,000	
Net Assets - Ending (GAAP)			\$ 30,982,267	

CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS - BUDGET AND ACTUAL
WATER/GEOTHERMAL FUND
For the Year Ended June 30, 2013

Schedule G-2

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Charges for services	\$ 6,776,525	\$ 6,776,525	\$ 7,263,035	\$ 486,510
Intergovernmental				-
Investment income	25,075	25,075	40,533	15,458
Miscellaneous revenues	43,400	43,400	174,454	131,054
Total Revenues	6,845,000	6,845,000	7,478,022	633,022
Expenditures				
Operations department				
Personnel services	1,017,175	1,017,175	960,639	56,536
Materials and services	2,430,125	2,427,550	2,084,731	342,819
Capital outlay	1,752,000	2,152,000	1,931,381	220,619
Utility billing department				
Personnel services	621,850	621,850	606,702	15,148
Materials and services	246,400	246,400	221,437	24,963
Debt service	833,400	833,400	833,379	21
Geothermal department				
Personnel services	58,925	58,925	10,577	48,348
Materials and services	188,050	188,050	122,187	65,863
Capital outlay	10,000	17,500	17,306	194
Debt service	66,525	66,525	66,424	101
Public works administration department				
Personnel services	70,350	72,925	71,893	1,032
Materials and services	17,925	17,925	12,101	5,824
Capital outlay	3,975	3,975	2,548	1,427
Other Water/Geothermal fund programs				
Contingency	986,325	1,223,575	-	1,223,575
Total Expenditures	8,303,025	8,947,775	6,941,305	2,006,470
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,458,025)	(2,102,775)	536,717	2,639,492
Other Financing Sources (Uses)				
Loan proceeds	200,000	200,000	-	
Transfers in	49,675	49,675	49,568	
Transfers out	(344,500)	(344,500)	(375,885)	(31,385)
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	(1,552,850)	(2,197,600)	210,400	2,608,107
Net Assets - Beginning	4,344,725	4,836,875	35,336,172	30,499,297
Net Assets - Ending	\$ 2,791,875	\$ 2,639,275	35,546,572	\$ 33,107,404
Reconciliation				
Capitalized Personnel services			14,128	
Capital assets, net of accumulated depreciation			659,088	
Capital assets, contributed by others			43,961	
OPEB implicit subsidy			(17,679)	
Compensated absences			(3,376)	
Bond issuance cost, net of amortization			(24,212)	
Accrued interest			13,443	
Loans payable			76,212	
Bonds payable			655,000	
Net Assets - Ending (GAAP)			\$ 36,963,137	

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OTHER SUPPLEMENTARY SCHEDULES

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CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF PROPERTY TAX TRANSACTIONS
For the Year Ended June 30, 2013

Schedule H-1

Fiscal Year	Assessor's Current Levy and Balances July 1, 2012	Discounts/ Adjustments	Taxes Collected	Balance Uncollected June 30, 2013	Interest Collected
2012-2013	\$ 7,404,576	\$ (191,945)	\$ 6,787,968	\$ 424,663	\$ 2,165
Prior years					
2011-12	487,565	(6,817)	251,552	229,196	1,371
2010-11	242,690	(6,401)	78,200	158,089	2,030
2009-10	157,171	(5,233)	65,476	86,462	11,556
2008-09	67,587	(951)	49,962	16,674	108
2007-08	12,821	(844)	2,635	9,342	67
2006-07	7,110	(668)	1,551	4,891	16
2005-06 and Prior	40,200	(865)	2,935	36,400	158
Total - Prior Years	1,015,144	(21,779)	452,311	541,054	15,306
Total	<u>\$ 8,419,720</u>	<u>\$ (213,724)</u>	<u>\$ 7,240,279</u>	<u>\$ 965,717</u>	<u>\$ 17,471</u>
Summary by Fund					
General Fund				\$ 631,009	
Airport Fund				73,201	
Parks Fund				107,010	
Downtown Urban Renewal Fund				89,711	
Lakefront Urban Renewal Fund				14,464	
Town Center Urban Renewal Fund				23,238	
2008 General Obligation Bond				27,084	
Total				<u>\$ 965,717</u>	

CITY OF KLAMATH FALLS, OREGON
 CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
 SCHEDULE BY FUNCTION AND ACTIVITY
 June 30, 2013

Schedule H-2

Function and Activity	Land	Buildings	Machinery and Equipment	Infrastructure	Construction in Progress	Total
General Government:						
Manager	\$ 677,152	\$ 1,603,632	\$ 348,523	\$ 861,099	\$ 4,706	\$ 3,495,112
Information Systems			840,043			840,043
Engineering			297,452			297,452
Maintenance		79,087	68,312			147,399
Economic Development	544,243					544,243
Urban renewal	261,167	1,946,486		330,985	84,609	2,623,247
Total General Government	<u>1,482,562</u>	<u>3,629,205</u>	<u>1,554,330</u>	<u>1,192,084</u>	<u>89,315</u>	<u>7,947,496</u>
Airport	<u>9,087,413</u>	<u>3,761,970</u>	<u>2,525,604</u>	<u>55,893,888</u>	<u>210,326</u>	<u>71,479,201</u>
Culture and Recreation	<u>319,224</u>	<u>1,298,050</u>	<u>1,543,902</u>	<u>2,988,616</u>	<u>237,241</u>	<u>6,387,033</u>
Public Safety:						
Police	399,111	8,336,078	2,004,840	24,059		10,764,088
Code enforcement			62,535			62,535
Total Public Safety	<u>399,111</u>	<u>8,336,078</u>	<u>2,067,375</u>	<u>24,059</u>	-	<u>10,826,623</u>
Highways and Streets:						
Maintenance	1,500	275,883	3,246,584			3,523,967
Street system	2,057,286			128,089,144	135,282	130,281,712
Total Highways and Streets	<u>2,058,786</u>	<u>275,883</u>	<u>3,246,584</u>	<u>128,089,144</u>	<u>135,282</u>	<u>133,805,679</u>
Total Governmental Funds Capital Assets	<u>\$ 13,347,096</u>	<u>\$ 17,301,186</u>	<u>\$ 10,937,795</u>	<u>\$ 188,187,791</u>	<u>\$ 672,164</u>	<u>\$ 230,446,032</u>

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, 2013

Schedule H-3

Function and Activity	Governmental Funds Capital Assets July 1, 2012	Additions	Deductions, Transfers in & (Transfers out)	Governmental Funds Capital Assets June 30, 2013
General Government:				
Manager	\$ 3,513,488	\$ 13,485	\$ (31,861)	\$ 3,495,112
Information Systems	839,583	460		840,043
Engineering	272,570	3,013	21,869	297,452
Maintenance	147,399			147,399
Economic Development	544,243			544,243
Urban renewal	2,677,255	84,608	(138,616)	2,623,247
Total General Government	<u>7,994,538</u>	<u>101,566</u>	<u>(148,608)</u>	<u>7,947,496</u>
Airport	<u>70,993,445</u>	<u>487,536</u>	<u>(1,780)</u>	<u>71,479,201</u>
Culture and Recreation	<u>5,977,986</u>	<u>399,707</u>	<u>9,340</u>	<u>6,387,033</u>
Public Safety:				
Police	10,657,265	153,902	(47,079)	10,764,088
Code enforcement	64,958		(2,423)	62,535
Total Public Safety	<u>10,722,223</u>	<u>153,902</u>	<u>(49,502)</u>	<u>10,826,623</u>
Highways and Streets:				
Maintenance	3,215,766	48,849	259,352	3,523,967
Street system	130,325,455	232,196	(275,939)	130,281,712
Total Highways and Streets	<u>133,541,221</u>	<u>281,045</u>	<u>(16,587)</u>	<u>133,805,679</u>
Total Governmental Funds Capital Assets	<u>\$ 229,229,413</u>	<u>\$ 1,423,756</u>	<u>\$ (207,137)</u>	<u>\$ 230,446,032</u>

CITY OF KLAMATH FALLS, OREGON
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 GENERAL FUND AND PERS FUND
 For the Year Ended June 30, 2013

