

**City of Klamath Falls
Oregon**

**Comprehensive
Annual
Financial
Report**

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

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

CITY OF KLAMATH FALLS, OREGON
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 June 30, 2014

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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



January 30, 2015

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. The City was granted a one month extension by the State of Oregon to submit the report. This report is published to fulfill that requirement for the fiscal year ended June 30, 2014.

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

Merina & Co., LLP, a firm of licensed certified public accountants, has issued an unmodified (clean) opinion on the City's financial statements for the year ended June 30, 2014. The independent auditor's report is located at the front of the financial section of this report.

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

Profile of the government

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

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

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

The City of Klamath Falls has a permanent tax rate of \$5.4423 per \$1,000 of assessed valuation. Property values increased at a 3% per year level until the current recession when they began to fall off. This revised value is called the real value and taxes are assessed on the real value. The City is subject to compression, which limits the combined total of all taxes assessed on a property to \$10 per \$1,000 as established by Ballot Measure 5, which was passed in 1990. In addition, the Downtown Urban Renewal receives taxes that would otherwise go to the City and other taxing districts. The City's actual tax revenues therefore do not equal the \$5.4423 permanent tax rate. The rate received in fiscal year 2014 was approximately \$4.8548 per \$1,000 of assessed value. The City of Klamath Falls collected about \$403,702 less in property taxes, including delinquent taxes, during the 2014 fiscal year than it did in 2013.

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

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

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

Local economy

Although economic growth for the City of Klamath Falls is slowly recovering, it is not recovering as quickly as other cities in the nation. The base economic elements of the City of Klamath Falls are agriculture, transportation, tourism, manufacturing, wood products, medical, military and other services. The progressive nature of planned economic development reflects a continued effort to diversify these elements. 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. At June 30, 2014 the rate was approximately 9.7 percent, 3.6 percent higher than the national average.

The City's median household income was \$31,990 (per 2013 census data), which was also lower than the state's median of \$50,229 at that time. In addition, the average home value was \$139,500 vs. the state's average of \$238,000.

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.

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. In December 2014 it was determined that more changes would be required to remain sustainable. The Community Development department was dissolved and the divisions within that department were absorbed by Support Services, Public Works and the Police Department.

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

During fiscal year 2014 the Airport lost commercial air service and subsequently the Airport Director retired in October of 2014. A new director is being recruited with a focus on airport tenant relations, economic development and the re-establishment of commercial air service. The Airport continues with the regulatory approval process for construction of Taxiway J and for the successful establishment of the Modoc Wetland Mitigation Site. Several new businesses have been established on the airport (AirLink and Precision Helicopters) and the Airport will continue to work with several existing tenants on new business models that may attract new activity to the airport.

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

over the next ten years. The City owes the developer an additional \$2.48 million for work done in prior years.

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

The downtown urban renewal district is slowly coming to an end. The district reached maximum indebtedness during fiscal year 2014 and no more taxes will be assessed or given to the district. Delinquent taxes associated with the district will be redistributed to the City and other taxing districts. The district has until fiscal year 2016 to complete projects and exhaust all funds. Any remaining funds must be given back to Klamath County for redistribution and the City will be responsible for incomplete projects.

The Street division completed the grind and overlay of Oregon Avenue, between Upham Street and Siskiyou Street, Biehn Street, and between Oregon Avenue and Lake Port Boulevard. They also completed the chip seal of North Biehn Street and Campus Drive and the overlay of Hillside Avenue between Crater Lake Parkway to the end. The bigger issue still facing the Street division is the lack of funding and amount of deferred maintenance. As a result, City and County staff are continuing to explore areas of potential consolidation or partnering road/street departments and looking into other maintenance methods to cut costs. This research will be on going.

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

The 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 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 once confronted with the Total Maximum Daily Loads that will be part of our new permit. The first phase of the study showed the potential for significant savings so the City and South Suburban Sanitary have embarked on phase II of the study which will look at governance options and the impact to rates for both entities. This second phase should be completed in the spring of 2015. 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 has installed approximately 8,400 radios on the water meters and expects to install an additional 8,000 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 38-39 of the MD&A.

After reviewing feasibility studies on the possibility of forming a Municipal Utility District, the City Council tabled the matter in January of 2014.

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 with Councils approval invested \$6 million in investments with higher interest rates and with maturities lasting longer than 18 months.

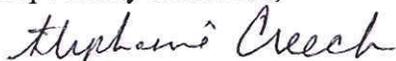
Awards and Acknowledgements

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, 2013. This was the twenty-second year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

Respectfully submitted,



Stephanie Creech, Finance Officer

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Government Finance Officers Association

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

Presented to

**City of Klamath Falls
Oregon**

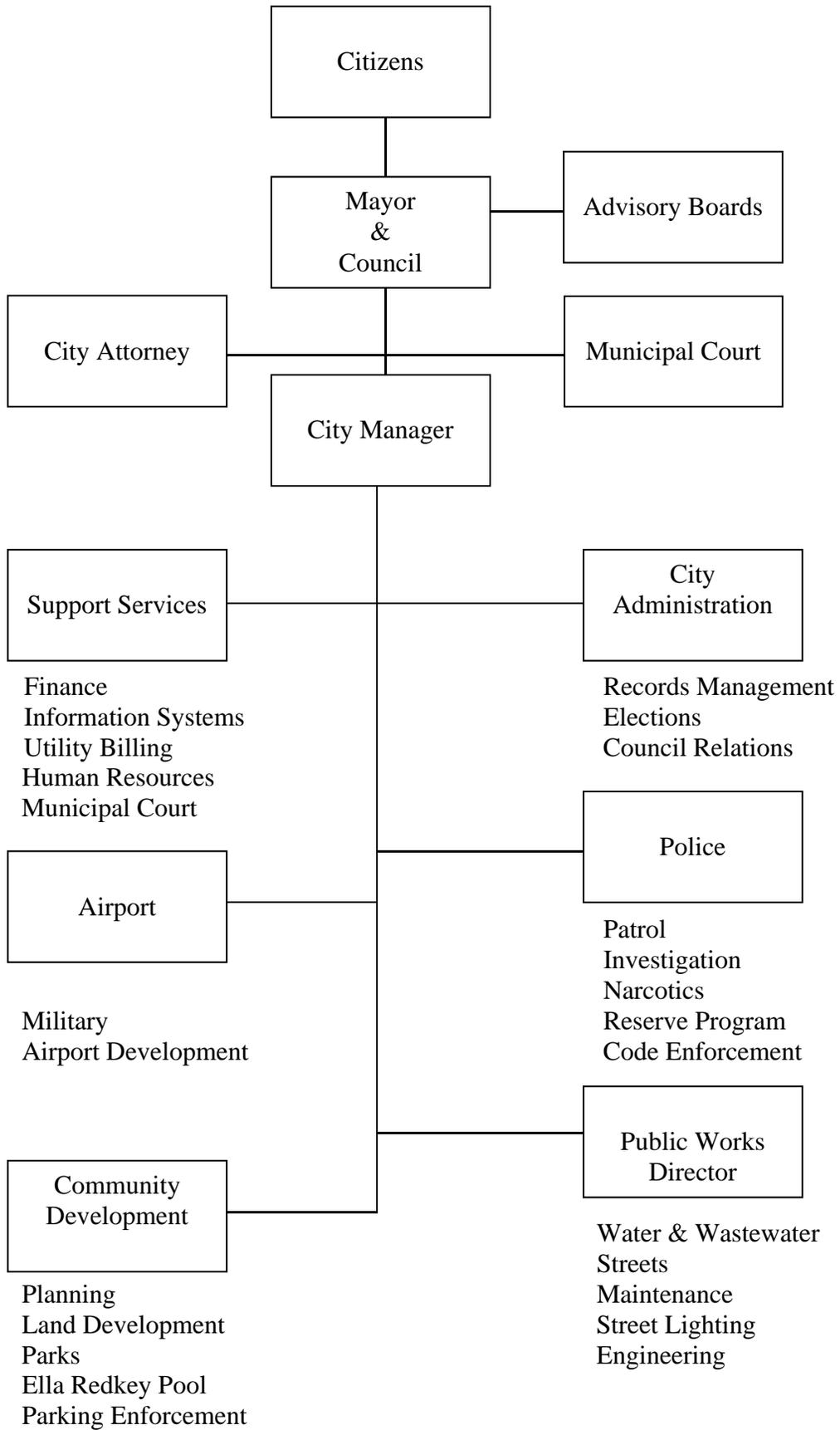
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

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, 2014

Elected Officials

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

Appointed Officials

		<u>Time in Position</u>	<u>Length of Employment</u>
City Manager	Nathan Cherpeski	1 yr. 5 mos.	1 yr. 5 mos.
City Attorney	Joanna Lyons-Antley	4 yrs. 3 mos.	4 yrs. 3 mos.
Municipal Court Judge	Jim Uerlings	29 yrs. 9 mos.	29 yrs. 9 mos.

Appointed Directors

		<u>Time in Position</u>	<u>Length of Employment</u>
Airport Director (retired)	John Longley	3 yrs. 10 mos.	3 yrs. 10 mos.
Support Services Director	Sue Kirby	1 yr. 1 mos.	4 yrs. 8 mos.
Community Development Director	Sandra Fox	8 yrs. 10 mos.	15 yrs. 10 mos.
Police Chief	James Hunter	8 yrs. 5 mos.	24 yrs. 9 mos.
Public Works Director	Mark Willrett	8 yrs. 3 mos.	15 yrs. 10 mos.
City Recorder	Elisa Olson	27 yrs. 9 mos.	28 yrs. 9 mos.

