

**KLAMATH FALLS
URBAN RENEWAL AGENCY**

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

FINANCIAL STATEMENTS

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

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KLAMATH FALLS URBAN RENEWAL AGENCY
 FINANCIAL STATEMENTS
 June 30, 2013

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INTRODUCTORY SECTION

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

Appointed Directors

		<u>Time in Position</u>	<u>Length of Employment</u>
Support Services Director	Sue Kirby	1 mos.	3 yrs. 8 mos.
Community Development Director	Sandra Fox	7 yrs. 10 mos.	14 yrs. 10 mos.

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INDEPENDENT AUDITOR'S REPORT

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A0613-51403-1

Certified Public Accountants

Independent Auditors' Report

Board of Directors
Klamath Falls Urban Renewal Agency
Klamath Falls, Oregon

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, and each major fund of the Klamath Falls Urban Renewal Agency, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Klamath Falls Urban Renewal Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Klamath Falls Urban Renewal Agency'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, and each major fund of the Klamath Falls Urban Renewal Agency, as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 15–20 and 46–48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Klamath Falls Urban Renewal Agency's basic financial statements. The other supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary schedules 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated December 6, 2013 on our consideration of the Klamath Falls Urban Renewal Agency'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 Klamath Falls Urban Renewal Agency (the Agency), a component unit of the City of Klamath Falls (City), we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal years ended June 30, 2013 and June 30, 2012. The analysis focuses on significant financial issues, major financial activities, and resulting changes in financial position, budget changes and variances from the budget and specific issues related to funds and the economic factors affecting the Agency, composed of three urban renewal districts, downtown, lakefront and town center.

Financial Highlights

- The assets of the Agency exceeded its liabilities at the close of the most recent fiscal year by \$2,240,251 (*net position*). The amount restricted for urban renewal capital projects and debt service was \$995,775 and restricted inventory was \$22,543. Unrestricted net position, related to outstanding debt, was (\$1,104,365.)
- The Agency's total net position increased by \$689,012 due to a slowdown in capital projects.
- At the close of the current fiscal year, the Agency's three governmental funds reported combined fund balances of \$790,275, an increase of \$528,826 in comparison with the prior year. Approximately 97% of this amount (\$767,732) is restricted for urban renewal capital projects and debt service.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

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

The Agency is principally supported by property taxes. The purpose of an urban renewal is to improve specific areas of a city that are poorly developed or underdeveloped. These areas can have old deteriorated buildings and bad streets and utilities or the areas can lack streets and utilities altogether.

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

The government-wide financial statements can be found on pages 23-24 of this report.

Fund Financial Statements

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

Governmental Funds

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

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

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

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

The basic governmental fund financial statements can be found on pages 25-26 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 30-43 of this report.

Other Supplementary Schedules – A schedule with pertinent property tax information can be found on page 51 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the Agency, assets exceeded liabilities by \$2,240,251, at the close of the most recent fiscal year.

Klamath Falls Urban Renewal Agency's Net Position

	2013	2012
Current and other assets	1,023,170	405,700
Capital assets	2,326,298	2,453,416
Total assets	3,349,468	2,859,116
Long-term liabilities outstanding	958,913	1,104,458
Other liabilities	150,304	203,419
Total liabilities	1,109,217	1,307,877
Net position:		
Net investment in capital assets		
Restricted	1,018,318	314,344
Unrestricted	(1,104,365)	(1,216,521)
Total net position	2,240,251	1,551,239

The largest portion of the Agency's net position reflects its investment in capital assets (e.g., land, construction in progress, buildings and system, and infrastructure), less any related outstanding debt that was used to acquire those assets. The only assets kept in the districts are in the downtown urban renewal district. The capital assets built or acquired in the lakefront and town center urban renewals were either contributed to the City or remained property of the developer. Therefore, as the downtown urban renewal did not have any outstanding debt in the current year, capital assets equals net investment in capital assets.