Schedule H-4

	GENERAL FUND				PERS FUND				ELIMINATIONS	COMBINED TOTAL			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)		Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final			Original	Final				Original	Final		
Revenues													
Taxes	\$ 4,823,300	\$ 4,823,300	\$ 4,816,051	\$ (7,249)	\$ -	\$ -	\$ -	\$ -	\$ 4,823,300	\$ 4,823,300	\$ 4,816,051	\$ (7,249)	
Special assessments	-	-	96,992	96,992	-	-	-	-	-	-	96,992	96,992	
Intergovernmental	2,420,025	2,442,325	622,134	(1,820,191)	-	-	-	-	2,420,025	2,442,325	622,134	(1,820,191)	
Licenses, fees and permits	156,500	156,500	149,489	(7,011)	-	-	-	-	156,500	156,500	149,489	(7,011)	
Franchise fees	1,020,275	1,020,275	1,105,647	85,372	-	-	-	-	1,020,275	1,020,275	1,105,647	85,372	
Charges for services	4,345,375	4,345,375	3,683,227	(662,148)	-	-	-	-	4,345,375	4,345,375	3,683,227	(662,148)	
Fines and forfeits	348,275	348,275	373,475	25,200	-	-	-	-	348,275	348,275	373,475	25,200	
Investment income	31,900	31,900	67,942	36,042	-	-	35	35	31,900	31,900	67,977	36,077	
Miscellaneous revenues	15,000	15,000	17,117	2,117	-	-	-	-	15,000	15,000	17,117	2,117	
Total Revenues	13,160,650	13,182,950	10,932,074	(2,250,876)	-	-	35	35	13,160,650	13,182,950	10,932,109	(2,250,841)	
Expenditures													
Police department													
Personnel services	4,724,650	4,674,650	4,397,123	277,527	-	-	-	-	4,724,650	4,674,650	4,397,123	277,527	
Materials and services	1,303,225	1,472,525	1,324,721	147,804	-	-	-	-	1,303,225	1,472,525	1,324,721	147,804	
Capital outlay	83,000	163,000	153,902	9,098	-	-	-	-	83,000	163,000	153,902	9,098	
Code enforcement													
Personnel services	175,225	175,225	150,676	24,549	-	-	-	-	175,225	175,225	150,676	24,549	
Materials and services	165,925	165,925	94,988	70,937	-	-	-	-	165,925	165,925	94,988	70,937	
Municipal court													
Personnel services	172,325	175,000	171,887	3,113	-	-	-	-	172,325	175,000	171,887	3,113	
Materials and services	70,300	70,300	62,909	7,391	-	-	-	-	70,300	70,300	62,909	7,391	
Maintenance department													
Personnel services	912,625	912,625	753,854	158,771	-	-	-	-	912,625	912,625	753,854	158,771	
Materials and services	105,275	105,275	81,608	23,667	-	-	-	-	105,275	105,275	81,608	23,667	
Legislative department													
Personnel services	68,125	68,125	57,602	10,523	-	-	-	-	68,125	68,125	57,602	10,523	
Materials and services	49,375	49,375	42,588	6,787	-	-	-	-	49,375	49,375	42,588	6,787	
Legal department													
Personnel services	208,250	208,250	197,524	10,726	-	-	-	-	208,250	208,250	197,524	10,726	
Materials and services	35,750	35,750	24,075	11,675	-	-	-	-	35,750	35,750	24,075	11,675	
City manager department													
Personnel services	383,850	395,850	369,571	26,279	-	-	-	-	383,850	395,850	369,571	26,279	
Materials and services	48,100	84,850	66,133	18,717	-	-	-	-	48,100	84,850	66,133	18,717	
Finance department													
Personnel services	666,075	666,075	639,811	26,264	-	-	-	-	666,075	666,075	639,811	26,264	
Materials and services	163,650	163,650	142,703	20,947	-	-	-	-	163,650	163,650	142,703	20,947	
Human resources department													
Personnel services	226,075	226,075	219,111	6,964	-	-	-	-	226,075	226,075	219,111	6,964	
Materials and services	33,775	33,775	29,503	4,272	-	-	-	-	33,775	33,775	29,503	4,272	
Capital outlay	1,000	1,000	641	359	-	-	-	-	1,000	1,000	641	359	
Information systems department													
Personnel services	272,825	272,825	271,765	1,060	-	-	-	-	272,825	272,825	271,765	1,060	
Materials and services	126,350	126,350	96,669	29,681	-	-	-	-	126,350	126,350	96,669	29,681	
Planning department													
Personnel services	423,300	423,300	416,435	6,865	-	-	-	-	423,300	423,300	416,435	6,865	
Materials and services	72,075	72,075	46,908	25,167	-	-	-	-	72,075	72,075	46,908	25,167	
Public works engineering department													
Personnel services	672,825	672,825	530,457	142,368	-	-	-	-	672,825	672,825	530,457	142,368	
Materials and services	143,575	143,575	92,698	50,877	-	-	-	-	143,575	143,575	92,698	50,877	
Other general fund programs													
Materials and services	1,975,975	1,973,300	139,918	1,833,382	-	-	-	-	1,975,975	1,973,300	139,918	1,833,382	
Capital outlay	52,000	52,000	-	52,000	-	-	-	-	52,000	52,000	-	52,000	
Contingency	1,791,375	2,066,300	-	2,066,300	-	-	-	-	1,791,375	2,066,300	-	2,066,300	
Total Expenditures	15,126,875	15,649,850	10,575,780	5,074,070	-	-	-	-	15,126,875	15,649,850	10,575,780	5,074,070	
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,966,225)	(2,466,900)	356,294	2,823,194	-	-	35	35	(1,966,225)	(2,466,900)	356,329	2,823,229	
Other Financing Sources (Uses)													
Transfers (in)	277,300	277,300	276,703	(597)	-	-	-	(276,703)	-	-	-	-	
Transfers (out)	(351,225)	(351,225)	(351,225)	-	(433,450)	(433,450)	(432,517)	933	(507,375)	(507,375)	(507,039)	336	
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	(2,040,150)	(2,540,825)	281,772	2,822,597	(433,450)	(433,450)	(432,482)	968	(2,473,600)	(2,974,275)	(150,710)	2,823,565	
Fund Balance - Beginning	3,657,800	4,499,400	4,071,578	(427,822)	433,450	433,450	432,482	(968)	4,091,250	4,932,850	4,504,060	(428,790)	
Fund Balance - Ending	\$ 1,617,650	\$ 1,958,575	\$ 4,353,350	\$ 2,394,775	\$ -	\$ -	\$ -	\$ -	\$ 1,617,650	\$ 1,958,575	\$ 4,353,350	\$ 2,394,775	

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	Page
Financial Trends	149
<i>These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.</i>	
Revenue Capacity	156
<i>These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.</i>	
Debt Capacity	160
<i>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.</i>	
Demographic and Economic Information	165
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.</i>	
Operating Information	168
<i>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.</i>	

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									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Governmental activities										
Net investment in capital assets	\$ 115,096,825	\$ 119,231,089	\$ 120,623,415	\$ 117,426,374	\$ 92,499,417	\$ 93,122,533	\$ 89,451,135	\$ 84,152,802	\$ 81,416,004	\$ 79,203,857
Restricted	2,851,180	3,800,188	5,705,016	12,853,050	10,439,805	998,106	2,492,693	821,666	756,612	705,520
Unrestricted	17,186,214	14,361,606	11,814,580	7,948,267	9,927,193	9,391,036	7,907,273	9,156,698	8,915,930	8,269,102
Total governmental activities net position	<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>	<u>\$ 91,088,546</u>	<u>\$ 88,178,479</u>
Business-type activities										
Net investment in capital assets	\$ 51,447,145	\$ 49,262,631	\$ 49,086,527	\$ 47,325,073	\$ 36,340,357	\$ 34,075,653	\$ (18,771,844)	\$ (25,067,214)	\$ (26,876,623)	\$ (28,925,699)
Restricted	9,062,712	7,691,035	5,823,352	4,055,414	20,547,492	18,221,131	50,993,327	62,991,009	54,290,892	53,813,007
Unrestricted	7,435,547	7,086,144	6,789,017	7,971,682	7,817,326	12,808,080	10,243,022	11,136,384	9,288,459	7,548,431
Total business-type activities net position	<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>	<u>\$ 36,702,728</u>	<u>\$ 32,435,739</u>
Primary government										
Net investment in capital assets	\$ 166,543,970	\$ 168,493,720	\$ 169,709,942	\$ 164,751,447	\$ 128,839,774	\$ 127,198,186	\$ 70,679,291	\$ 59,085,588	\$ 54,539,381	\$ 50,278,158
Restricted	11,913,892	11,491,223	11,528,368	16,908,464	30,987,297	19,219,237	53,486,020	63,812,675	55,047,504	54,518,527
Unrestricted	24,621,761	21,447,750	18,603,597	15,919,949	17,744,519	22,199,116	18,150,295	20,293,082	18,204,389	15,817,533
Total primary government net position	<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>	<u>\$ 127,791,274</u>	<u>\$ 120,614,218</u>