FINANCIAL SECTION

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**REPORT OF
INDEPENDENT AUDITORS**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Klamath Falls, Oregon, as of and for the year ended June 30, 2014, 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

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, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 8 to the financial statements, the City of Klamath Falls, Oregon adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to management's discussion and analysis and to the schedule of funding progress, as listed in the table of contents under required supplementary information, in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The budget and actual statements, as listed in the table of contents under required supplementary information, is the responsibility of management and was derived from and relate directly to the

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Klamath Falls' basic financial statements. The introductory section, other supplementary information, schedule of expenditures of federal awards, schedule of passenger facility charges collected, held and used, schedule of compliance with the rate covenants of the water revenue refunding bonds, series 2001, schedule of compliance with the rate covenants of the wastewater revenues refunding bonds, series 2005, schedule of compliance with gross revenue covenant of the airport revenue bonds, series 1996, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The other supplementary information, schedule of expenditures of federal awards, schedule of passenger facility charges collected, held and used, schedule of compliance with the rate covenants of the water revenue refunding bonds, series 2001, schedule of compliance with the rate covenants of the wastewater revenues refunding bonds series 2005, and schedule of compliance with gross revenue covenant of the airport revenue bonds, series 1996, as listed in the table of contents, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Reports on Other Legal and Regulatory Requirements

Other Reporting Required by Government Auditing Standards

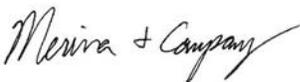
In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2015 on our consideration of the City of Klamath Falls' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is issued separately and is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Klamath Falls' internal control over financial reporting and compliance.

Other Reporting Required by Oregon Minimum Standards

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have also issued our report dated January 30, 2015, on our consideration of the City of Klamath Falls' compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

Other Reporting Required by Rate and Revenue Covenants

In accordance 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, we have also issued our report dated January 30, 2015, on our consideration of the City of Klamath Falls' compliance with those requirements. The purpose of that report is to express an opinion on the compliance with those requirements, in all material respects and does not provide a legal determination on the City of Klamath Falls' compliance with specified requirements.



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

MANAGEMENT DISCUSSION AND ANALYSIS

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Management's Discussion and Analysis

As management of the City of Klamath Falls (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal years ended June 30, 2014 and June 30, 2013. 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 \$204,402,181 (*net position*). Of this amount, \$31,057,447 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 \$1,322,558 due to increases in wastewater and water funds offset by decreases in other funds. This includes a restatement in net position due to the implementation of GASB 65 and prior period adjustments described in the notes to the financial statements.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$20,674,956, an increase of \$124,607 in comparison with the prior year. Approximately 17.7% of this amount (\$3,656,602) 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 \$4,492,945, or approximately 42.9% of total general fund expenditures.
- The City's total outstanding long-term debt increased by \$1,173,646 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 44-47 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 fifteen individual governmental funds (plus three funds for the Klamath Falls Urban Renewal Agency). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, airport fund, lakefront urban renewal fund and street fund, which are considered to be major funds. The airport fund accounts for the operation of the Crater Lake Klamath Regional Airport and receives property taxes, rental revenue, landing fees, and FAA grants. The lakefront urban renewal fund accounts for capital projects and receipts from the property tax increment for property located along the Timbermill Shores subdivision of Lake Ewauna. The street fund accounts for the operations, maintenance and repairs and capital improvements to the City's street system. Street fund revenues consist of motor fuel taxes, franchise fees and intergovernmental grants and revenues. The escrow reserve fund is a major

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

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

The basic governmental fund financial statements can be found on pages 50-51 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 52-55 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 61 and 143 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 65-101 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 107-112 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 116-145 of this report.

Other Supplementary Schedules – Other schedules with pertinent information can be found on pages 149-151 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government’s financial position. In the case of the City, assets exceeded liabilities by \$204,402,181, at the close of the most recent fiscal year.

City of Klamath Falls’ Net Position

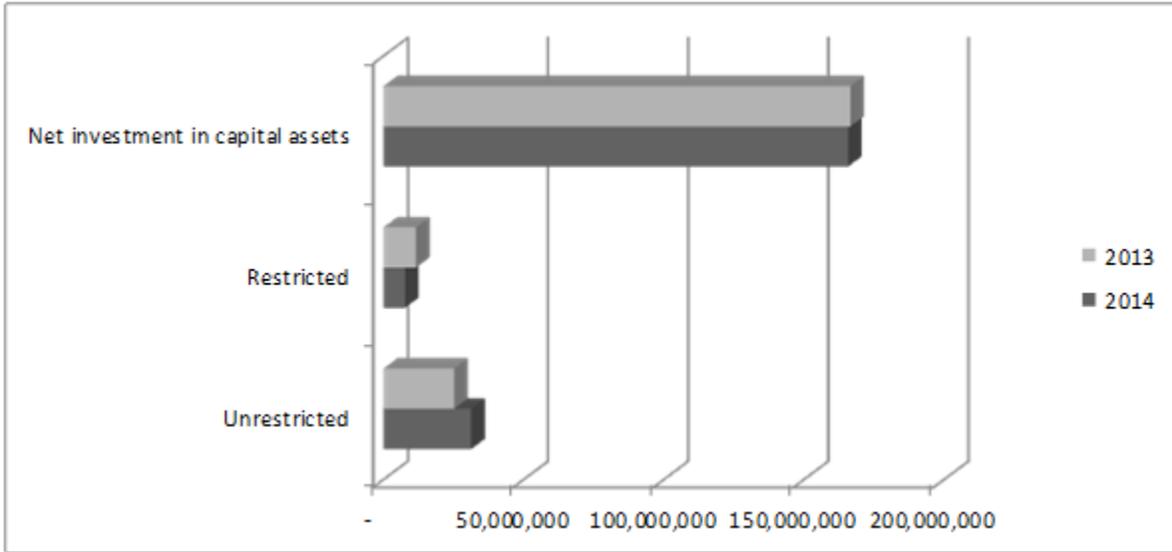
	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 22,642,840	\$ 23,062,814	\$ 20,742,922	\$ 17,583,339	\$ 43,385,762	\$ 40,646,153
Capital assets	122,835,889	122,877,275	62,544,812	62,666,799	185,380,701	185,544,074
Total assets	145,478,729	145,940,089	83,287,734	80,250,138	228,766,463	226,190,227
Long-term liabilities						
outstanding	10,974,024	9,106,313	9,118,681	9,504,313	20,092,705	18,610,626
Other liabilities	1,587,763	1,699,557	2,683,814	2,800,421	4,271,577	4,499,978
Total liabilities	12,561,787	10,805,870	11,802,495	12,304,734	24,364,282	23,110,604
Net position:						
Net investment in capital						
assets	113,684,484	115,096,825	51,934,040	51,447,145	165,618,524	166,543,970
Restricted	2,324,012	2,851,180	5,402,198	9,062,712	7,726,210	11,913,892
Unrestricted	16,908,446	17,186,214	14,149,001	7,435,547	31,057,447	24,621,761
Total net position	\$ 132,916,942	\$ 135,134,219	\$ 71,485,239	\$ 67,945,404	\$ 204,402,181	\$ 203,079,623

By far, the largest portion of the City’s net position (81.0%) reflects its investment in capital assets (e.g., land, construction in progress, intangible assets, buildings and system, machinery and equipment, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide services to citizens. Accordingly, these assets are not available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City’s net position (3.8%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$31,057,447 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**

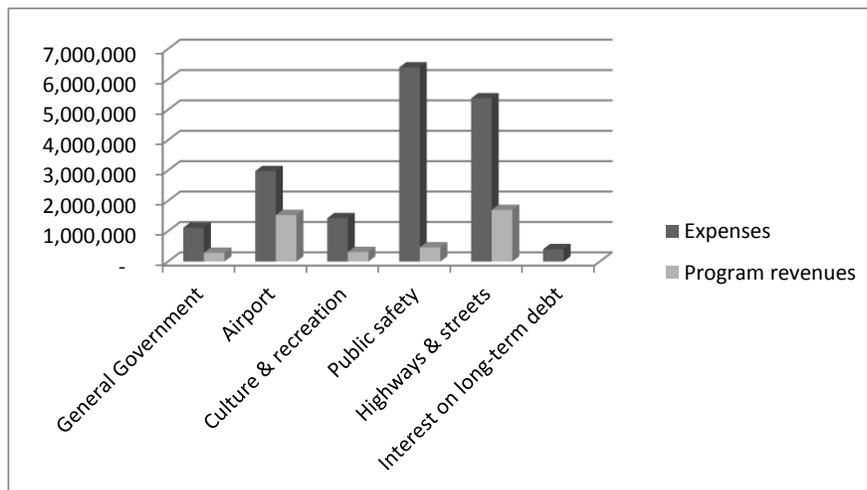


The City's overall net position increased \$1,322,558 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

Governmental Activities

During the current fiscal year, net position for governmental activities decreased by \$2,217,277. Of that amount \$867,264 was due to prior period adjustments and a restatement – see the notes to the financial statements for detailed information. The decrease due to current year activity was \$1,350,013. Property taxes, the City's main governmental revenue source, continue to decline, while healthcare, PERS and other costs steadily increase. To combat rising costs, the City has restructured and eliminated director and other positions. By making these changes, the decrease to net position was over \$900,000 less than the decrease to net position from the prior year for governmental activities.

Expenses and Program Revenues Governmental Activities



Business-type activities

For the City's business-type activities, the results for the current fiscal year were positive in that overall net position increased to reach an ending balance of \$71,485,239. The total increase in net position for business-type activities (wastewater and water funds) was \$3,539,835 or 5.2% from the prior fiscal year. A decrease of \$275,665 was due to a restatement due to the implementation of GASB 65 - see the notes to the financial statements for more information. The current year activity was an increase of \$3,815,500. Each year there is a rate increase in water and wastewater in accordance with a designated consumer price index (CPI). In addition, rates were raised several years ago in the wastewater fund in anticipation of building a treatment plant and complying with environmental regulations. This allows a fairly predictable \$1.5 million increase to net position annually. Water rates were also designed to keep up with capital maintenance and allow for an increase of approximately \$2.2 - \$2.5 million annually.