At the end of the current fiscal year, the Agency is able to report positive balances in all reported categories of net position except for unrestricted net position. The lakefront and town center urban renewal districts have outstanding debt of \$1,104,365 and the only assets are cash, property taxes receivable and interest receivable for a total of \$125,173 in those funds. This causes a deficit that will continue unless a new development agreement is created for town center or new development begins in lakefront. Until then, the only transactions in the districts involve receiving property taxes and paying the outstanding debt. The same held true for the prior fiscal year. The Agency chose to report restricted and unrestricted amounts separately to benefit the reader. See note 3.I for more information.

Klamath Falls Urban Renewal Agency's Changes in Net Position

	2013	2012
Revenues:		
Program revenues		
Charges for services	71,350	65,901
General revenues:		
Property taxes	896,608	1,038,819
Loss on capital asset	(27,205)	(367,849)
Other	14,286	10,817
Total revenues	955,039	747,688
Expenses:		
General government		
Interest on long-term debt	56,550	78,112
Total expenses	266,027	291,829
Increase (decrease) in net position	689,012	455,859
Net position - beginning	1,551,239	1,095,380
Net position - ending	2,240,251	1,551,239

The Agency's overall net position increased \$689,012 from the prior fiscal year. Downtown urban renewal district was expected to end in the current year, but only spent \$84,609 of the \$785,400 budgeted for capital projects. In addition, there is no current activity in lakefront and town center, so the property taxes that come in simply pay off outstanding debt.

Financial Analysis of the Government's Funds

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

Governmental funds

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

At June 30, 2013, the Agency's governmental funds reported combined fund balances of \$790,275, an increase of \$528,826 in comparison with the prior year. Because the Agency is comprised of urban renewal districts, there are legal restrictions on how the funds are spent. Unlike other local governments that have *unassigned fund balance*, which is available for spending at the government's discretion, the most important aspect of the Agency is how much is restricted for capital projects and debt service within the districts. Restricted fund balance for the Agency for the current year was \$767,732. The remaining was nonspendable as it related to inventory.

Budgetary Highlights

Original budget compared to final budget

During the year there two supplemental budgets that affected many line items of the downtown urban renewal fund budget. Property taxes were reduced by \$140,000 based on tax estimates received from Klamath County, other financing source (debt issuance) was reduced by \$17,425 to more accurately reflect the funding needed for capital outlay, materials & services was increased by \$30,000 to cover a consultant fee to renew the district (it was not ultimately renewed), capital outlay was increased by \$80,675 to complete projects that were budgeted in the prior year and debt service was reduced by \$157,425 to reflect the amount available for payment based on tax revenue.

Final budget compared to actual results

Downtown urban renewal fund: The most significant variance in the fund was in capital outlay. The district only spent \$84,609 of the \$785,400 budgeted for capital outlay. The Agency hopes to complete the projects in fiscal year 2014.

Lakefront urban renewal fund: No significant variances.

Town center urban renewal fund: Materials & services came in significantly less than expected. Knowing there was a new owner of the property, the Agency budgeted the remaining projects under the Urban Renewal Plan. The Agency was unable to reach a development agreement with the owners in order to complete the projects. The Agency is working toward an agreement in the current year.

Capital Asset and Debt Administration

Capital assets

The Agency's investment in capital assets as of June 30, 2013, amounts to \$2,326,298 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and system, and infrastructure. The total decrease in capital assets for the current fiscal year was approximately 5.2% due to depreciation expense and selling capital assets.

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

	2013	2012
Land	261,167	294,179
Construction in progress	84,609	51,194
Buildings & system	1,699,692	1,818,600
Infrastructure	280,830	289,443
Total	2,326,298	2,453,416

The only major capital asset acquisition during the fiscal year was the purchase of 200 Main St. for \$61,225.

Additional information on the Agency's capital assets can be found in note 3 on page 39 of this report.

Long-term debt

At the end of the current fiscal year, the Agency had outstanding debt totaling \$1,104,366. Of this amount, \$46,175 is a line of credit with Washington Federal and \$1,058,191 is a loan with Washington Federal to be paid back over ten years.