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

Schedule I-2a

	Fiscal Year									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Expenses										
Governmental activities:										
General government	\$ 971,123	\$ 916,736	\$ 1,858,704	\$ 965,249	\$ 1,166,541	\$ 1,968,063	\$ 1,736,240	\$ 2,564,468	\$ 2,076,730	\$ 1,157,413
Airport	2,738,308	3,056,676	2,711,318	2,416,914	2,955,132	2,090,904	2,212,159	1,882,408	1,710,673	1,697,288
Culture and recreation	1,393,933	1,315,332	1,170,962	1,126,984	1,104,576	855,338	877,478	743,067	711,190	723,371
Public safety	6,643,034	6,592,397	6,728,610	6,245,613	6,211,412	5,980,528	5,681,870	5,122,162	4,699,250	4,668,076
Highways and streets	5,443,451	6,069,358	5,548,199	6,980,014	6,998,760	6,580,800	6,073,551	5,858,103	5,533,887	2,035,476
Interest on long-term debt	435,161	468,537	514,306	549,840	470,765	407,383	432,661	421,747	332,850	-
Total governmental activities	17,625,010	18,419,036	18,532,099	18,284,614	18,907,186	17,883,016	17,013,959	16,591,955	15,064,580	10,281,624
Business-type activity -										
Wastewater	4,992,855	4,914,640	5,021,711	5,784,920	5,788,994	5,639,417	5,373,761	5,492,687	4,802,493	4,754,392
Water	5,566,016	5,588,110	5,479,594	5,557,164	5,652,839	5,116,142	4,642,124	4,651,917	4,107,389	4,169,555
Electric	-	-	-	-	-	93,333,875	171,122,266	170,839,198	173,937,183	170,573,828
Total business-type activities	10,558,871	10,502,750	10,501,305	11,342,084	11,441,833	104,089,434	181,138,151	180,983,802	182,847,065	179,497,775
Total Expenses	\$ 28,183,881	\$ 28,921,786	\$ 29,033,404	\$ 29,626,698	\$ 30,349,019	\$ 121,972,450	\$ 198,152,110	\$ 197,575,757	\$ 197,911,645	\$ 189,779,399
Program Revenues										
Governmental activities:										
Charges for services										
General government	\$ 484,091	\$ 375,711	\$ 297,346	\$ 307,620	\$ 444,397	\$ 612,722	\$ 1,105,100	\$ 1,152,869	\$ 948,220	\$ 536,378
Airport	709,978	1,190,670	752,472	714,295	792,410	741,703	786,589	761,785	748,090	895,460
Culture and recreation	139,322	32,895	26,465	62,635	36,938	73,467	16,185	104,911	115,361	88,900
Public safety	421,800	511,539	486,579	477,764	627,543	718,489	820,536	636,445	486,543	634,509
Highways and streets	302,871	943,576	298,671	293,013	290,611	138,292	133,324	100,354	104,662	118,897
Operating grants and contributions	278,724	258,138	1,228,734	500,695	770,859	434,462	437,146	305,567	1,322,016	482,230
Capital grants and contributions	986,649	1,974,829	3,123,541	21,676,883	11,419,781	6,507,816	8,762,011	6,504,254	5,107,419	3,958,656
Total governmental activities	3,323,435	5,287,358	6,213,808	24,032,905	14,382,539	9,226,951	12,060,891	9,566,185	8,832,311	6,715,030
Business-type activity -										
Charges for services										
Wastewater	6,791,552	6,223,467	6,181,257	6,190,377	4,874,626	4,994,068	4,887,063	4,606,349	5,070,731	4,896,212
Water	7,434,803	6,732,455	6,767,730	7,128,762	6,955,464	6,931,420	7,285,457	6,733,075	5,867,423	6,047,833
Electric	-	-	-	-	-	79,743,915	156,136,085	176,380,149	174,922,542	168,109,691
Operating grants and contributions	-	1,989	45,623	104,527	-	-	-	21,771	17,198	7,802
Capital grants and contributions	428,094	43,543	172,287	307,195	527,998	1,133,629	1,525,949	1,533,013	626,837	500,865
Total business-type activity	14,654,449	13,001,454	13,166,897	13,730,861	12,358,088	92,803,032	169,834,554	189,274,357	186,504,731	179,562,403
Total program revenues	\$ 17,977,884	\$ 18,288,812	\$ 19,380,705	\$ 37,763,766	\$ 26,740,627	\$ 102,029,983	\$ 181,895,445	\$ 198,840,542	\$ 195,337,042	\$ 186,277,433
Net (expense)/revenue										
Governmental activities	\$ (14,301,575)	\$ (13,131,678)	\$ (12,318,291)	\$ 5,748,291	\$ (4,524,647)	\$ (8,656,065)	\$ (4,953,068)	\$ (7,025,770)	\$ (6,232,269)	\$ (3,566,594)
Business-type activity	4,095,578	2,498,704	2,665,592	2,388,777	916,255	(11,286,402)	(11,303,597)	8,290,555	3,657,666	64,628
Total net expense	\$ (10,205,997)	\$ (10,632,974)	\$ (9,652,699)	\$ 8,137,068	\$ (3,608,392)	\$ (19,942,467)	\$ (16,256,665)	\$ 1,264,785	\$ (2,574,603)	\$ (3,501,966)

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

Schedule I-2b

	Fiscal Year									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
General Revenues										
Governmental activities:										
Property taxes	\$ 7,205,147	\$ 7,443,904	\$ 7,519,701	\$ 7,455,530	\$ 6,951,966	\$ 6,659,364	\$ 6,111,968	\$ 5,248,764	\$ 5,002,890	\$ 4,869,878
Franchise taxes	2,285,109	2,112,940	2,032,875	1,897,175	1,884,227	1,925,103	1,781,794	1,666,103	1,544,092	1,334,441
911 excise tax	51,006	102,784	105,920	-	-	-	-	-	-	-
Motor fuel taxes	1,165,774	1,145,033	1,044,517	887,985	815,573	906,914	955,921	983,565	980,852	900,189
Alcoholic beverage taxes	284,182	268,841	250,378	241,280	255,551	238,360	217,772	216,961	193,935	187,509
Cigarette taxes	30,238	30,699	32,418	31,174	33,304	34,359	37,453	37,764	34,809	36,670
Transient room taxes	400,655	470,879	494,922	375,233	381,837	349,415	359,218	399,169	395,595	366,224
Miscellaneous taxes from other governments	183,829	177,232	163,365	159,682	165,415	158,907	142,365	141,698	122,945	119,484
Unrestricted investment earnings	178,996	227,402	385,363	482,757	504,718	968,114	706,203	434,838	244,315	185,039
Gain (loss) on sale of capital assets	(27,205)	750	30,435	-	350,266	288,583	368,809	150,396	270,334	(2,545)
Special and extraordinary items	-	-	-	(397,783)	-	899,194	-	-	-	-
Transfers in/out	285,180	238,653	379,138	8,236,517	2,536,530	212,550	(8,500)	789,132	352,569	252,830
Total general revenues, transfers, and special item	<u>12,042,911</u>	<u>12,219,117</u>	<u>12,439,032</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>	<u>9,142,336</u>	<u>8,249,719</u>
Business-type activity -										
Unrestricted investment earnings	95,196	80,863	60,273	494,734	1,220,586	6,710,258	4,699,423	3,916,544	2,785,989	2,739,844
Special and extraordinary items	-	-	-	-	-	39,047,754	-	-	-	-
Transfers in/out	(285,180)	(238,653)	(379,138)	(8,236,517)	(2,536,530)	(212,550)	8,500	(789,132)	(352,569)	(252,830)
Total business-type activities	<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>	<u>2,433,420</u>	<u>2,487,014</u>
Total primary government	<u>\$ 11,852,927</u>	<u>\$ 12,061,327</u>	<u>\$ 12,120,167</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>	<u>\$ 11,575,756</u>	<u>\$ 10,736,733</u>
Change in Net Assets										
Governmental activities	\$ (2,258,664)	\$ (912,561)	\$ 120,741	\$ 25,117,841	\$ 9,354,740	\$ 3,984,798	\$ 5,719,935	\$ 3,042,620	\$ 2,910,067	\$ 4,683,125
Business-type activity	3,905,594	2,340,914	2,346,727	(5,353,006)	(399,689)	34,259,060	(6,595,674)	11,417,967	6,091,086	2,551,642
Total Change in Net Assets	<u>\$ 1,646,930</u>	<u>\$ 1,428,353</u>	<u>\$ 2,467,468</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>	<u>\$ 9,001,153</u>	<u>\$ 7,234,767</u>