City of Klamath Falls' Changes in Net Position

	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues						
Charges for services	\$ 1,955,703	\$ 2,058,062	\$ 13,959,418	\$ 14,226,355	\$ 15,915,121	\$ 16,284,417
Operating grants & contributions	117,860	278,724	-	-	117,860	278,724
Capital grants & contributions	2,236,523	986,649	864,767	428,094	3,101,290	1,414,743
General revenues:						
Property taxes	6,801,445	7,205,147	-	-	6,801,445	7,205,147
Other taxes	4,546,374	4,400,793	-	-	4,546,374	4,400,793
Other	311,487	151,791	104,507	95,196	415,994	246,987
Total revenues	15,969,392	15,081,166	14,928,692	14,749,645	30,898,084	29,830,811
Expenses:						
General government	1,117,501	971,123	-	-	1,117,501	971,123
Airport	2,979,505	2,738,308	-	-	2,979,505	2,738,308
Culture & recreation	1,429,718	1,393,933	-	-	1,429,718	1,393,933
Public safety	6,392,398	6,643,034	-	-	6,392,398	6,643,034
Highways & streets	5,376,296	5,443,451	-	-	5,376,296	5,443,451
Interest on long-term debt	409,176	435,161	-	-	409,176	435,161
Wastewater	-	-	5,045,680	4,992,855	5,045,680	4,992,855
Water	-	-	5,682,323	5,566,016	5,682,323	5,566,016
Total expenses	17,704,594	17,625,010	10,728,003	10,558,871	28,432,597	28,183,881
Increase (decrease) in net position before transfers & other sources	(1,735,202)	(2,543,844)	4,200,689	4,190,774	2,465,487	1,646,930
Transfer of capital assets	(77,763)		77,763		-	-
Transfers	462,952	285,180	(462,952)	(285,180)	-	-
Change in net position	(1,350,013)	(2,258,664)	3,815,500	3,905,594	2,465,487	1,646,930
Net position - beginning	135,134,219	137,392,883	67,945,404	64,039,810	203,079,623	201,432,693
Restatement/Prior per adj	(867,264)		(275,665)		(1,142,929)	
Net position - restated	134,266,955		67,669,739		201,936,694	
Net position - ending	\$ 132,916,942	\$ 135,134,219	\$ 71,485,239	\$ 67,945,404	\$ 204,402,181	\$ 203,079,623

Financial Analysis of the Government's Funds

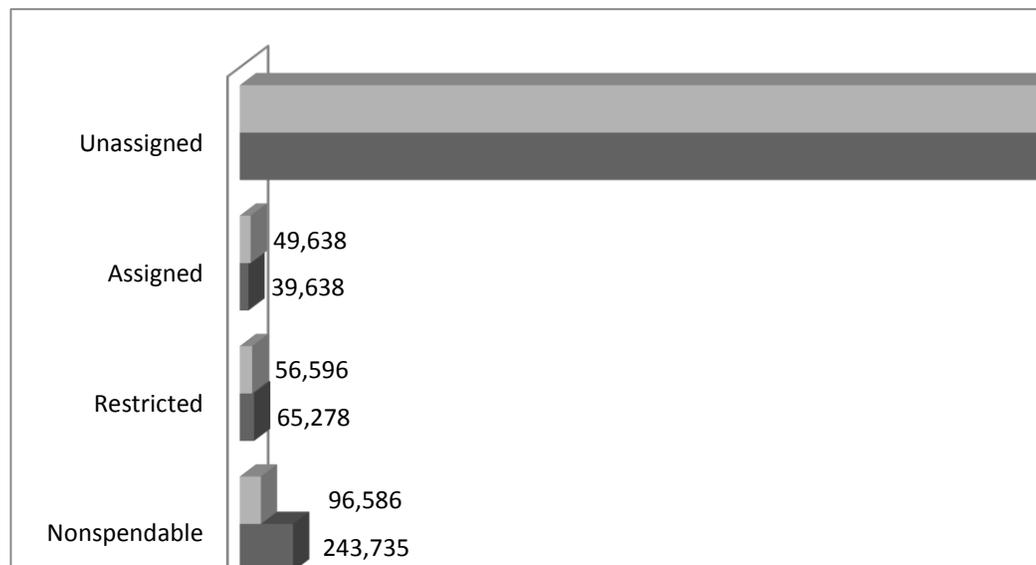
As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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, 2014, the City's governmental funds reported combined fund balances of \$20,674,956, an increase of \$124,607 in comparison with the prior year. Approximately 17.7% of this amount (\$3,656,602) 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 (\$393,307), 2) legally required to be maintained intact or restricted for particular purposes (\$2,231,297), 3) or assigned for particular purposes (\$14,393,750).

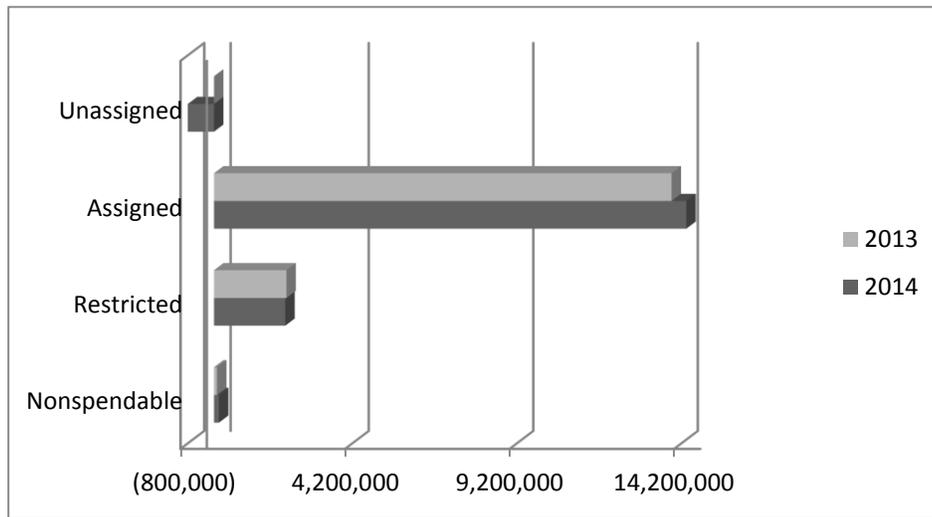
General Fund - Components of Fund Balance June 30, 2013 and 2014



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 \$4,453,307, while total fund balance increased to \$4,801,958. 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 42.5% of total general fund expenditures, while total fund balance represents approximately 45.9% of that same amount. The City's fund balance policies are located in Note 1.13.

The fund balance of the City’s general fund increased by \$448,608 during the current fiscal year. Expenditures and other financing uses were \$175,595 lower in the current year compared to the prior year, and revenues and other financing sources were up \$423,723 primarily due to a property sale and a transfer in from the Cemetery Fund which closed in the current fiscal year. Property taxes, the general fund’s primary revenue source, increased by \$45,464. Overall property taxes were down, however, the increase in property taxes in the general fund was due to a reallocation of the revenue between funds. Charges for services (comprised of administrative, maintenance & engineering charges) were down \$137,437. Internal maintenance and engineering costs were over \$126,000 higher as the City stopped outsourcing janitorial service and had more capital projects than the prior year. Administrative charges were nearly \$220,000 less as administrative departments were restructured at the end of FY 2013, which included the elimination of a director position. Overall revenues exceeded expenditures by \$348,608 before transfers and a property sale. Transfers out included a transfer out to the parks fund in the amount of \$375,043 (the amount transferred in from the closure of the cemetery fund) and \$60,000 to the technology reserve fund to help pay for the implementation of a new ERP system beginning in FY 2015. The City received \$160,000 from a property sale to FedEx.

**Other Governmental Funds - Components of Fund Balance
June 30, 2013 and 2014**



The airport fund, a major fund, had a decrease in fund balance of \$70,312. The City reduced the percentage of property taxes allocated to the airport fund and it received \$77,790 less in the current fiscal year. To supplement the airport, the City Council adopted a resolution to transfer in a portion of water receipts (from customers who live outside the City) as a way to fund their use of the airport (which is fully funded by the City). The fund received a transfer in of \$103,190 from the water fund in the current year. Overall revenues and transfers in increased \$419,913 but the expenditures increased \$667,962. The majority of the increase in expenditures was for capital projects that were mostly offset by grants.

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

The street fund, another major fund, had an increase in fund balance of \$416,606. Overall revenue and transfers in was up \$180,378 over the prior year (mainly from intergovernmental receipts including gas tax from the State of Oregon and other grant sources). Expenditures were \$301,794 higher in the current year as more capital projects were completed.

The final major governmental fund, the escrow reserve fund, had an increase in fund balance of \$115,378. The fund receives an annual transfer in from the cogeneration fund from the sale of the cogeneration plant (held in 3rd party escrow). \$185,243 was spent out of the fund in the current year for feasibility studies and legal fees for the possibility of a municipal utility (which the City did not implement). The City will receive the final distribution in 2017.

Proprietary funds

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

Unrestricted net position of the wastewater fund at the end of the year was \$7,095,044. This is \$5,280,189 more than reported in the prior year, as a capital restriction for the fund was reevaluated and ultimately removed. The only rate increase was a 1.2% CPI increase, which left wastewater charges relatively unchanged from the prior year. Operating expenses were up slightly (\$72,325). The fund also received \$350,919 in grants in the prior year that it did not receive in the current year. Total growth in net position was \$2,234,793 prior to the (\$209,795) restatement due to implementation of GASB 65.

Unrestricted net position of the water fund was \$7,053,957. The water fund also had a 1.2% rate increase in line with the CPI. Water charges brought in \$161,665 less in the current year compared to the prior year as customers are conserving their water usage. Geothermal charges brought in \$32,333 more than in the prior year (there was a 1.2% rate increase). Operating expenses were \$139,873 greater in the current year. The total growth in net position was \$1,580,707 prior to the (\$65,870) restatement due to implementation of GASB 65.