The Agency's total debt decreased by \$199,133 (15.3%) during the current fiscal year. The Agency issued \$600,000 additional debt and repaid \$799,133.

Additional information on the Agency's long-term debt can be found in note 3, pages 40-41.

Economic Factors

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

The downtown urban renewal fund is nearing completion and is expected to reach its maximum indebtedness in fiscal year 2014. Needing fewer property tax dollars, the Agency only requested \$90,000 of the special levy from the County for fiscal year 2014. Final projects include street scape and a façade program to increase the beauty of downtown, new parking lots which include building acquisition and demolition, parking lot improvements, creating a plaza in front of the local theater, and refurbishing the historic Balsiger building.

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

The new property owners in the town center urban renewal district have been talking to the City about future development and are interested in signing an agreement to complete the necessary projects under the Urban Renewal Plan. They recently went before Council to request a sign variance in order to improve the signage in the area which was approved.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

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KLAMATH FALLS URBAN RENEWAL AGENCY
STATEMENT OF NET POSITION
June 30, 2013

	Governmental Activities
ASSETS	
Current Assets:	
Taxes receivable	\$ 127,413
Interest receivable	26,899
Loans receivable	96,282
Inventories	22,544
Temporarily restricted assets	
Cash and cash equivalents	750,032
Total Current Assets	1,023,170
Noncurrent Assets:	
Capital assets (net of accumulated depreciation)	
Land	261,167
Construction in progress	84,609
Buildings and system	1,699,692
Infrastructure	280,830
Total Noncurrent Assets	2,326,298
Total Assets	3,349,468
LIABILITIES	
Current Liabilities:	
Accounts payable	4,526
Unearned revenue	325
Current Liabilities (payable from restricted assets):	
Leases / loans payable	145,453
Total Current Liabilities	150,304
Noncurrent Liabilities:	
Leases / Loans payable	958,913
Total Noncurrent Liabilities	958,913
Total Liabilities	1,109,217
NET POSITION	
Net investment in capital assets	2,326,298
Restricted for capital and debt service	995,775
Restricted inventory	22,543
Unrestricted	(1,104,365)
Total Net Position	\$ 2,240,251

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

KLAMATH FALLS URBAN RENEWAL AGENCY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
General government	\$ 209,477	\$ 71,350	\$	\$ (138,127)
Interest on long-term debt	56,550			(56,550)
Total Government Activities	\$ 266,027	\$ 71,350	\$ -	\$ (194,677)

General Revenues:

Property taxes	896,608
Unrestricted investment earnings	14,286
Loss on capital asset	(27,205)
Total General Revenues	883,689
 Change in Net Position	 689,012
 Net Position - Beginning	 1,551,239
 Net Position - Ending	 \$ 2,240,251

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

KLAMATH FALLS URBAN RENEWAL AGENCY
BALANCE SHEET
GOVERNMENT FUNDS
June 30, 2013

	Downtown Urban Renewal Fund	Lakefront Urban Renewal Fund	Town Center Urban Renewal Fund	Total Governmental Funds
ASSETS				
Receivables				
Accounts	\$	\$	\$	\$ -
Taxes	89,712	14,463	23,238	127,413
Loans	96,282			96,282
Interest	18,410	3,157	5,332	26,899
Inventories	22,543			22,543
Temporarily restricted assets				
Cash and cash equivalents	671,048	49,428	29,555	750,031
Total Assets	\$ 897,995	\$ 67,048	\$ 58,125	\$ 1,023,168
LIABILITIES				
Liabilities:				
Accounts payable	\$ 4,526	\$	\$	\$ 4,526
Unearned revenue	325			325
Total Liabilities	4,851	-	-	4,851
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	92,654	15,014	24,092	131,760
Unavailable revenue - loans receivable	96,282			96,282
Total Deferred Inflows of Resources	188,936	15,014	24,092	228,042
Total Liabilities and Deferred Inflows of Resources	193,787	15,014	24,092	232,893
FUND BALANCES				
Nonspendable	22,543			22,543
Restricted	681,665	52,034	34,033	767,732
Total Fund Balances	704,208	52,034	34,033	790,275
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 897,995	\$ 67,048	\$ 58,125	
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.				2,326,298
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.				228,042
Long-term liabilities, including notes payable, are not due and payable in the current period and therefore not reported in the funds.				(1,104,364)
Net position of governmental activities				\$ 2,240,251