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

Schedule I-3

	Fiscal Year									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
General Fund										
Nonspendable	\$ 96,586	\$ 94,654	\$ 123,265							
Restricted	56,596									
Committed			954,280							
Assigned	49,638	521,743								
Unassigned	4,150,530	3,887,663	3,005,763							
Reserved				\$ 213,091	\$ 314,051	\$ 433,900				
Unreserved				3,266,208	3,091,150	3,166,075	\$ 4,213,632	\$ 3,684,637	\$ 3,480,394	\$ 2,718,348
Total general fund	<u>\$ 4,353,350</u>	<u>\$ 4,504,060</u>	<u>\$ 3,960,043</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>	<u>\$ 3,480,394</u>	<u>\$ 2,718,348</u>
All other governmental funds										
Nonspendable	91,110	75,919	\$ 91,818							
Restricted	2,201,094	3,432,013	5,060,742							
Committed			2,704,166							
Assigned	13,904,795	10,915,284	5,981,737							
Unassigned			(8,452)							
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	\$ 193,769	\$ 149,625
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	145,025	145,025
Outside Third Party Claims				5,873,283						
Perpetual care-Nonexpendable					436,100	430,446	406,469	398,750	417,818	410,870
Unreserved, reported in:										
Special revenue funds				3,540,839	3,963,066	5,040,643	4,998,025	4,929,325	4,252,298	4,584,862
Capital project funds				4,701,679	1,340,445	1,962,118	804,099	595,226	5,216	(4,226)
Debt service fund				448,480	363,854	350,471	1,029,218	972,281	937,978	599,642
Perpetual care-Expendable					2,014					
Total all other governmental funds	<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>	<u>\$ 5,952,104</u>	<u>\$ 5,885,798</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									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues										
Property taxes	\$ 7,211,003	\$ 7,507,727	\$ 7,387,533	\$ 7,340,106	\$ 6,819,648	\$ 6,526,160	\$ 6,184,818	\$ 5,396,974	\$ 5,041,709	\$ 4,406,707
Special assessments	97,227	2,479	6,387	10,350	7,942	30,541	42,166	156,287	45,413	110,919
Intergovernmental	3,158,117	5,629,518	6,886,229	22,573,756	13,577,485	6,912,621	9,582,481	8,020,987	8,062,222	5,980,270
Licenses, fees and permits	194,230	224,155	216,805	231,027	257,485	400,221	429,564	404,758	236,707	217,305
Franchise fees	2,293,767	2,120,371	2,040,041	1,905,227	1,896,824	1,940,380	1,812,114	1,694,587	1,570,000	1,348,891
Charges for services	4,933,476	5,123,653	5,260,072	5,114,039	5,349,311	4,951,836	5,035,000	4,797,951	3,570,448	3,423,225
Fines and forfeitures	432,056	471,487	441,085	464,037	573,498	642,191	694,081	544,560	546,025	582,367
Investment earnings	195,184	233,519	246,054	531,217	511,791	978,724	716,220	452,821	244,915	185,940
Miscellaneous	337,110	510,405	144,065	263,425	288,023	893,455	737,979	328,280	391,310	460,891
Total Revenues	\$ 18,852,170	\$ 21,823,314	\$ 22,628,271	\$ 38,433,184	\$ 29,282,007	\$ 23,276,129	\$ 25,234,423	\$ 21,797,205	\$ 19,708,749	\$ 16,716,515
Expenditures										
Current:										
General government	\$ 4,479,363	\$ 4,566,723	\$ 5,597,129	\$ 4,674,825	\$ 5,061,948	\$ 5,462,570	\$ 4,824,534	\$ 5,489,012	\$ 3,719,787	\$ 2,758,656
Airport	1,102,636	1,483,526	1,272,520	1,387,107	1,929,477	1,156,695	1,392,797	1,089,328	1,180,361	1,098,730
Culture and recreation	1,224,762	1,158,806	1,024,348	964,693	965,616	720,010	778,636	684,657	646,436	664,348
Public safety	6,202,304	6,270,405	6,523,042	6,072,095	6,069,531	5,871,247	5,568,272	5,040,205	4,604,567	4,632,812
Highways and streets	2,348,697	3,003,832	2,341,674	2,314,837	2,523,206	2,558,448	2,087,840	1,920,807	1,671,605	1,714,803
Debt service:										
Principal	1,078,192	1,246,208	1,679,938	1,097,091	1,063,693	1,018,380	1,181,185	887,702	570,394	863,487
Interest	454,509	465,352	542,702	603,483	451,763	435,932	438,399	442,938	202,217	192,453
Capital outlay:										
General government	98,237	1,243,738	427,806	609,577	1,461,962	475,013	320,689	257,422	1,186,350	4,589,875
Airport	487,536	204,245	1,772,448	19,655,722	12,165,551	2,219,716	2,303,642	3,446,344	3,406,017	3,665,193
Culture and recreation	224,123	343,890	401,250	192,133	528,296	404,824	721,112	209,856	170,978	204,659
Public safety	153,902	90,723	1,342,951	5,650,413	1,513,308	769,853	132,477	164,830	227,917	141,492
Highways and streets	283,734	1,537,863	2,325,970	3,932,092	566,050	3,155,222	5,828,300	2,988,717	2,189,779	638,345
Total Expenditures	18,137,995	21,615,311	25,251,778	47,154,068	34,300,401	24,247,910	25,577,883	22,621,818	19,776,408	21,164,853
Excess (Deficiency) of Revenues over Expenditures	714,175	208,003	(2,623,507)	(8,720,884)	(5,018,394)	(971,781)	(343,460)	(824,613)	(67,659)	(4,448,338)

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									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Other financing sources (uses)										
Transfers in	2,814,408	2,836,477	2,195,503	3,450,095	3,962,622	6,139,010	232,128	1,647,953	993,700	5,941,458
Transfers out	(2,529,228)	(2,597,824)	(1,805,028)	(3,089,424)	(695,379)	(5,926,460)	(240,628)	(772,953)	(289,500)	(5,688,628)
General long-term debt issued	600,000	350,017	105,500	1,022,228	9,135,000	810,000	1,150,000	1,541,000	191,811	4,791,089
Premium on general long-term debt issued					63,427					
Sale of general capital assets	23,718				403,548	4,810,025				
Insurance recoveries		217,283								
Total Other Financing Sources (Uses)	<u>908,898</u>	<u>805,953</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>	<u>896,011</u>	<u>5,043,919</u>
Net change in fund balances before special item	1,623,073	1,013,956	(2,127,532)	(7,337,985)	7,850,824	4,860,794	798,040	1,591,387	828,352	595,581
Special item				(408,837)						
Net change in fund balances	<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>	<u>\$ 828,352</u>	<u>\$ 595,581</u>
Debt service as a percentage of noncapital expenditures	9.07%	9.41%	11.71%	9.94%	8.39%	8.44%	9.95%	8.55%	6.13%	8.85%

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

Schedule I-5

Fiscal Year	Real Property		Personal Property		Less: Tax Exempt Real Property ²	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					
2013	\$ 1,240,906	\$ 2,022,265	\$ 52,113	\$ 52,113	\$ -	\$ 1,293,019	\$ 5.74	2,074,378	62.3%
2012	1,239,596	1,889,148	52,576	52,576	-	1,292,172	5.93	1,941,724	66.5
2011	1,220,364	2,142,820	57,007	57,007	-	1,277,371	6.01	2,199,827	58.1
2010	1,183,111	2,230,798	58,260	58,260	-	1,241,371	6.12	2,289,058	54.2
2009	1,148,385	2,312,186	51,686	51,686	-	1,200,071	6.02	2,363,872	50.8
2008	1,077,366	2,269,194	49,593	49,593	-	1,126,959	5.93	2,318,787	48.6
2007	981,487	1,869,889	44,217	44,217	-	1,025,704	5.79	1,914,106	53.6
2006	904,016	1,455,429	43,763	43,763	-	947,779	5.79	1,499,192	63.2
2005	874,389	1,347,376	40,244	40,244	-	914,633	5.75	1,387,620	65.9
2004	827,197	1,019,552	44,202	44,202	-	871,399	5.70	1,063,754	81.9

Source: Klamath County Assessors Office.

¹ Includes Downtown Urban Renewal District.

² Beginning in fiscal year 2000-2001, exempt Real Property no longer reported in County Summary of Amounts Received by Ad Valorem Taxing Districts.