General Fund Budgetary Highlights

Original budget compared to final budget

During the year there was a \$107,825 net decrease in appropriations between the original and final amended budget. While expenditures in 8 departments increased (ranging from \$2,550 - \$26,825), contingency was reduced by \$177,150 due to a reduction of the beginning fund balance of \$145,600 (the original estimated fund balance double counted restricted amounts). There was an increase in budgeted miscellaneous revenue due to a worker's compensation dividend from SAIF Corporation in the amount of \$36,625.

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

Revenues: There was one significant difference between estimated and actual revenue for fiscal year 2014. The City budgeted to receive \$2,328,325 in intergovernmental revenue, but actually received \$548,028. This \$1,780,297 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.

Expenditures: The only significant variances between estimated expenditures and actual expenditures occurred in the code enforcement department, planning department and the other general fund program department. Code enforcement’s materials & services was \$92,630 less than budgeted as the department was directed to minimize use of abatement funds and encourage residents to clean up their properties themselves. Personnel services in the Planning Department was \$42,525 less than budgeted as a greater percentage of the Community Development Director’s salary was allocated to the parks fund (as more of her time was spent managing the Ella Redkey Pool, a division within the parks fund). Materials and services came in \$58,404 less than budgeted. The majority of the variance related to \$50,250 that was budgeted for snow removal. At the time of the budget it was unclear how much would be paid to Klamath Basin Senior Citizen’s Council to perform this service. Later it was determined that \$10,000 would be paid in the current fiscal year. The final variance is related to the Oregon Community Block Grant which is discussed in the budget variances for revenue. The City budgeted \$1,800,000 to be passed through, but did not apply for the grant.

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, 2014, amounts to \$185,380,701 (net of accumulated depreciation). This investment in capital assets includes land, intangible assets, construction in progress, buildings and system, machinery and equipment and infrastructure. The total decrease in capital assets after disposals and depreciation for the current fiscal year was approximately .09%.

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

	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 13,465,701	\$ 13,347,096	\$ 1,545,876	\$ 1,545,876	\$ 15,011,577	\$ 14,892,972
Intangible assets	757,384	559,266	167,492	167,492	924,876	726,758
Construction in progress	2,983,377	672,164	200,456	397,442	3,183,833	1,069,606
Buildings & system	13,484,724	13,888,732	3,780,265	3,645,935	17,264,989	17,534,667
Machinery & equipment	2,999,275	3,200,168	6,889,545	6,948,788	9,888,820	10,148,956
Infrastructure	89,145,428	91,209,849	49,961,178	49,961,266	139,106,606	141,171,115
Total	\$ 122,835,889	\$ 122,877,275	\$ 62,544,812	\$ 62,666,799	\$ 185,380,701	\$ 185,544,074

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

- Infrastructure on the lakefront of Lake Ewauna trail in the amount of \$1,654,469 (this work was done in prior periods – see the notes to the financial statements for more information)
- Various street projects around the City in the amount of \$508,798
- Police vehicles and equipment in the amount of \$175,045
- A car wash for rental cars at the airport for \$113,015
- A building at the airport for \$130,325
- Airport runway improvements in the amount of \$810,785
- Completion of the Washburn/Eberlein sidewalk project in the amount of \$363,745
- Work on the Kingsley Field sewer lift station generator in the amount of \$116,806

- Reduce inflow and infiltration into the wastewater collection system from Conger Ave. in the amount of \$241,379
- Water meter replacements in the amount of \$224,950
- Street light replacements in the amount of \$217,664
- Construction in progress on ERP system for the City for \$290,943
- Replace 2” water main on Etna St. in the amount of \$197,266

Additional information on the City’s capital assets can be found in Note 4.D. on pages 80-82 of this report.

Long-term debt

At the end of the current fiscal year, the City had outstanding debt totaling \$21,278,116. Of this amount, \$9,147,976 is bonded debt secured by revenue from the City’s applicable funds, \$4,025,204 is general obligation bonded debt that will be paid from ad valorem taxes levied on all taxable property within the city boundaries, and \$3,188,072 is full faith and credit bonds that the City has pledged all general unrestricted revenues to repay. There is a \$921,845 loan for economic growth that is secured by the revenues derived from that growth and another \$1,476,455 are loans and leases for acquisition of capital assets which are secured by the revenues of the applicable funds owning those assets. The City added \$2,248,564 as a contract payable to Timbermill Shores for work done on Lakefront of Lake Ewauna trails (associated with the lakefront urban renewal district, see the notes for more information).

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

	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
Leases/loans payable	3,184,068	1,123,939	1,462,795	1,497,937	4,646,863	2,621,876
General obligation bonds	4,025,204	4,026,258			4,025,204	4,026,258
Full faith and credit bond	3,188,072	3,339,619			3,188,072	3,339,619
Revenue bonds	270,000	395,000	9,147,976	9,721,717	9,417,976	10,116,717
Total	10,667,344	8,884,816	10,610,771	11,219,654	21,278,115	20,104,470

The City’s total debt increased \$1,173,646 or 5.8% during the current fiscal year. A geothermal loan was restructured which added \$505 to the principal balance. The City issued \$414,721 additional governmental debt (see note K.) and repaid \$880,757 (includes short-term and long-term debt). The City repaid \$609,387 in business-type debt. The City paid the 2001 Water Revenue Refunding Bond late as the invoice received by the City asked for interest only (due in June 2014). Once the City realized the mistake, the payment was made in August of 2014. Proper individuals and agencies were notified of the error. See the notes to the financial statements for more information. Finally, as described above, the City added \$2,248,564 as a contract payable to Timbermill Shores.

Standard & Poor’s rated the City of Klamath Falls general obligation bonds AA- with a stable outlook (rated A+ in prior year). The following bond ratings are based on the insurer of the bonds: Water Revenue Refunding Bonds, Series 2001 are rated AA with a stable outlook (rated AA- in prior year), the Full Faith and Credit Bonds, Series 2008 are rated AA- with a stable outlook (rated A+ in prior year) and the Airport Revenue Bonds, Series 1996 are rated AA with a stable outlook (rated

AA- in the prior year). Finally, the Wastewater Revenue Refunding Bonds, Series 2005 are not rated.

State statutes limit the amount of general obligation debt a government entity may issue to 3% of its total assessed valuation. The current debt limitation for the City is approximately \$38,790,000 which is significantly in excess of the City's outstanding general obligation debt of \$4,025,204.

Additional information on the City's long-term debt can be found in Note 4.J., pages 87-95.

Economic Factors and Next Year's Rates

The following economic factors currently affect the City of Klamath Falls and were considered in developing the 2014-2015 fiscal year budget.

- The unemployment rate for Klamath County at June 30, 2014 was 9.7%, which is a decrease from a rate of 10.9% a year ago as our economy is slowly picking up. Although there have been four straight years of decline in unemployment, the rate is still significantly higher than the national average of 6.1% as of June 30, 2014.
- A 1.2% CPI increase in sewer and water rates was put into effect on January 1, 2014. For January 1, 2015, the City anticipates an additional CPI increase of 1.7% for both sewer and water as well as a 4% increase in sewer rates due to current and future expenditure increases with additional state and federal water quality mandates and a sewer infrastructure in need of repair. Water rates for outside customers will increase 5.4% to help fund streets and the airport.
- Interest rates are still extremely low which affects the LGIP interest rate (which has remained stable for years at .54%). In order to increase revenue from interest income, the City was authorized by City Council to invest \$6,500,000 in unallocated funds in riskier yet higher yielding investments in FY 2014. Veteran's Memorial fund also elected to invest \$100,000.
- The City intends to pay off 3 loans in the Parking Fund and Water Fund in FY 2015 in order to save hundreds of thousands in interest charges over the next several years.
- The Teamsters union contract included several changes: market adjustments for salaries that ranged in increases of .9% to 2.35%, a 1.4% cost of living adjustment, increasing employee contributions for health care premiums from 7% to 10%, and shifting the 6% employee PERS contribution from the City to the employee. The contract will expire June 30, 2015.
- The AFSCME union contract was a two year contract. It also expires June 30, 2015.
- A City restructuring occurred late in calendar year 2014 to continue cost saving efforts.

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, 2014

ASSETS	Governmental Activities	Business-Type Activities	Total
Current Assets:			
Cash and cash equivalents	\$ 15,154,341	\$ 8,435,605	\$ 23,589,946
Investments		501,000	501,000
Accounts receivable (net of uncollectables)	1,107,376	2,145,686	3,253,062
Taxes receivable	807,813		807,813
Loans receivable	275,245	113,890	389,135
Interest receivable	33,707	16,193	49,900
Inventories	42,511	308,178	350,689
Prepaid items	350,796	111,061	461,857
Temporarily restricted assets			
Cash and cash equivalents	1,435,018	5,352,989	6,788,007
Investments	97,243		97,243
Loans receivable		50,000	50,000
Interest receivable	6,764		6,764
Total Current Assets	19,310,814	17,034,602	36,345,416
Noncurrent Assets:			
Investments	2,604,341	3,649,113	6,253,454
Prepaid bond insurance	10,535	59,207	69,742
Temporarily restricted assets			
Investments	717,150		717,150
Capital assets not being depreciated			
Land	13,465,701	1,545,876	15,011,577
Intangible assets	757,384	167,492	924,876
Construction in progress	2,983,377	200,456	3,183,833
Capital assets (net of accumulated depreciation)			
Buildings and system	13,484,724	3,780,265	17,264,989
Machinery, equipment and vehicles	2,999,275	6,889,545	9,888,820
Infrastructure	89,145,428	49,961,178	139,106,606
Total Noncurrent Assets	126,167,915	66,253,132	192,421,047
Total Assets	145,478,729	83,287,734	228,766,463