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

KLAMATH FALLS URBAN RENEWAL AGENCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013

	Downtown Urban Renewal Fund	Lakefront Urban Renewal Fund	Town Center Urban Renewal Fund	Total Governmental Funds
Revenues				
Taxes	\$ 613,453	\$ 113,179	\$ 178,089	\$ 904,721
Charges for services	71,327			71,327
Investment income	11,327	1,124	1,835	14,286
Miscellaneous revenues	23			23
Total Revenues	<u>696,130</u>	<u>114,303</u>	<u>179,924</u>	<u>990,334</u>
Expenditures				
Current:				
General government	144,714	121	121	144,956
Capital outlay:				
General government	84,609			84,609
Highways and streets				-
Debt service:				
Principal	600,000	78,825	120,309	799,134
Interest	1,029	4,256	51,265	56,550
Total Expenditures	<u>830,352</u>	<u>83,202</u>	<u>171,695</u>	<u>1,085,249</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(134,222)</u>	<u>31,101</u>	<u>8,229</u>	<u>(94,915)</u>
Other Financing Sources (Uses)				
Proceeds from sale of asset	23,718			
Issuance of debt	600,000			600,000
Total Other Financing Sources and Uses	<u>623,718</u>			<u>623,718</u>
Net Change in Fund Balances	<u>489,496</u>	<u>31,101</u>	<u>8,229</u>	<u>528,826</u>
Fund Balances - Beginning	214,712	20,933	25,804	261,449
Fund Balances - Ending	<u>\$ 704,208</u>	<u>\$ 52,034</u>	<u>\$ 34,033</u>	<u>\$ 790,275</u>

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

KLAMATH FALLS URBAN RENEWAL AGENCY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

Amounts reported for governmental activities in the statement of activities (page 4) are different because:

Net change in fund balances - total governmental funds (page 6)	\$	528,826
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.		11,192
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to decrease net assets.		(40,310)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(9,831)
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.		199,135
		199,135
Change in net position of governmental activities (page 4)	\$	689,012

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

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NOTES TO THE FINANCIAL STATEMENTS

KLAMATH FALLS URBAN RENEWAL AGENCY
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 activities of the primary Agency and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

B. Reporting entity

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

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

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

C. Basis of presentation – government-wide financial statements

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

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

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

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

There is no interfund activity among the Agency.

KLAMATH FALLS URBAN RENEWAL AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of presentation – fund financial statements

Fund financial statements display information at the individual fund level. Each fund is considered to be a separate accounting entity. Funds are classified and summarized as governmental, proprietary and fiduciary activities. Currently the Agency has only governmental fund types.

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

The Agency reports the following major governmental funds:

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

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

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

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

E. Measurement focus and basis of accounting

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

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

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

KLAMATH FALLS URBAN RENEWAL AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Budgetary information

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

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

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

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

1. Cash and cash equivalents

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

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

2. Investments

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

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 Agency's expected net write-offs for the

KLAMATH FALLS URBAN RENEWAL AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

next year based upon past history. No allowance for uncollectibles has been provided for property taxes as the Agency 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 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, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), and are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Agency as assets with an initial, individual cost of more than \$5,000 and an estimated useful life extending beyond a single reporting period. The Agency reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

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

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

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

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

KLAMATH FALLS URBAN RENEWAL AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7. *Deferred outflows/inflows of resources*

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

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

8. *Long-term obligations*

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

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

9. *Net position flow assumption*

Sometimes the Agency will fund outlays for a particular purpose from both restricted (e.g, restricted debt payments) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide 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 Agency's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

10. *Fund balance flow assumptions*

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

KLAMATH FALLS URBAN RENEWAL AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

11. Fund balance policies

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the 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 Agency through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Finance Director per the Finance Policy adopted by Council with Resolution 11-28.
- Unassigned includes positive fund balance which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.
- The Agency assumes funds are spent in the following order when amounts in more than one classification are available for a particular purpose: restricted, committed, assigned, and unassigned.