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

Schedule I-6

Fiscal Year	City of Klamath Falls				Klamath County			School District	Other	Total
	Operating Millage	Capital Levy	Debt Service Millage	Total City Millage	Operating Millage	Debt Service Millage	Total County Millage	Operating Millage		
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
2005	5.51	0.24	-	5.75	1.39	0.48	1.87	4.21	3.35	15.18
2004	5.44	0.26	-	5.70	1.39	0.65	2.04	4.11	3.37	15.22

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, 2013
(amounts expressed in thousands)**

Schedule I-7

<u>Taxpayer</u>	<u>2013</u>			<u>2004</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	\$ 51,695	1	4.00%			
Wal Mart - Retail Department store	15,595	2	1.21			-
Argo K Falls LLC - Towncenter Commercial Site	14,177	3	1.10			-
Fred Meyer Stores, Inc. - Retail Department Store	13,786	4	1.07			-
Charter Communications - Telecommunications	12,515	5	0.97			
Pacificorp - Electric utility	11,833	6	0.92	8,021	4	0.92
Avista Corporation - Natural Gas Utility	11,566	7	0.89	6,703	7	0.77
Klamath Publishing, LLC	10,735	8	0.83			-
Aqua Glass Western, Inc. - Bathtub & Shower Manufacturing	9,348	9	0.72	13,044	2	1.50
Klamath Falls Partners LLC - Residential Development	9,283	10	0.72			
CenturyLink - Telecommunications			-	20,349	1	2.34
LXPll L.P. Land Development				10,133	3	1.16
Shilo Inn - Hotels & Suites			-	7,078	5	0.81
Electro Scientific Industries, Inc.			-	6,836	6	0.78
Klamath - Jefferson LLC - Shopping Center			-	6,097	8	0.70
Crystal Terrace Retirement Community LLC				5,529	9	0.63
Klamath 1st Federal Saving & Loan				5,142	10	0.59
	<u>\$ 160,533</u>		<u>12.57%</u>	<u>\$ 88,932</u>		<u>11.18%</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

<u>Fiscal Year Ended June 30</u>	<u>Total Tax Levy for Fiscal Year</u>	<u>Discounts, Adjustments, and Collections within the Fiscal Year of the Levy</u>			<u>Subsequent Years</u>		<u>Total Collections to Date</u>	
		<u>Discounts and Adjustments</u>	<u>Collections</u>	<u>Percentage of Levy</u>	<u>Adjustments</u>	<u>Collections</u>	<u>Amount</u>	<u>Percentage of Levy</u>
2013	\$ 7,405	\$ (192)	\$ 6,788	94.11%	\$ -	\$ -	\$ 6,788	94.11%
2012	7,658	(177)	6,955	92.97	(7)	252	7,207	96.43
2011	7,671	(197)	6,930	92.72	(23)	363	7,293	97.88
2010	7,599	(207)	6,869	92.92	(7)	429	7,298	98.82
2009	7,226	(348)	6,444	93.69	(12)	405	6,849	99.75
2008	6,683	(181)	6,138	94.40	(11)	344	6,482	99.86
2007	5,935	(149)	5,462	94.40	(10)	309	5,771	99.91
2006	5,487	(255)	4,912	93.88	110	430	5,342	100.00
2005	5,262	(276)	4,617	92.60	173	542	5,159	100.00
2004	4,965	(126)	4,407	91.07	27	459	4,866	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	Full Faith	SPWF	Capital	Revenue	Line of	Total
	Obligation Bonds	and Credit Bonds	& Other Loans	Leases	Bonds	Credit Loans	
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
2005	-	-	4,879	232	2,330	-	7,441
2004	-	-	4,843	322	2,655	-	7,820

Business-Type Activities								
Fiscal Year	General	Water	Water	Sewer	Sewer	Sewer	Electric	Total
	Obligation Bonds	SPWF Loans	Revenue Bonds	Revenue Bonds	SPWF Loans	Capital Leases	Revenue Bonds ²	
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
2005	1,285	840	6,181	10,820	330	181	318,240	337,877
2004	1,680	94	6,619	12,018	361	228	325,786	346,786

Fiscal Year	Total	Percentage	Per Capita ¹
	Primary Government	of Personal Income ¹	
2013	\$ 20,105	2.80%	935
2012	21,921	3.05%	1,021
2011	24,094	3.36%	1,141
2010	26,892	3.79%	1,285
2009	27,069	3.83%	1,271
2008	19,828	2.64%	931
2007	327,271	42.83%	15,555
2006	336,762	45.22%	16,253
2005	345,318	49.52%	16,927
2004	354,606	53.97%	17,537

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
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%	-
2005	-	-	-	0.00%	-
2004	-	-	-	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, 2013
(amounts expressed in thousands)

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Schedule I-11</u> <u>Estimated Share of Overlapping Debt</u>
Klamath Community College	\$ 5,980	26.64%	\$ 1,593
Klamath County Fire District 1	1,510	45.48%	687
Klamath City School District	4,412	7.27%	<u>321</u>
Subtotal, overlapping debt			2,601
City of Klamath Falls direct debt ¹			<u>8,885</u>
Total direct and overlapping debt			<u><u>\$ 11,486</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 \$4,026 general obligation, \$3,340 full faith and credit, and \$1,519 in other governmental activities debt.

City of Klamath Falls, Oregon
Legal Debt Margin Information
June 30, 2013
(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
2013	\$ 1,293,019	62.33%	\$ 2,074,378
2012	1,292,172	66.55%	1,941,724
2011	1,277,371	58.07%	2,199,827
2010	1,241,371	54.23%	2,289,058
2009	1,200,071	50.77%	2,363,872
Total Five Years Valuation			\$ 10,868,859
Five Year Average Full Valuation of Taxable Real Property			\$ 2,173,772
Constitutional Debt Limit (3% of total assessed value)			\$ 38,791
Outstanding General Obligation Indebtedness as of June 30, 2013			
Governmental Activities - General Obligation Debt			\$ 8,720
Governmental Activities - Short-term Debt - Current Portion of Lines of Credit			\$ 145
Net Indebtedness subject to debt limit			8,865
Net debt contracting margin			\$ 29,926
Percentage of net debt contracting margin available			77.15%
Percentage of net debt contracting power exhausted			22.85%

Last Ten Fiscal Years

Fiscal Year	Constitutional Debt Limit	Outstanding Indebtedness June 30	Percentage of Net Debt Contracting Margin Available
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%
2005	27,491	2,330	91.52%
2004	24,829	2,655	89.31%

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

Schedule I-13

Sewer Revenue Bonds

Fiscal Year	Sewer Charges and Other	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2013	\$ 6,762	\$ 3,586	\$ 3,176	\$ 550	\$ 338	3.58
2012	6,265	3,445	2,820	530	359	3.17
2011	6,215	3,510	2,705	505	387	3.03
2010	6,117	3,551	2,566	385	387	3.32
2009	4,944	3,531	1,413	390	427	1.73
2008	5,146	3,427	1,719	375	445	2.10
2007	5,492	3,216	2,276	355	851	1.89
2006	5,150	3,379	1,771	445	874	1.34
2005	5,042	2,780	2,262	425	622	2.16
2004	4,867	2,545	2,322	405	683	2.13

Water Revenue Bonds

Fiscal Year	Water Charges and Other	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2013	\$ 7,225	\$ 3,979	\$ 3,246	\$ 655	\$ 115	4.22
2012	6,463	3,992	2,471	625	147	3.20
2011	6,439	3,830	2,609	595	164	3.44
2010	6,983	3,722	3,261	575	188	4.27
2009	6,848	3,987	2,861	555	212	3.73
2008	6,968	3,577	3,391	995	290	2.64
2007	7,559	3,206	4,353	964	333	3.36
2006	6,933	3,062	3,871	913	554	2.64
2005	6,077	2,722	3,355	855	570	2.35
2004	6,165	2,729	3,436	820	418	2.78

Airport Revenue Bonds

Fiscal Year	Airport Charges and Other	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
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
2007	1,814	1,393	421	85	60	2.90
2006	1,498	1,089	409	80	64	2.84
2005	1,554	1,180	374	75	68	2.62
2004	1,596	1,099	497	75	71	3.40

Electric Revenue Bonds ¹

Fiscal Year	Electric Charges and Other	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2013						
2012						
2011						
2010						
2009						
2008	85,599	28,524	57,075	20,300	21,973	1.35
2007	159,643	140,919	18,724	8,500	21,200	0.63
2006	176,380	139,578	36,802	8,000	21,783	1.24
2005	174,923	142,303	32,620	7,600	22,187	1.10
2004	168,110	142,534	25,576	6,700	22,009	0.89