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	\$ 412,295	\$ 379,909	\$ 792,204
Retainage payable	20,081		20,081
Accrued interest payable	48,024		48,024
Compensated Absences	372,110	125,259	497,369
Customer deposits	241,297	333,507	574,804
Unearned revenues	104,579	792	105,371
Leases / loans payable	109,377		109,377
Bonds payable	150,000		150,000
Current Liabilities (payable from restricted assets):			
Accrued interest payable		71,284	71,284
Leases / loans payable		63,063	63,063
Bonds payable	130,000	1,710,000	1,840,000
Total Current Liabilities	<u>1,587,763</u>	<u>2,683,814</u>	<u>4,271,577</u>
Noncurrent Liabilities:			
Compensated absences	372,110	125,259	497,369
Leases / Loans / Contracts payable	3,074,691	1,399,732	4,474,423
Bonds payable (net of unamortized discounts and premiums)	7,203,276	7,437,976	14,641,252
Post employment benefits	323,947	155,714	479,661
Total Noncurrent Liabilities	<u>10,974,024</u>	<u>9,118,681</u>	<u>20,092,705</u>
Total Liabilities	<u>12,561,787</u>	<u>11,802,495</u>	<u>24,364,282</u>
NET POSITION			
Net investment in capital assets	113,684,484	51,934,040	165,618,524
Restricted for:			
Community loans		137,752	137,752
Outside Legal Authority	1,085,462	-	1,085,462
System development	68,788	173,166	241,954
Capital outlay	70,104		70,104
Debt service	206,249	2,375,527	2,581,776
Environmental		2,715,753	2,715,753
Outside Third Party Claims	893,409		893,409
Unrestricted	16,908,446	14,149,001	31,057,447
Total Net Position	<u>\$ 132,916,942</u>	<u>\$ 71,485,239</u>	<u>\$ 204,402,181</u>

CITY OF KLAMATH FALLS, OREGON
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government	\$ 1,117,501	\$ 286,623	\$ 3,295	\$ 743,857
Airport	2,979,505	714,909	76,323	134,857
Culture and recreation	1,429,718	152,142	28,480	12,467
Public safety	6,392,398	446,467	9,447	1,345,342
Highways and streets	5,376,296	355,562	315	
Interest on long-term debt	409,176			
Total Government Activities	<u>17,704,594</u>	<u>1,955,703</u>	<u>117,860</u>	<u>2,236,523</u>
Business-Type Activities:				
Wastewater	5,045,680	6,714,855		444,846
Water	5,682,323	7,244,563		419,921
Total Business-Type Activities	<u>10,728,003</u>	<u>13,959,418</u>	<u>-</u>	<u>864,767</u>
Total	<u>\$ 28,432,597</u>	<u>\$ 15,915,121</u>	<u>\$ 117,860</u>	<u>\$ 3,101,290</u>

General Revenues:

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

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning

Restatement and prior period adjustments

Net Position - Beginning as restated/adjusted

Net Position - Ending

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

Net (Expense) Revenue and Changes in Net Position

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (827,583)	\$	\$ (827,583)
(1,444,416)		(1,444,416)
(1,114,239)		(1,114,239)
(5,924,017)		(5,924,017)
(3,675,077)		(3,675,077)
(409,176)		(409,176)
<u>(13,394,508)</u>	<u>-</u>	<u>(13,394,508)</u>
	2,114,021	2,114,021
	1,982,161	1,982,161
<u>-</u>	<u>4,096,182</u>	<u>4,096,182</u>
<u>(13,394,508)</u>	<u>4,096,182</u>	<u>(9,298,326)</u>
6,801,445		6,801,445
2,338,179		2,338,179
1,227,480		1,227,480
300,889		300,889
28,905		28,905
448,867		448,867
202,054		202,054
199,778	104,507	304,285
111,709		111,709
(77,763)	77,763	-
462,952	(462,952)	-
<u>12,044,495</u>	<u>(280,682)</u>	<u>11,763,813</u>
<u>(1,350,013)</u>	<u>3,815,500</u>	<u>2,465,487</u>
135,134,219	67,945,404	203,079,623
(867,264)	(275,665)	(1,142,929)
134,266,955	67,669,739	201,936,694
<u>\$ 132,916,942</u>	<u>\$ 71,485,239</u>	<u>\$ 204,402,181</u>

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FUND FINANCIAL STATEMENTS

CITY OF KLAMATH FALLS, OREGON
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	General Fund	Airport Fund	Lakefront Urban Renewal Fund	Street Fund	Escrow Reserve Fund	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and cash equivalents	\$ 2,473,643	\$ 985,637	\$	\$ 2,594,531	\$ 5,861,937	\$ 3,238,593	\$ 15,154,341
Accounts receivable	429,142	313,340		197,309	466	167,119	1,107,376
Taxes receivable	594,043	57,106	13,827			142,837	807,813
Loans receivable	206,668					68,577	275,245
Interest receivable	25,962	1,602	320	2,330		3,493	33,707
Advances to other funds					1,110,000		1,110,000
Inventories				3,429		39,082	42,511
Prepaid items	243,735	11,677		50,801		44,583	350,796
Temporarily restricted assets							
Cash and cash equivalents	65,278	145,935	10,446	6,807		1,206,552	1,435,018
Investments						97,243	97,243
Interest receivable						6,764	6,764
Long-term assets							
Investments	2,078,663			525,678			2,604,341
Temporarily restricted investments						717,150	717,150
Total Assets	\$ 6,117,134	\$ 1,515,297	\$ 24,593	\$ 3,380,885	\$ 6,972,403	\$ 5,731,993	\$ 23,742,305
LIABILITIES							
Liabilities:							
Accounts payable	130,417	107,076		50,362		106,460	394,315
Retainage payable		20,081					20,081
Advances from other funds		300,000	810,000				1,110,000
Deposits payable	214,612	23,810				2,875	241,297
Unearned revenue	65,085					39,494	104,579
Total Liabilities	410,114	450,967	810,000	50,362	-	148,829	1,870,272
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue - property taxes	486,082	45,679	11,298			116,402	659,461
Unavailable revenue - transient room tax		24,538				8,179	32,717
Unavailable revenue - downtown maint. district fees						474	474
Unavailable revenue - loans receivable	206,668					68,576	275,244
Unavailable revenue - municipal court fines	189,247						189,247
Unavailable revenue - parking fines						16,869	16,869
Unavailable revenue - code enforcement fines	23,065						23,065
Total Deferred Inflows of Resources	905,062	70,217	11,298	-	-	210,500	1,197,077
Total Liabilities and Deferred Inflows of Resources	1,315,176	521,184	821,298	50,362	-	359,329	3,067,349
FUND BALANCES (DEFICITS)							
Nonspendable	\$ 243,735	\$ 11,677	\$	\$ 54,230	\$	\$ 83,665	\$ 393,307
Restricted	65,278	145,935		6,807		2,013,277	2,231,297
Assigned	39,638	836,501		3,269,486	6,972,403	3,275,722	14,393,750
Unassigned	4,453,307		(796,705)				3,656,602
Total Fund Balances	4,801,958	994,113	(796,705)	3,330,523	6,972,403	5,372,664	20,674,956
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 6,117,134	\$ 1,515,297	\$ 24,593	\$ 3,380,885	\$ 6,972,403	\$ 5,731,993	

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. \$ 122,835,889

Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as deferred inflows of resources in the funds 1,197,077

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore not reported in the funds. In addition, governmental funds report the effect of prepaid insurance when debt is first issued, whereas these amounts are amortized and shown net of the amortization in the statement of net position. (11,790,980)

\$ 132,916,942

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, 2014

	General Fund	Airport Fund	Lakefront Urban Renewal Fund	Street Fund	Escrow Reserve Fund	Other Governmental Funds	Total Governmental Funds
Revenues							
Taxes	\$ 4,861,515	\$ 444,280	\$ 118,472	\$	\$	\$ 1,532,401	\$ 6,956,668
Special assessments	800						800
Intergovernmental	548,028	1,117,293		1,582,995		549,262	3,797,578
Licenses, fees and permits	140,029					43,735	183,764
Franchise fees	1,124,880			879,108		334,190	2,338,178
Charges for services	3,545,790	607,930		286,389		423,551	4,863,660
Fines and forfeits	397,321					55,355	452,676
Investment income	84,592	11,662	1,432	16,294	69,078	101,955	285,013
Miscellaneous revenues	117,834	67,980		14,458		130,695	330,967
Total Revenues	10,820,789	2,249,145	119,904	2,779,244	69,078	3,171,144	19,209,304
Expenditures							
Current:							
General government	4,312,645		121		185,243	228,148	4,726,157
Airport		1,189,143					1,189,143
Culture and recreation						1,258,030	1,258,030
Public safety	5,686,252						5,686,252
Highways and streets				1,840,485		418,181	2,258,666
Debt service:							
Principal	150,000	125,000	46,175			556,981	878,156
Interest	141,133	36,756	22,347			229,405	429,641
Capital outlay:							
General government	7,106		900,000			361,031	1,268,137
Airport		1,071,748					1,071,748
Culture and recreation						105,539	105,539
Public safety	175,045						175,045
Highways and streets				522,153		581,409	1,103,562
Total Expenditures	10,472,181	2,422,647	968,643	2,362,638	185,243	3,738,724	20,150,076
Excess (Deficiency) of Revenues Over (Under) Expenditures	348,608	(173,502)	(848,739)	416,606	(116,165)	(567,580)	(940,772)
Other Financing Sources (Uses)							
Proceeds from sale of asset	160,000					27,706	187,706
Transfers in	375,043	103,190			231,543	794,805	1,504,581
Transfers out	(435,043)					(606,586)	(1,041,629)
Issuance of debt						414,721	414,721
Total Other Financing Sources (Uses)	100,000	103,190	-	-	231,543	630,646	1,065,379
Net Change in Fund Balances	448,608	(70,312)	(848,739)	416,606	115,378	63,066	124,607
Fund Balance - Beginning	4,353,350	1,064,425	52,034	2,913,917	6,857,025	5,309,598	20,550,349
Fund Balance - Ending	\$ 4,801,958	\$ 994,113	\$ (796,705)	\$ 3,330,523	\$ 6,972,403	\$ 5,372,664	\$ 20,674,956

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, 2014

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

Net change in fund balances - total governmental funds (page 49)	\$	124,607
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.		(2,240,574)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to increase net assets.		544,719
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(168,178)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of 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.		462,726
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>(73,313)</u>
Change in net position of governmental activities (page 45)	\$	<u>(1,350,013)</u>