H. Revenues and expenditures/expenses

1. Property taxes

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

I. Use of Estimates

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

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*

KLAMATH FALLS URBAN RENEWAL AGENCY
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2013

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

funds and net position – governmental-activities as reported in the government-wide statement of net position.

One element of the reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore are not reported in the fund.” The details of this \$2,326,298 difference are as follows:

Cost of capital assets	\$ 2,623,247
Accumulated depreciation	<u>(296,949)</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	<u>\$ 2,326,298</u>

Another element of the reconciliation explains that “other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.” The detail of this \$228,042 difference is as follows:

Property taxes	\$ 131,760
Loans receivables	<u>96,282</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	<u>\$ 228,042</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 \$(1,104,364) difference are as follows:

Notes payable	<u>\$(1,104,364)</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net position – governmental activities</i>	<u>\$(1,104,364)</u>

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

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

One element of the reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of these assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$11,192 difference are as follows:

KLAMATH FALLS URBAN RENEWAL AGENCY
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2013

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

(continued)

Capital outlay	\$ 84,609
Depreciation expense	<u>(73,417)</u>

Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ 11,192</u>
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Another element of that reconciliation states that “The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net position.” The details of this \$(40,310) 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.	<u>\$ (40,310)</u>
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Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i> .	<u>\$ (40,310)</u>
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Another element of that reconciliation states that “revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds”. The detail of this \$(9,831) difference is as follows:

Property taxes	\$ (8,113)
Loans receivable	<u>(1,718)</u>

Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ (9,831)</u>
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The final element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effects of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.” The details of this \$199,135 difference are as follows:

Debt issued or incurred:	
Issuance of notes payable	\$ (600,000)
Principal repayments:	
Notes payable repayments	<u>799,134</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ 199,135</u>

KLAMATH FALLS URBAN RENEWAL AGENCY
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2013

NOTE 3 –DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash, cash equivalents and investments

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

Deposits with financial institutions	\$	4,209
Investments:		
Oregon State Treasurer’s Local Investment Pool		745,823
	\$	750,032

Deposits with financial institutions. In the case of deposits, this is the risk that in the event of a bank failure, the Agency’s deposits may not be returned to it. The Agency’s deposit policy is in accordance with ORS 295. All deposits are collateralized with eligible securities in amounts determined by the Office of the State Treasurer (OST). The Agency’s deposit policy requires that all deposits are covered by the Federal Deposit Insurance Corporation (FDIC), and/or are collateralized as required by compliance with ORS 295. As of June 30, 2013 the Agency’s deposits were fully insured.

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

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

The Agency’s investment portfolio as of June 30, 2013 is representative of the types of investments made throughout the year. The Agency’s investments in the state treasurer’s investment pool are unrated. Investments in the LGIP are included in the Oregon Short-Term Fund, which is not registered with the U.S. Securities and Exchange Commission as an investment company. The fair value of the LGIP is the same amount as the value of the pool shares. Investments in the Short-Term Fund are governed by ORS 294.135, Oregon Investment Council, and portfolio guidelines issued by the Oregon Short-Term Fund Board.

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

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

B. Lease receivables

The Agency leases land and buildings under non-cancelable operating leases to other parties. The cost of the leased asset was \$1,031,638 and the carrying value was \$900,837. Payments received in the current year were \$71,250.