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 ³	County Per Capita Personal Income ²	County Personal Income ² (amounts expressed in thousands)	County Education Level in Years of Formal Schooling ⁴	City Public School Enrollment ⁵	County Unemployment Rate ²
2013	21,495	33.6	Unavailable	Unavailable	Unavailable	3,302	10.9%
2012	21,465	33.6	Unavailable	726,278	12.6	3,271	11.5%
2011	21,120	33.6	29,961	717,737	12.5	3,341	12.9%
2010	20,925	33.6	29,149	709,321	12.4	3,397	13.4%
2009	21,305	33.4	29,387	705,944	12.5	3,942	12.1%
2008	21,305	33.4	29,395	750,880	12.5	4,065	7.5%
2007	21,040	33.4	28,625	764,084	12.5	3,991	6.7%
2006	20,720	33.4	27,570	744,721	12.5	3,854	7.2%
2005	20,400	33.4	26,302	697,291	12.4	3,730	8.4%
2004	20,220	33.4	25,809	657,055		3,766	9.9%

Data Sources:

¹ Portland State University, Population Research Center

² Oregon State Employment Division, Labor Market Information System. Data available for Klamath County, not City of Klamath Falls

³ U.S. Census Bureau

⁴ U.S. Census Bureau, American Fact Finder. Data available for Klamath County, not City of Klamath Falls (2005 was the first year geographic areas with a population less than 250,000 were surveyed)

⁵ Oregon Department of Education

**City of Klamath Falls
Klamath County, Oregon
Principal Employers
Current Year and Seven Years Prior ¹**

Schedule I-15

Employer	2013			2006		
	Employees ²	Rank	Percentage of Total County Employment	Employees ²	Rank	Percentage of Total County Employment
Sky Lakes Medical Center	1127	1	4.24%	1038	2	3.71%
Jeld-Wen Inc. Wood Products	1006	2	3.79%	1500	1	5.36%
Klamath County School District	732	3	2.76%	850	3	3.04%
N.E.W. Customer Service Companies	680	4	2.56%	650	5	2.32%
Kingsley Field Oregon Air National Guard	562	5	2.12%	725	4	2.59%
Klamath County	484	6	1.82%	510	6	1.82%
Wal-Mart	427	7	1.61%	400	9	1.43%
Klamath Falls City Schools	421	8	1.59%	500	7	1.79%
Oregon Institute of Technology	322	9	1.21%	321	11	1.15%
Columbia Forest Products	255	10	0.96%	430	8	1.54%
Collins Company	212	11	0.80%	335	10	1.20%

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

² Numbers of employees furnished by employer.

**City of Klamath Falls
Klamath County, Oregon
Covered Nonfarm Employment (Not Seasonally Adjusted)
Current Year and Nine Years Prior**

Schedule I-16

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Employment	2013			2004		
	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
Trade, transportation, and utilities	4,390	1	19.77%	4,033	1	18.15%
Educational and health services	3,070	2	13.82%	2,646	3	11.91%
Local government (including local education)	3,070	3	13.82%	3,042	2	13.69%
Leisure and hospitality	2,700	4	12.16%	2,471	5	11.12%
Professional and business services	2,230	5	10.04%	1,510	6	6.80%
Manufacturing (including wood products)	1,820	6	8.19%	2,482	4	11.17%
State government	1,480	7	6.66%	842	11	3.79%
Federal government	940	8	4.23%	948	10	4.27%
Financial activities	750	9	3.38%	1,201	7	5.41%
Construction	720	10	3.24%	1,008	9	4.54%
Other services	710	11	3.20%	742	12	3.34%
Information	180	12	0.81%	268	13	1.21%
Mining and Logging	150	13	0.68%	1025	8	4.61%
Total Nonfarm Employment	22,210		100.00%	22,218		100.00%

Source: Oregon Employment Department

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

Schedule I-17

Function	Full-time Equivalent Employees as of June 30									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
General Government										
Manager	3.75	4.50	4.50	4.50	4.50	4.50	4.50	4.50	3.50	3.50
Legal	1.75	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Finance	7.00	7.00	8.00	8.00	7.00	7.00	7.50	8.00	8.00	7.00
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	2.00	2.00	2.00	2.00	2.00	2.00
Public Works Engineering	6.50	7.50	7.50	7.50	9.50	9.50	9.50	8.50	9.00	10.50
Public Works Administration	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Maintenance ¹	10.00	10.00	10.00	10.00	11.00	11.00	11.00	11.00	8.50	8.50
Community Development										
Planning	4.67	4.92	6.17	6.17	6.17	6.17	6.17	6.17	4.67	4.67
Culture and Recreation ³	8.25	8.25	8.00	6.00	5.65	5.65	5.65	5.65	6.15	5.50
Cemetery ³	-	-	-	2.00	3.35	3.35	3.35	3.35	3.35	3.50
Off-street Parking	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Airport	6.00	6.00	6.00	6.00	6.00	6.00	5.00	5.00	5.00	5.00
Public Safety										
Police	41.00	42.00	45.00	45.00	43.00	45.00	45.00	43.00	44.00	45.00
Municipal Court	3.25	3.00	3.25	3.25	3.50	3.50	3.50	3.00	3.50	3.50
Code enforcement	2.33	2.33	3.33	3.33	3.33	3.33	2.33	2.33	2.33	2.33
Highways and streets										
Streets	10.00	10.00	11.00	11.00	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
Street Lighting ²	-	-	-	-	-	-	-	-	2.50	2.50
Water	21.10	22.10	22.85	22.85	24.85	23.85	22.83	22.83	21.75	21.75
Geothermal	0.75	0.75	0.50	0.50						
Wastewater	16.65	17.65	17.90	17.90	18.15	18.15	17.67	16.67	16.75	16.75
Total	153.00	158.00	166.00	166.00	168.00	169.00	166.00	162.00	161.00	162.00

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

¹ The street lighting staff were moved to the maintenance department in 2006.

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-18

Function	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Police										
Police department personnel	41	42	45	45	43	45	45	43	44	45
Physical arrests	2,423	2,362	1,687	2,184	2,323	2,197	2,315	2,060	2,006	1,956
Parking violations	2,632	2,222	2,506	2,572	2,888	1,999	3,448	2,272	2,300	2,841
Traffic violations	2,691	2,999	2,146	2,432	2,999	3,422	3,680	2,323	2,649	3,550
Airport										
Takeoffs and landings	38,095	41,617	36,270	25,796	31,363	34,036	38,885	48,587	50,269	43,999
Passengers enplaned	14,254	17,376	20,486	21,893	23,588	29,626	27,398	28,426	28,444	27,351
Total passengers	27,950	35,409	41,284	43,693	47,059	59,131	57,548	56,700	57,162	54,640
Highways and streets										
Street resurfacing (feet)	4,135	8,200	8,151	40,400	7,920	2,800	5,166	1,200	930	
Potholes (tons of asphalt)	27	42	38	27	85	20	286	114	53	42
Culture and recreation										
Park reservations	94	87	64	57	143	209	343	135	148	83
Municipal pool admissions ²	12,881									
Water										
New connections	36	24	26	32	20	112	244	363	69	15,350
Total connections	16,020	16,240	16,216	16,190	16,158	16,138	16,026	15,782	15,419	15,350
Average daily production (thousands of gallons)	6,790	6,700	6,400	7,800	8,500	7,600	8,558	7,800	8,100	7,200
Wastewater										
New connections	25	18	9	15	14	57	53	8	18	7,219
Total connections	7,668	7,411	7,393	7,384	7,369	7,355	7,298	7,245	7,237	7,219
Average daily sewage treatment (thousands of gallons)	2,963	3,080	2,820	2,970	3,267	3,575	4,280	3,880	3,650	3,840
Average daily reclaimed water produced (thousands of gallons) ¹	2,280	2,340	3,120	2,825	2,542	2,677	2,990	1,680	2,200	2,160

Source: Various city departments.

¹ Reclaimed water (effluent) was provided to the Klamath Cogeneration project beginning in 2001.