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

PROPRIETARY FUNDS

CITY OF KLAMATH FALLS, OREGON
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2014

	Business-Type Activities - Enterprise Funds		
	Wastewater	Water	Totals
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 6,452,154	\$ 1,983,451	\$ 8,435,605
Investments		501,000	501,000
Accounts receivable (net of uncollectables)	878,117	1,267,569	2,145,686
Loans receivable	55,000	58,890	113,890
Interest receivable		16,193	16,193
Inventories	34,254	273,924	308,178
Prepaid items	49,226	61,835	111,061
Temporarily restricted assets			
Cash and cash equivalents	3,813,722	1,539,267	5,352,989
Loans Receivable		50,000	50,000
Total Current Assets	11,282,473	5,752,129	17,034,602
Long-term Assets:			
Investments		3,649,113	3,649,113
Prepaid bond insurance	54,697	4,510	59,207
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	46,389	154,067	200,456
Buildings and system	2,765,020	1,015,245	3,780,265
Machinery and equipment	4,055,033	2,834,512	6,889,545
Infrastructure	21,417,685	28,543,493	49,961,178
Total Noncurrent Assets	29,700,859	36,552,273	66,253,132
Total Assets	\$ 40,983,332	\$ 42,304,402	\$ 83,287,734

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	\$ 218,933	\$ 160,976	\$ 379,909
Compensated absences	56,839	68,420	125,259
Customer deposits	1,665	331,842	333,507
Unearned revenue		792	792
Current Liabilities (payable from restricted assets):			
Accrued interest payable	24,419	46,865	71,284
Loans/leases payable		63,063	63,063
Revenue bonds payable	590,000	1,120,000	1,710,000
Total Current Liabilities	891,856	1,791,958	2,683,814
Long-term Liabilities:			
Compensated absences	56,839	68,420	125,259
Loans/Leases payable		1,399,732	1,399,732
Revenue bonds payable (net of unamortized discounts and premiums)	6,957,662	480,314	7,437,976
Post employment benefits	69,710	86,004	155,714
Total Noncurrent Liabilities	7,084,211	2,034,470	9,118,681
Total Liabilities	7,976,067	3,826,428	11,802,495
NET POSITION			
Net investment in capital assets	22,098,499	29,835,541	51,934,040
Restricted for:			
Community loans		137,752	137,752
System development	121,522	51,644	173,166
Debt Service	976,447	1,399,080	2,375,527
Environmental	2,715,753		2,715,753
Unrestricted	7,095,044	7,053,957	14,149,001
Total Net Position	\$ 33,007,265	\$ 38,477,974	\$ 71,485,239

CITY OF KLAMATH FALLS, OREGON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2014

	Business-Type Activities - Enterprise Funds		
	Wastewater	Water	Totals
Operating revenues:			
Charges for sales and services:			
Wastewater charges (net of allowances)	\$ 6,641,762	\$	\$ 6,641,762
Geothermal charges (net of allowances)		279,569	279,569
Water charges (net of allowances)		6,865,159	6,865,159
Total operating revenues	6,641,762	7,144,728	13,786,490
Operating expenses:			
Costs of sales and services	3,104,895	3,681,487	6,786,382
Administration	555,807	560,101	1,115,908
Depreciation and amortization	1,062,137	1,325,965	2,388,102
Total operating expenses	4,722,839	5,567,553	10,290,392
Operating income	1,918,923	1,577,175	3,496,098
Nonoperating revenues (expenses):			
Capitalized personnel services		16,489	16,489
Investment earnings	43,009	61,498	104,507
Interest expense	(322,841)	(135,793)	(458,634)
Special assessments	1,968		1,968
System development charges	71,125	104,369	175,494
Total nonoperating revenue (expenses)	(206,739)	46,563	(160,176)
Income before contributions and transfers	1,712,184	1,623,738	3,335,922
Capital contributions	522,609	419,921	942,530
Transfers out	-	(462,952)	(462,952)
Change in net position	2,234,793	1,580,707	3,815,500
Total net position - beginning	30,982,267	36,963,137	67,945,404
Restatement	(209,795)	(65,870)	(275,665)
Total net position - beginning as restated	30,772,472	36,897,267	67,669,739
Total net position - ending	\$ 33,007,265	\$ 38,477,974	\$ 71,485,239

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, 2014

	Business-type Activities - Enterprise Funds		
	Wastewater	Water	Totals
Cash Flows from Operating Activities			
Receipts from customers and users	\$ 6,636,753	\$ 6,881,228	\$ 13,517,981
Receipts from interfund services provided	28,002	172,988	200,990
Payments to suppliers	(1,187,569)	(1,537,128)	(2,724,697)
Payments to employees	(1,366,324)	(1,664,132)	(3,030,456)
Payments for interfund services used	(1,079,484)	(1,018,089)	(2,097,573)
Net Cash Provided by Operating Activities	<u>3,031,378</u>	<u>2,834,867</u>	<u>5,866,245</u>
Cash Flows from Noncapital Financing Activities			
Transfer to/from other funds		(462,952)	(462,952)
Net Cash (Used) by Noncapital Financing Activities	<u>-</u>	<u>(462,952)</u>	<u>(462,952)</u>
Cash Flows from Capital and Related Financing Activities			
Special assessments	1,968		1,968
System development fees collected	71,125	104,369	175,494
Purchases and construction of capital assets	(670,591)	(629,239)	(1,299,830)
Principal paid on capital debt	(570,000)	(35,646)	(605,646)
Interest paid on capital debt	(315,825)	(96,816)	(412,641)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,483,323)</u>	<u>(657,332)</u>	<u>(2,140,655)</u>
Cash Flows from Investing Activities			
Purchases of investments		(3,663,942)	(3,663,942)
Proceeds from sales and maturities of investments		248,975	248,975
Interest and dividends received	43,009	32,918	75,927
Net Cash Provided (Used) by Investing Activities	<u>43,009</u>	<u>(3,382,049)</u>	<u>(3,339,040)</u>
Net Change in Cash and Cash Equivalents	1,591,064	(1,667,466)	(76,402)
Cash and Cash Equivalents - Beginning of Year	<u>8,674,812</u>	<u>5,190,184</u>	<u>13,864,996</u>
Cash and Cash Equivalents - End of Year	<u>\$ 10,265,876</u>	<u>\$ 3,522,718</u>	<u>\$ 13,788,594</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating income	\$ 1,918,923	\$ 1,577,175	\$ 3,496,098
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation and amortization expense	1,062,137	1,325,965	2,388,102
(Increase) decrease in assets			
Accounts receivable	31,307	(82,244)	(50,937)
Inventories	(1,558)	2,134	576
Prepaid items	(30,385)	(19,431)	(49,816)
Increases (decrease) in liabilities			
Accounts payable	41,264	(405)	40,859
Compensated absences	483	10,995	11,478
Customer deposits	415	12,394	12,809
Unearned revenue	-	(2,375)	(2,375)
Other post employment benefits	8,792	10,659	19,451
Total Adjustments	<u>1,112,455</u>	<u>1,257,692</u>	<u>2,370,147</u>
Net cash provided by operating activities	<u>\$ 3,031,378</u>	<u>\$ 2,834,867</u>	<u>\$ 5,866,245</u>
Noncash Investing, Capital, and Financing Activities			
Capital assets, contributed by others	<u>\$ 522,609</u>	<u>\$ 419,921</u>	<u>\$ 942,530</u>

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

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FIDUCIARY FUND

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CITY OF KLAMATH FALLS, OREGON
STATEMENT OF FIDUCIARY NET POSITION
VETERAN'S MEMORIAL AGENCY FUND
June 30, 2014

	<u>Veterans Memorial Fund</u>
ASSETS	
Assets	
Cash and cash equivalents	\$ 52,002
Accounts receivable	102
Investments	<u>99,824</u>
Total Assets	<u><u>\$ 151,928</u></u>
LIABILITIES	
Liabilities	
Accounts payable	\$ 360
Due to Veterans Associations	<u>151,568</u>
Total Liabilities	<u><u>\$ 151,928</u></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, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of government-wide financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the 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 payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of presentation – fund financial statements

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

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

columns in the fund financial statements.

The government reports the following major governmental funds:

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

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

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

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

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

The government reports the following major enterprise funds:

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

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

Additionally, government reports the following fiduciary fund:

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

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

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

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

E. Measurement focus and basis of accounting

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

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

F. Budgetary information

1. Budgetary basis of accounting

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

City Council adopts annual budgets and authorizes appropriations for all funds. The level of control established by the adopted budget is fund, department/division (which includes personnel services, materials & services and capital outlay categories), transfers, and debt service, unappropriated, contingency and reserved for future requirements. Equal transfers between personnel services, materials & services and capital outlay within a single department/division are approved by Finance or the City Manager. All other supplemental budgets and transfers of appropriations require special approval from City Council, as described below. The budget document is required to contain more specific, detailed information than the resolution adopting the budget. All annual appropriations lapse at fiscal year end. If a project is not complete within the current budget year, it must be re-appropriated and become part of the subsequent year's budget.

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

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

2. *Noncompliance with Oregon Budget Law*

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

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

1. *Cash and cash equivalents*

The 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.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. *Receivables*

All trade and property tax receivables are shown 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 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

CITY OF KLAMATH FALLS, OREGON
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

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

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

7. *Deferred outflows/inflows of resources*

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. 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 four sources: property taxes, transient room tax, notes receivable, and downtown maintenance district fees. 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 240 hours 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.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. AFSCME 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 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 non-represented employees to accumulate up to 60 hours, AFSCME represented employees to accumulate up to 80 hours, and Teamsters represented employees to accumulate up to 120 hours of earned but unpaid comparable time off at the rate of time and one-half for all overtime hours worked, which are eligible for payment upon separation from government service. The government may compensate Teamsters represented employees at fiscal year-end for all accrued compensatory time in excess of forty hours. All time over the allowed accumulation must be paid in full when earned. The liability for comp time is reported as incurred in the government-wide and proprietary fund financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements.