KLAMATH FALLS URBAN RENEWAL AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

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

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

2014	<u>\$ 71,228</u>
Total	<u>\$ 71,228</u>

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

C. Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 294,179	\$	\$ (33,012)	\$ 261,167
Construction in progress	51,194	84,609	(51,194)	84,609
	<u>345,373</u>	<u>84,609</u>	<u>(84,206)</u>	<u>345,776</u>
Total capital assets, not being depreciated				
Capital assets, being depreciated:				
Buildings	2,000,896		(54,410)	1,946,486
Infrastructure	330,985			330,985
	<u>2,331,881</u>	<u>-</u>	<u>(54,410)</u>	<u>2,277,471</u>
Total capital assets being depreciated				
Less accumulated depreciation for:				
Buildings	(182,297)	(64,803)	306	(246,794)
Infrastructure	(41,542)	(8,613)		(50,155)
	<u>(223,839)</u>	<u>(73,416)</u>	<u>306</u>	<u>(296,949)</u>
Total accumulated depreciation				
Total capital assets being depreciated,	<u>2,118,833</u>	<u>(73,416)</u>	<u>(54,104)</u>	<u>1,980,522</u>
Governmental activities capital assets, net	<u>\$ 2,464,206</u>	<u>\$ 11,193</u>	<u>\$ (138,310)</u>	<u>\$ 2,326,298</u>

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

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

D. Construction and other significant commitments

The Agency has an active construction contract for the downtown bench refurbishing project as of June 30, 2013. At year-end the Agency's contract commitment was \$7,800 with no cost to date.

KLAMATH FALLS URBAN RENEWAL AGENCY
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2013

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

E. Risk management

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

F. Long-Term Liabilities

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

Washington Federal – Lakefront Urban Renewal

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

Washington Federal – Town Center Urban Renewal

The Agency has pledged future tax increment revenues to repay a \$1,178,500 loan with Washington Federal (formerly South Valley Bank & Trust) as of July 26, 2012. The original loan funds of \$1.825 million from 2009 were used to finance improvements to the Town Center Urban Renewal District. The loan is termed out over ten years with annual payments of \$143,535. The loan includes a variable interest of prime plus .875% (currently 4.125%) based on the lender’s Prim Rate (the “Index”) which will not change more than daily. The Agency uses 100% of the increment property taxes to pay the loan. For the current year, principal and interest paid and total incremental property tax revenues were \$171,574 and \$178,089, respectively. Total principal and interest remaining on the loan at June 30, 2013 is \$1,291,620.

Long-term liability activity for the year ended June 30, 2013:

Governmental Activities Notes Payable

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Due Within One Year
WaFed - Lakefront Urban Renewal	125,000		78,825	46,175	46,175
WaFed - Town Center Urban Renewal	1,178,500		120,309	1,058,191	99,278
Total notes payable	1,303,500	-	199,134	1,104,366	145,453

KLAMATH FALLS URBAN RENEWAL AGENCY
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2013

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

Long-term Liabilities

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

	2014	2015	2016	2017	2018	2019-2023	Total
WaFed - Lakefront Urban Renewal							
Principal	\$ 46,175						\$ 46,175
Interest	433						433
WaFed - Town Center Urban Renewal							
Principal	\$ 99,278	\$ 103,430	\$ 107,756	\$ 112,177	\$ 116,955	\$ 518,594	\$ 1,058,190
Interest	44,257	40,105	35,779	31,358	26,580	55,351	233,430
Total Long-term Liabilities	<u>\$ 190,143</u>	<u>\$ 143,535</u>	<u>\$ 143,535</u>	<u>\$ 143,535</u>	<u>\$ 143,535</u>	<u>\$ 573,945</u>	<u>\$ 1,338,228</u>

G. Short-term Debt

Washington Federal – Downtown Urban Renewal

The government has pledged future tax increment revenues to repay a renewable loan (similar to a line of credit) of \$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:

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

KLAMATH FALLS URBAN RENEWAL AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

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

H. Related party transactions

Transactions with the Agency for the year ended June 30, 2013 are as follows:

Expenses:

Wastewater charges	\$ 488
Water charges	1,033
Street lighting charges	48
Administrative service charge	58,977
Maintenance service charge	411
Total Expenses	<u>\$ 60,957</u>

I. Net Position

Unrestricted net position is negative due to outstanding long term debt. When unrestricted net position is negative it should be netted against restricted net position, however, in the Statement of Net Position the Agency feels it is more useful to the reader to list the restricted portion separately.