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

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

Schedule I-19

Function	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Public Safety										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol Units	37	33	32	37	32	33	33	36	31	32
Airport										
Miles of runways & taxiways	8.25	8.25	8.25	8.25	8.25	8	8	8	8	8
Highways and streets										
Streets (lane miles) ¹	302	302	302	301	245	245	245	227	227	227
Streetlights	3,104	3,080	3,052	3,047	3,003	2,983	2,981	2,857	2,794	2,792
Traffic signals	31	31	31	31	30	30	30	28	22	21
Culture and recreation										
Park acreage										
Developed	119	119	119	119	119	119	119	85	85	85
Natural areas	514	514	514	514	514	514	514	542	542	542
Undeveloped	50	50	50	50	20	20	20	20	20	20
Parks	23	23	23	23	23	23	23	23	23	23
Tennis courts	3	3	3	3	3	6	7	7	7	7
Playground equipment areas	8	8	8	8	8	8	8	7	7	7
Cemetery										
Developed acres ²	18	18	18	18	32	32	32	32	32	32
Undeveloped acres ²	0	0	0	0	20	20	20	20	20	20
Water										
Water mains (miles)	240	240	239	239	237	236	233	231	228	227
Fire hydrants	1,176	1,093	1,089	1,084	1,080	1,065	1,036	979	957	951
Maximum daily capacity (thousands of gallons)	13,204	13,700	13,800	16,135	18,184	17,940	16,287	16,300	15,800	16,800
Wastewater										
Sanitary sewer (miles)	155	156	156	155	140	130	129	127	127	127
Storm sewers (miles)	40	40	40	40	40	33	32	30	30	30
Manholes	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	3,000	3,900	3,900	3,900	3,900

Source: Various city departments.

¹ Lane miles calculated in 2004 road survey for GASB 34 asset additions.

² In November 2009 Klamath Memorial Park Cemetery was sold

**City of Klamath Falls, Oregon
Top Ten Water & Wastewater Customers
Fiscal Year Ended June 30, 2013**

Schedule I-20

<u>Water Customers</u>	<u>Billed</u>	<u>Percent of Total Customer Charges</u>
City of Klamath Falls	\$ 253,083	3.71 %
Klamath County	99,756	1.46
Jeld-Wen	86,392	1.27
Sky Lakes Medical Center	70,737	1.04
Klamath County School District	65,684	0.96
Kingsley Field (Oregon Air National Guard Base)	57,585	0.85
Klamath Falls City Schools	43,025	0.63
Klamath Co-Gen	37,552	0.55
Emerald Estates	34,735	0.51
Madison Village	<u>24,138</u>	<u>0.35</u>
 Total Top Ten	 \$ <u>772,687</u>	 <u>11.34 %</u>
 Total Billed Fiscal Year 12/13	 \$ <u>6,812,530</u>	

<u>Wastewater Customers</u>	<u>Billed</u>	<u>Percent of Total Customer Charges</u>
Klamath Co-Gen	\$ 605,671	9.14 %
Sky Lakes Medical Center	217,543	3.28
Running Y Ranch Resort Inc.	203,835	3.08
OIT (Oregon Institute of Technology)	146,673	2.21
Falcon Heights Condo	106,141	1.60
Klamath County	104,824	1.58
Klamath Falls City Schools	69,462	1.05
Kingsley Field	67,501	1.02
Helga Mouchawar	46,683	0.70
City of Klamath Falls	<u>37,411</u>	<u>0.56</u>
 Total Top Ten	 \$ <u>1,605,744</u>	 <u>24.22 %</u>
 Total Billed Fiscal Year 12/13	 \$ <u>6,628,653</u>	

Total Water Service Connections (8,478 inside City; 7,542 outside City)	<u>16,020</u>
Total Wastewater Service Connections. (all inside city limits)	<u>7,668</u>

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**GOVERNMENT AUDITING
STANDARDS SECTION**

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Certified Public Accountants

Report on Compliance and on Internal Control over Financial Reporting based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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 City of Klamath Falls, Oregon as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise City of Klamath Falls, Oregon's basic financial statements, and have issued our report thereon dated December 6, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Klamath Falls, Oregon'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 City of Klamath Falls, Oregon's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Klamath Falls, Oregon's internal control.

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

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

Compliance and Other Matters

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

We noted certain matters that we have reported to management of the City of Klamath Falls, Oregon, in a separate letter dated December 6, 2013.

Restriction on Use

This report is intended solely for the information of management, City Council, others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Molatore, Scroggin, Peterson & Co. LLP



Andrew E. Peterson

Klamath Falls, Oregon
December 6, 2013

SINGLE AUDIT SECTION

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Certified Public Accountants

Report on Compliance with Requirements Applicable to each Major Program and on Internal Control over Compliance in Accordance with *OMB Circular A-133*

City Council
City of Klamath Falls, Oregon
Klamath Falls, Oregon

Compliance

We have audited the compliance of the City of Klamath Falls, Oregon with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013. The City of Klamath Falls, Oregon's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the entity's management.

Auditor's Responsibility

Our responsibility is to express an opinion on the City of Klamath Falls, Oregon's compliance based on our audit.

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 U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and Circular A-133 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 a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Klamath Falls, Oregon's 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. Our audit does not provide a legal determination on the City of Klamath Falls, Oregon's compliance with those requirements.

Opinion

In our opinion, the City of Klamath Falls, Oregon complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2013.

Internal Control over Compliance

The management of the City of Klamath Falls, Oregon is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Klamath Falls, Oregon's internal control over compliance with requirements that could have a direct and material effect on a major federal program as a basis for designing our compliance auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with Circular A-133, 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 the City of Klamath Falls, Oregon's internal control over compliance.

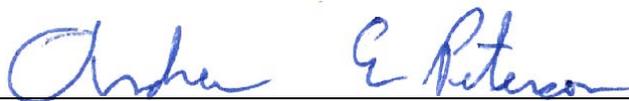
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement 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 material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Restricted Use

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Molatore, Scroggin, Peterson & Co. LLP



Andrew E. Peterson

Klamath Falls, Oregon
December 6, 2013

City of Klamath Falls, Oregon
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Section I: Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Are any material weaknesses identified?	___ Yes	__X__ No
Are any significant deficiencies identified not considered to be material weaknesses?	___ Yes	__X__ None Reported
Is any noncompliance material to financial statements noted?	___ Yes	__X__ No

Federal Awards

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

Internal control over major program compliance:

Are any material weaknesses identified?	___ Yes	__X__ No
Are any significant deficiencies identified not considered to be material weaknesses?	___ Yes	__X__ None Reported
Are any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget Circular A-133, <i>Audits of State, Local Governments, and Non-Profit Organizations</i> , Section .510(a)?	___ Yes	__X__ No

Identification of major programs:

CFDA Number(s)	and Name of Federal Program or Cluster
20.106	U.S. Department of Transportation: Airport Improvement Program
66.202	Environmental Protection Agency: Congressionally Mandated Projects, Cooperative Agreements

Enter the dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000
Is the auditee qualified as a low-risk auditee?	X Yes No

Section II: Financial Statement Findings

No material weaknesses relating to the audit of the basic financial statements were noted.

Section III: Federal Awards Findings

No material weaknesses relating to the audit of the major federal awards programs were noted. No instances of noncompliance were found during the audit of major Federal Award Programs.

CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Number	Federal Expenditures	Cash Basis Receipts
U.S. Department of Agriculture Forest Service Schools and Roads Cluster Pass-through program from County: Schools and Roads - Grants to States Sub-Total Schools and Roads Cluster	10.665	ORS 293.560	\$ <u>258,395</u> <u>258,395</u>	\$ <u>517,597</u> <u>517,597</u>
U.S. Department of the Interior Direct Program Partners for Fish and Wildlife	15.631	Direct	10,910	10,910
U.S. Department of Justice Direct Program Bulletproof Vest Partnership Program	16.607	Direct	4,256	
Direct Program Public Safety Partnership and Community Policing Grants, Recovery Act	16.710	Direct	58,176	72,720
JAG Program Cluster Direct program: Edward Byrne Memorial Justice Assistance Grant Program Sub-Total JAG Program Cluster	16.738	Direct	<u>6,351</u> <u>6,351</u>	<u>6,351</u> <u>6,351</u>
U.S. Department of Transportation Direct program: Airport Improvement Program	* 20.106	Direct	425,412	393,467
Highway Planning and Construction Cluster Pass-through program from State of Oregon Highway Planning and Construction Sub-Total Highway Planning and Construction Cluster	20.205	25390	<u>74,247</u> <u>74,247</u>	<u>74,247</u> <u>74,247</u>
Environmental Protection Agency Direct program: Congressionally Mandated Projects, Cooperative Agreements	* 66.202	Direct	343,217	343,217
U.S. Department of Energy Pass-through program from State of Oregon Energy Efficiency and Conservation Block Grant Program, Recovery Act	81.128	10-1509	6,948	223,768
Total Expenditures of Federal Awards			<u>\$ 1,187,912</u>	<u>\$ 1,642,277</u>

* Major Programs

Note: Expenditures on this schedule are prepared on the accrual basis of accounting. Receipts are reported on the cash basis.