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 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. Upon implementation of GASB 65, bond issuance costs (except for those related to prepaid insurance) were fully expensed and required restatement in the financial statements.

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

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 2014.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the City Manager or his/her designee per the Financial Policies amended and adopted by Council resolution 14-05 on February 3, 2014.

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

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

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

H. Revenues and expenditures/expenses

1. Program revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property taxes

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

3. Proprietary fund operating and nonoperating revenues and expenses

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

I. Use of Estimates

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

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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

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

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

One element of the reconciliation explains that capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund. The details of this \$122,835,889 difference are as follows:

Land	\$ 13,465,701
Construction in progress	757,384
Intangible Assets	2,983,377
Buildings	17,453,979
Less: Accumulated depreciation-buildings	(3,969,255)
Machinery, equipment, and vehicles	11,032,178
Less: Accumulated depreciation-machinery, equipment, and vehicles	(8,032,903)
Infrastructure	190,676,633
Less: Accumulated depreciation-infrastructure	<u>(101,531,205)</u>
Net adjustment to increase fund balance – total governmental funds to arrive at net position – governmental activities	<u>\$ 122,835,889</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 deferred inflows of resources - unavailable revenue in the funds. The details of this \$1,197,077 difference are as follows:

Claims and judgments	\$ 229,181
Property taxes	659,461
Transient room tax	32,717
Special Assessments	474
Other long-term receivables	275,244
Net adjustment to increase fund balance – total governmental funds to arrive at net position – governmental activities	<u>\$ 1,197,077</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. In addition, governmental funds report the effect of prepaid insurance when debt is first issued, whereas these amounts are amortized and shown net of the amortization in the statement of net position. The details of this \$11,790,780 difference are as follows:

Claims and judgments	\$ 17,980
Accrued interest payable	48,024
Compensated absences	744,219
Contracts Payable	2,248,564
Notes payable	935,504
Bonds payable (net of unamortized discounts)	7,483,277
Prepaid Bond Insurance	(10,535)
Post employment benefits	<u>323,947</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net position – governmental activities	<u>\$ 11,790,780</u>

CITY OF KLAMATH FALLS, OREGON
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2014

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

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 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 \$(2,240,574) difference are as follows:

Capital outlay	\$ 3,724,031
Depreciation expense	<u>(5,964,605)</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	<u>\$ (2,240,574)</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 \$544,719 difference are as follows:

In the statement of activities, only the <i>gain</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.	\$ (23,170)
Transfer of capital assets to business-type activities decrease net position in the statement of activities, but do not appear in the governmental funds because they are not financial expenditures.	645,652
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities.	<u>(77,763)</u>
	<u>\$ 544,719</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 (\$168,178) difference are as follows:

CITY OF KLAMATH FALLS, OREGON
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2014

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

Property taxes	\$ (155,222)
Special assessments against benefiting properties	(16,139)
Transient Room Tax	32,717
Fines & forfeitures – non current portion	2,234
Note receivable – non current portion	<u>(31,768)</u>
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	<u>\$ (168,178)</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 \$462,726 difference are as follows:

Debt issued or incurred:	
Issuance of notes payable	\$ (414,721)
Principal repayments:	
Notes payable repayments	603,156
Bond repayments	275,000
Amortization of bond insurance	<u>(709)</u>
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities.	<u>\$ 462,726</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 \$(73,313) difference are as follows:

Interest payable	\$ (16,482)
Compensated absences	(17,411)
Post Employment Benefits	<u>(39,420)</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	<u>\$ (73,313)</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.

CITY OF KLAMATH FALLS, OREGON
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2014

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

B. Violations of legal or contractual provisions

Note 1.F.2, on the *Noncompliance with Oregon Budget Law*, describes a budgetary violation that occurred for the year ended June 30, 2014. It also explains the steps the government took to remedy the violation.

The 2001 Water Refunding Bond principal debt payment in the amount of \$685,000 was not made in fiscal year 2014. The invoice provided only included the interest amount due. Once the government discovered that principal was due as well, the principal and additional interest of \$5,275 was paid in fiscal year 2015. A SEC 15c2-12 disclosure was posted on EMMA to notify the bond holders of the late payment.

C. Deficit fund equity

At June 30, 2014, the lakefront urban renewal fund, a major fund, has a deficit fund balance of \$796,705. The reason for the deficit is the interfund loan. The interfund loan is reported as a fund liability in the lakefront urban renewal fund balance sheet (rather than an inflow on the statement of revenues, expenditures, and changes in fund balances). This deficit will be eliminated as the scheduled principal and interest payments on the loan are made.

NOTE 4 – DETAILED NOTES ON ALL ACTIVITIES AND FUND

A. Cash, cash equivalents and investments

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

Cash on hand	\$	1,900
Deposits with financial institutions		677,329
Investments:		
Oregon State Treasurer’s Local Government Investment Pool		29,698,726
Certificates of deposit		752,243
U.S. agency obligations		3,573,089
Commercial paper and corporate bonds		3,243,515
Total cash and investments	\$	37,946,800

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

	Governmental Activities	Business-Type Activities	Total
Cash and cash equivalents	\$ 16,589,359	\$13,788,594	\$30,377,953
Investments	3,418,734	4,150,113	7,568,847
	\$20,008,093	\$17,938,707	\$ 37,946,800

Custodial credit risk-deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The government’s deposit policy is in accordance with ORS 295. All deposits are collateralized with eligible securities in amounts determined by the Office of the State Treasurer (OST). The government’s deposit policy requires that all deposits are covered by the Federal Deposit Insurance Corporation (FDIC), and/or are collateralized as required by compliance with ORS 295. As of June 30, 2014 the government’s bank balances were \$679,246 (\$1,917 of which belongs to the Veteran’s Memorial Fund).

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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

As of June 30, 2014, the government had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Oregon State Treasurer’s Local Government Investment Pool	\$ 29,698,726	.87
Negotiable Certificates of Deposits	752,243	2.14
U.S. Agency Bonds	3,573,089	3.60
Commercial Paper and Corporate Bonds	3,243,515	5.56
Total Fair Value	\$ 37,267,573	
Portfolio Weighted Average Maturity		1.57

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

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

The government’s investment portfolio as of June 30, 2014 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.

At June 30, 2014, the government’s investments were rated as follows:

	Commercial Paper And Corporate Bonds	Municipal and US Agency Corporations	Certificates of Deposit	Local Government Investment Pool
AA+		1,929,608		
AA		1,643,481		
AA-	3,243,515			
Unrated			752,243	29,698,726
	\$ 3,243,515	\$ 3,573,089	\$ 752,243	\$ 29,698,726

CITY OF KLAMATH FALLS, OREGON
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2014

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:

Governmental Activities

<u>General Fund</u>	<u>Municipal Court</u>	<u>Code Enforcement</u>	<u>Other</u>	<u>Total General Fund</u>
Gross Accounts Receivable	\$ 2,355,707	\$ 438,378	\$ 216,830	\$ 3,010,915
Uncollectibles	(2,166,460)	(415,313)		(2,581,773)
Net Accounts Receivable	<u>\$ 189,247</u>	<u>\$ 23,065</u>	<u>\$ 216,830</u>	<u>\$ 429,142</u>

	<u>General Fund</u>	<u>Airport Fund</u>	<u>Street Fund</u>	<u>Escrow Reserve Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Activities</u>
Gross Accounts Receivable	\$ 3,010,915	313,340	197,309	466	168,371	3,690,401
Uncollectibles	(2,581,773)				(1,252)	(2,583,025)
Net Accounts Receivable	<u>\$ 429,142</u>	<u>\$ 313,340</u>	<u>\$ 197,309</u>	<u>\$ 466</u>	<u>\$ 167,119</u>	<u>\$ 1,107,376</u>

Business-type Activities

	<u>Wastewater Fund</u>	<u>Water Fund</u>	<u>Total Business-type Activities</u>
Gross Accounts Receivable	\$ 904,117	\$ 1,302,179	\$ 2,206,296
Uncollectibles	(26,000)	(34,610)	(60,610)
Net Accounts Receivable	<u>\$ 878,117</u>	<u>\$ 1,267,569</u>	<u>\$ 2,145,686</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 \$6,296,130 and the carrying value was \$4,186,854. Payments received in the current year were \$437,704.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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:

2015	\$ 403,251
2016	275,519
2017	279,996
2018	279,996
2019	279,996
2020-2024	1,247,491
2025-2029	997,397
2030-2034	458,523
2035-2039	33,349
2040-2044	11,410
Total	\$ 4,266,928

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, 2014 was as follows:

Governmental Activities:

	Balance July 1, 2013	Prior Period Adjustment	Adj Balance July 1, 2013	Increases	Decreases & Transfers	Placed in Service	Balance June 30, 2014
Capital assets, not being depreciated:							
Land	\$ 13,347,096	\$ -	13,347,096	\$ 20,000	\$ 98,605	\$ -	\$ 13,465,701
Construction in progress	672,164	1,654,469	2,326,633	2,113,733	(1,210,403)	(246,586)	2,983,377
Intangible assets	559,266	-	559,266	198,118	-	-	757,384
Total capital assets, not being depreciated	14,578,526	1,654,469	16,232,995	2,331,851	(1,111,798)	(246,586)	17,206,462
Capital assets, being depreciated:							
Buildings	17,301,186	-	17,301,186	130,325	18,629	3,839	17,453,979
Machinery, equipment, and vehicles	10,378,529	-	10,378,529	651,336	-	2,313	11,032,178
Infrastructure	188,187,791	-	188,187,791	1,256,171	992,237	240,434	190,676,633
Total capital assets being depreciated	215,867,506	-	215,867,506	2,037,832	1,010,866	246,586	219,162,790
Less accumulated depreciation for:							
Buildings	(3,412,454)	-	(3,412,454)	(556,801)	-	-	(3,969,255)
Machinery, equipment, and vehicles	(7,178,361)	-	(7,178,361)	(854,542)	-	-	(8,032,903)
Infrastructure	(96,977,942)	-	(96,977,942)	(4,553,263)	-	-	(101,531,205)
Total accumulated depreciation	(107,568,757)	-	(107,568,757)	(5,964,606)	-	-	(113,533,363)
Total capital assets, being depreciated, net	108,298,749	-	108,298,749	(3,926,774)	1,010,866	246,586	105,629,427
Government activities capital assets, net	\$ 122,877,275	\$ 1,654,469	\$ 124,531,744	\$ (1,594,923)	\$ (100,932)	\$ -	\$ 122,835,889