NOTE 4 – CONTINGENT LIABILITIES

Amounts received or receivable from grant 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 Agency expects such amounts, if any, to be immaterial.

NOTE 5 – SUBSEQUENT EVENTS

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 6 – NEW PRONOUNCEMENTS

The Agency 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 Agency's financial statements.

The Agency 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 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 Agency 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 period 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.

KLAMATH FALLS URBAN RENEWAL AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

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

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

The Agency 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 2015. This Statement improves accounting and financial reporting by state and local governments for pensions.

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

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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 A-1

	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

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

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 A-2

	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 & 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

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

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

Schedule A-3

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 182,750	\$ 182,750	\$ 178,089	\$ (4,661)
Investment income	1,050	1,050	1,835	785
Total Revenues	<u>183,800</u>	<u>183,800</u>	<u>179,924</u>	<u>(3,876)</u>
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	<u>19,250</u>	<u>19,250</u>		<u>19,250</u>
Total Expenditures	<u>932,650</u>	<u>932,650</u>	<u>171,695</u>	<u>760,955</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(748,850)	(748,850)	8,229	757,079
Other Financing Sources (Uses)				
Issuance of debt	<u>725,000</u>	<u>725,000</u>	-	<u>725,000</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	(23,850)	(23,850)	8,229	32,079
Fund Balance - Beginning	<u>23,850</u>	<u>23,850</u>	<u>25,804</u>	<u>1,954</u>
Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,033</u>	<u>\$ 34,033</u>

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

OTHER SUPPLEMENTARY SCHEDULE

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KLAMATH FALLS URBAN RENEWAL AGENCY
SCHEDULE OF PROPERTY TAX TRANSACTIONS
For the Year Ended June 30, 2013

Schedule B-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	\$ 923,063	\$ (24,156)	\$ 846,196	\$ 52,711	\$ 442
Prior years					
2011-12	68,283	(990)	35,229	32,064	1,514
2010-11	34,064	(927)	10,976	22,161	1,537
2009-10	22,869	(835)	9,527	12,507	2,166
2008-09	9,975	(182)	7,327	2,466	2,053
2007-08	1,910	(126)	392	1,392	167
2006-07	963	(92)	208	663	102
2005-06 and Prior	3,874	(101)	324	3,449	291
Total - Prior Years	141,938	(3,253)	63,983	74,702	7,830
Total	<u>\$ 1,065,001</u>	<u>\$ (27,409)</u>	<u>\$ 910,179</u>	<u>\$ 127,413</u>	<u>\$ 8,272</u>

Summary by Fund

Downtown Urban Renewal Fund	89,711
Lakefront Urban Renewal Fund	14,464
Town Center Urban Renewal Fund	23,238
Total	<u>\$ 127,413</u>

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GOVERNMENT AUDITING STANDARDS SECTION

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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 *Government Auditing Standards***

Board of Directors
Klamath Falls Urban Renewal Agency
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 Klamath Falls Urban Renewal Agency as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise Klamath Falls Urban Renewal Agency'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 Klamath Falls Urban Renewal Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Klamath Falls Urban Renewal Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of Klamath Falls Urban Renewal Agency'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

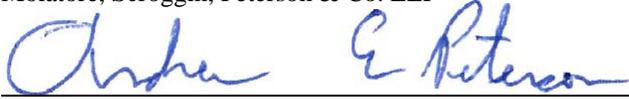
As part of obtaining reasonable assurance about whether Klamath Falls Urban Renewal Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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 Klamath Falls Urban Renewal Agency, 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

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

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Certified Public Accountants

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

Board of Directors
Klamath Falls Urban Renewal Agency
Klamath Falls, Oregon

We have audited, 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, the financial statements of Klamath Falls Urban Renewal Agency as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise Klamath Falls Urban Renewal Agency'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 Klamath Falls Urban Renewal Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Klamath Falls Urban Renewal Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of Klamath Falls Urban Renewal Agency'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 Klamath Falls Urban Renewal Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants including 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 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 or other matters that are required to be reported under Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State.

We noted certain matters that we have reported to management of the Klamath Falls Urban Renewal Agency, 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