**PASSENGER FACILITY CHARGES
AUDIT SECTION**

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Certified Public Accountants

Report on Compliance with Requirements Applicable to the Passenger Facility Charge Program and on Internal Control over Compliance

Independent Auditor's Report

City Council
City of Klamath Falls, Oregon
Klamath Falls, Oregon

Compliance

We have audited the compliance of City of Klamath Falls, Oregon with the compliance requirements described in the *Passenger Facility Charge Audit Guide For Public Agencies*, issued by the Federal Aviation Administration (Guide), that are applicable to its passenger facility charge program for the year ended June 30, 2013.

Management's Responsibility

Compliance with the requirements of laws, regulations, contracts and grants applicable to its passenger facility charge program is the responsibility of the entity's management.

Auditor's Responsibility

Our responsibility is to express an opinion on City of Klamath Falls, Oregon's compliance with the applicable compliance requirements based on our compliance audit.

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 Guide. Those standards and the 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. A compliance audit includes examining, on a test basis, evidence about City of Klamath Falls, Oregon's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our compliance audit provides a reasonable basis for our opinion. Our compliance audit does not provide a legal determination on City of Klamath Falls, Oregon's compliance with those requirements.

Opinion

In our opinion, City of Klamath Falls, Oregon complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended June 30, 2013.

Internal Control Over Compliance

The management of the City of Klamath Falls, Oregon is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to the passenger facility charge program. In planning and performing our compliance audit, we considered City of Klamath Falls, Oregon's internal control over compliance with requirements that could have a direct and material effect on the passenger facility charge program in order to determine our compliance auditing procedures for the purpose of expressing our opinion on compliance, 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, Oregon's 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 the passenger facility charge 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.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the entity's internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Restricted Use

This report is intended solely for the information and use of management, City Council, others within the entity, and the Federal Aviation Administration and is not intended to be and should not be used by anyone other than these specified parties. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Klamath Falls, Oregon's compliance with requirements described in the *Passenger Facility Charge Audit Guide For Public Agencies*, issued by the Federal Aviation Administration, that are applicable to its passenger facility charge program for the year ended June 30, 2013. Accordingly, this report is not suitable for any other purpose.

Molatore, Scroggin, Peterson & Co. LLP



Andrew E. Peterson

Klamath Falls, Oregon
December 6, 2013

CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF PASSENGER FACILITY CHARGES
COLLECTED, HELD AND USED
For the Year Ended June 30, 2013

12-03-C-00-LMT 03-001 Terminal Enhancements				
Quarter ending:	September 30, 2012	December 31, 2012	March 31, 2013	June 30, 2013
Unexpended PFC's and Interest, Beginning of Period	-	-	-	-
Add:				
PFC Receipts	13,801	15,288	17,104	8,572
Interest Earned				
Total	13,801	15,288	17,104	8,572
Expenses/Expenditures	13,801	15,288	17,104	8,572
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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824 Pine Street
Klamath Falls, OR 97601
(541) 884-4164
Fax: (541) 883-1232

Certified Public Accountants

Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Oregon Minimum Standards*

City Council
City of Klamath Falls, Oregon
Klamath Falls, Oregon

We have audited the basic financial statements of the City of Klamath Falls, Oregon as of and for the year ended June 30, 2013, and have issued our report thereon dated December 6, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Klamath Falls, Oregon'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 over. Accordingly, we do not express an opinion on the effectiveness of the City of Klamath Falls, Oregon's internal control over.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grants including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules OAR 162-10-0000 to 162-10-0330, as set forth below, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

- The accounting records and related internal control structure.
- The use of various depositories to secure the deposit of public funds.
- The requirements relating to debt.
- The requirements relating to the preparation, adoption and execution of the annual budgets for fiscal years 2013 and 2014.
- The requirements relating to insurance and fidelity bond coverage.
- The appropriate laws, rules and regulations pertaining to programs funded wholly or partially by other government agencies.
- The requirements pertaining to the use of revenue from taxes on motor vehicle use fuel funds.

-
- The requirements pertaining to the investment of public funds.
 - The requirements pertaining to the awarding of public contracts and the construction of public improvements.

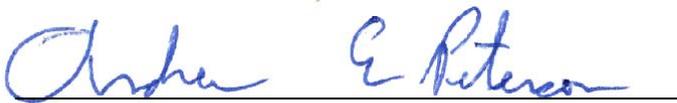
However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State.

We noted certain other matters that we reported to management of the City of Klamath Falls, Oregon, in a separate letter dated December 6, 2013.

Restriction on Use

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

Molatore, Scroggin, Peterson & Co. LLP



Andrew E. Peterson, Partner

Klamath Falls, Oregon
December 6, 2013

BOND COMPLIANCE

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Certified Public Accountants

Report on the 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

Independent Auditor's Report

City Council
City of Klamath Falls, Oregon
Klamath Falls, Oregon

Compliance

We have examined the compliance of City of Klamath Falls, Oregon 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 for the year ended June 30, 2013. Management is responsible for City of Klamath Falls, Oregon's compliance with those requirements. Our responsibility is to express an opinion on City of Klamath Falls, Oregon's compliance based on our audit.

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 City of Klamath Falls, Oregon's 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 City of Klamath Falls, Oregon's compliance with specified requirements.

In our opinion, City of Klamath Falls, Oregon complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2013.

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

Molatore, Scroggin, Peterson & Co. LLP

Andrew E. Peterson

Klamath Falls, Oregon
December 6, 2013

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, 2013

Gross Revenues			
Operating revenues		\$	7,015,797
Other revenues			
Interest earned on investments	\$	38,453	
Miscellaneous revenue		174,455	
Less: SDC improvement fees		(4,151)	208,757
Total Gross Revenues			7,224,554
Total operating expense		5,191,119	
Less: depreciation and amortization expense		(1,212,559)	3,978,560
Net Revenues			3,245,994

Water Fund debt service for the fiscal year ended June 30, 2013:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2001 Water Revenue Refunding Bonds	\$ 655,000	\$ 115,281	\$ 770,281	
Total	<u>\$ 655,000</u>	<u>\$ 115,281</u>	770,281	<u>770,281</u>
1.25 Compliance				4.21
Net Revenue after senior debt				2,475,713
Annual Subordinate Obligations				
SPWF Loan	\$ 30,294	\$ 32,804	\$ 63,098	
Total	<u>\$ 30,294</u>	<u>\$ 32,804</u>	63,098	63,098
1.10 Compliance				39.24

On January 1, 2013 the city increased water rates by 2.0% in accordance with the National (U.S. City Average) CPI-U. These rates were in effect from January 1 through June 30, 2013 of the current fiscal year.

The Water Fund net revenues exceeded the annual debt service on bonds computed in compliance with provisions of the Bond Documents for the year ended June 30, 2013. 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, 2013

Gross Revenues			
Operating revenues		\$	6,634,850
Other revenues			
Interest earned on investments	\$	54,663	
Miscellaneous revenue		156,760	
Less: SDC improvement fees		<u>(83,853)</u>	<u>127,570</u>
Total Gross Revenues			6,762,420
Total operating expense		4,650,514	
Less: depreciation and amortization expense		<u>(1,065,006)</u>	<u>3,585,508</u>
Net Revenues			3,176,912

Wastewater Fund debt service for the fiscal year ended June 30, 2013:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2005 Wastewater Revenue Refunding	<u>550,000</u>	<u>337,825</u>	<u>887,825</u>	
Total	<u>\$ 550,000</u>	<u>\$ 337,825</u>	887,825	<u>887,825</u>
1.25 Compliance			3.58	
Net Revenue after senior debt				2,289,087
SPWF Loan	<u>\$ 50,310</u>	<u>\$ 3,084</u>	<u>\$ 53,394</u>	
Annual Subordinate Obligations	<u>\$ 50,310</u>	<u>\$ 3,084</u>	\$ 53,394	53,394
1.10 Compliance			42.87	

The City increased wastewater rates on January 1, 2013 by 2.0% in accordance with the National (U.S. City Average) CPI-U. These rates were in effect from January 1 through June 30, 2013 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, 2013. 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, 2013

Gross Revenues			
Property taxes (including delinquent)	\$	522,070	
Charges for services		638,833	
Intergovernmental		300,491	
Interest earned on investments		11,881	
Miscellaneous revenues		8,469	
Total Gross Revenues			\$ 1,481,744
Less total net operating expenditures			(1,080,180)
Net Revenues			401,564

Airport Fund debt service for the fiscal year ended June 30, 2013:

	Principal	Interest	Total	
1996 Airport Revenue Bonds	\$ 120,000	\$ 28,325	\$ 148,325	
Interfund Loan	25,000	16,188	41,188	
	\$ 145,000	\$ 44,513		\$ 189,513

1.00 Compliance

2.12

The Airport Fund net revenues for the fiscal year ended June 30, 2013 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.