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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	\$ 382,812
Public safety	461,425
Highways and streets	3,356,935
Culture and recreation	168,109
Airport	1,595,325
Total depreciation expense – governmental activities	\$ 5,964,606

Business-type Activities:

	Balance July 1, 2013	Increases	Decreases & Transfers	Placed in Service	Balance June 30, 2014
Capital assets, not being depreciated:					
Land	\$ 1,545,876	\$ -	\$ -	\$ -	\$ 1,545,876
Construction in progress	397,442	148,299	-	(345,285)	200,456
Intangible assets	167,492	-	-	-	167,492
Total capital assets, not being depreciated	2,110,810	148,299	-	(345,285)	1,913,824
Capital assets, being depreciated:					
Buildings	7,214,765	261,643	-	-	7,476,408
Machinery and equipment	16,677,371	495,982	-	82,542	17,255,895
Infrastructure	75,581,982	1,275,163	77,763	262,743	77,197,651
Total capital assets being depreciated	99,474,118	2,032,788	77,763	345,285	101,929,954
Less accumulated depreciation for:					
Buildings	(3,568,830)	(127,313)	-	-	(3,696,143)
Machinery and equipment	(9,728,584)	(637,766)	-	-	(10,366,350)
Infrastructure	(25,620,715)	(1,615,758)	-	-	(27,236,473)
Total accumulated depreciation	(38,918,129)	(2,380,837)	-	-	(41,298,966)
Total capital assets, being depreciated, net	60,555,989	(348,049)	77,763	345,285	60,630,988
Business-type activities capital assets, net	\$ 62,666,799	\$ (199,750)	\$ 77,763	\$ -	\$ 62,544,812

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

Business-type activities:	
Water	\$ 1,323,711
Sewer	1,057,126
Total depreciation expense – business-type activities	\$ 2,380,837

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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

Net investments in capital assets

	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>
Total capital assets	\$ 236,369,252	\$103,843,778	\$ 340,213,030
Less: accumulated depreciation	(113,533,363)	(41,298,966)	(154,832,329)
Less: outstanding principal of capital-related debt	(9,151,405)	(10,610,772)	(19,762,177)
Net investment in capital assets	<u>\$ 113,684,484</u>	<u>\$ 51,934,040</u>	<u>\$ 165,618,524</u>
Capital related debt	\$ 9,151,405	\$ 10,610,772	\$ 19,762,177
Non-capital related debt	1,515,939	0	1,515,940
Total debt	<u>\$ 10,667,344</u>	<u>\$ 10,610,772</u>	<u>\$ 21,278,117</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. 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. The government elected to continue the 6% “pickup” for its Teamster employees. The government paid employee contribution was \$366,283 for the year ended June 30, 2014.

The government is required by ORS 238.225 to contribute at an actuarially 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, 2014 were 9.04% and 4.68% respectively. The OPSRP rate in effect for the year ended June 30, 2014, for public safety employees was 7.41%.

CITY OF KLAMATH FALLS, OREGON
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2014

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

Annual Pension Cost. The government’s contributions to PERS for the years ending June 30, 2012, 2013 and 2014 were \$723,762, \$710,265, and \$681,252 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 allows retirees to remain on the government’s insurance group policy until age 65. Retirees pay the insurance company directly. For fiscal year 2014, 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, 2014:

	Contribution
Employee	\$ 560.08
Employee + Child	1,026.36
Employee + Children	1,397.39
Employee + Spouse	1,170.44
Full Family	1,608.07

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

Employer’s Normal Cost	\$ 46,624
Amortization of UAAL	102,051
Annual Required Contribution (ARC)	148,675
Interest	14,728
Adjustment to ARC	(50,596)
Implicit Benefit Payments	(53,935)
Contribution Deficiency (ARC less current year payments)	58,872
OPEB Obligation at Beginning of Year (7/1/2013)	420,789
OPEB obligation at end of year (6/30/2014)	\$ 479,661

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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 2014 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percent of Annual OPEB Cost Contribution	Net OPEB Obligation
6/30/12	141,400	21%	321,765
6/30/13	148,765	33%	420,789
6/30/14	112,807	48%	479,661

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)	\$ 6,341,297
UAAL as a percentage of covered payroll	12.97%

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.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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

RETIREMENT HEALTH INSURANCE ACCOUNT (RHIA)

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

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

Participating cities are contractually required to contribute to RHIA at a rate assessed 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 9.04%, 0.59% goes to RHIA, of the 4.68%, 0.49% goes to RHIA and of the 7.41%, 0.49% goes to the RHIA.

The government's contributions to RHIA for the years ending June 30, 2012, 2013 and 2014 were \$43,621, \$43,253, and \$49,713 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.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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

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 \$228,357 and \$81,028 to the section 457 and the section 401(k) plans in 2014, respectively.

G. Construction and other significant commitments

The government has active construction and professional service contracts as of June 30, 2014. The construction contract is for the Airport airfield improvements project. Professional service contracts include: airport taxiway repair and environmental mitigation; downtown landscaping; weed abatement; swimming pool marketing; parking lot design; street improvement design; ERP software license and implementation; wastewater collections master plan; and wastewater treatment design for methane recapture, and effluent discharge legal fees. At year-end the government’s contract commitments were as follows:

Project	Cost to date	Commitment
Code Enforcement professional service contract	\$ 4,869	\$ 25,131
Airport professional service contracts	192,713	437,933
Airport construction project	455,988	52,783
Parks professional service contract	16,366	24,064
Streets professional service contract	30,625	1,995
Technology Services professional service contract	200,806	323,427
Wastewater professional service contracts	111,775	87,239
Downtown urban renewal professional service contract	748	2,852
Total	<u>\$ 1,013,890</u>	<u>\$ 955,424</u>

H. Risk management

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

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

	Year Ended June 30, 2014	Year Ended June 30, 2013
Unpaid claims, beginning	\$ -	\$ -
Incurred claims (including IBNRs)	29,660	29,463
Claims paid	<u>(29,660)</u>	<u>(29,463)</u>
Unpaid claims, ending	<u>\$ -</u>	<u>\$ -</u>

CITY OF KLAMATH FALLS, OREGON
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2014

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, 2014	Year Ended June 30, 2013
Unpaid claims, beginning	\$ -	\$ -
Incurred claims (including IBNRs)	12,602	8,819
Claims paid	(12,602)	(8,819)
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 \$25,988 were made during the year ended June 30, 2014.

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

2015	\$ 15,476
2016	3,774
2017	3,809
2018	1,896
2019	1,284
Total	\$ 26,239

J. Long-Term Liabilities

Compensated Absences

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

Pledged Revenues

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

The City issues a variety of debt types for the purpose of carrying out its capital financing activities. The various types of debt are discussed below and each debt type reports the range of maturities for each of its outstanding debt issues. The City’s tax-exempt debt remains in compliance with all Internal Revenue Service arbitrage regulations. Outstanding debt amounts are as of June 30, 2014.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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 48% of net revenues. Principal and interest paid in the current year and total net revenues were \$146,725 and \$303,993 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. 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 \$17,889. The note will be paid off in 2015.

Washington Federal – Lakefront Urban Renewal

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

Timbermill Shores – Lakefront Urban Renewal

The Agency has pledged future tax increment revenues to repay \$2,248,564 for reimbursement of infrastructure constructed by Timbermill Shores on the lakefront of Lake Ewauna. There is no interest associated with this liability as it is strictly reimbursement to the developer. The district will begin making payments once the \$900,000 interfund loan with the escrow reserve fund is paid in full (see Note 4 Section M.).

Washington Federal – Town Center Urban Renewal

The government has pledged future tax increment revenues to repay a \$1,178,500 loan with Washington Federal (formerly South Valley Bank & Trust) as of July 26, 2012. The original loan funds of \$1,825,000 from 2009 were used to finance improvements to the Town Center Urban Renewal District. The loan is termed out over ten years with annual payments of \$143,535. The loan includes a variable interest of prime plus .875% (currently 4.125%) based on the lender’s Prime Rate (the “Index”) which will not change more than daily. The government uses increment property taxes to pay the loan. For the current year, principal and interest paid and total incremental property tax revenues were \$158,535 and \$176,161, respectively.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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 5.6% of the geothermal net revenues. Principal and interest paid and net revenues were \$8,424 and \$150,710 respectively. The loan was paid off in 2015.

Special Public Works Fund (Geothermal Rehabilitation) – Water Fund

The government entered into an interim period financing contract with the Oregon Special Public Works Fund in April 2009 for \$800,000 to install 6,020 lineal feet of 12" and 8" insulated ductile geothermal pipeline within the geothermal heating distribution system. The financing contract was amended and restated in May of 2014 with an interest rate of 4% on the remaining loan amount of \$680,981 and a maturity date of December 1, 2033. The amended payment schedule pushed the payment due date into fiscal year 2015. The government has pledged future revenues from geothermal customers, net of specified operating expenses to repay the loan. There were no principal or interest payments in fiscal year 2014. The loan was paid off in 2015.

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

The government's water fund has pledged future customer revenues, net of specified operating expenses, to repay a \$976,000 special public works fund (SPWF) loan received in November 2004. The funds were used to install 6,500 feet of 12" pipe, increase 620 feet of 4" pipe to 6" pipe and connect the Sturdicraft facility to the water system. Payments are due annually at 4.16% interest. The SPWF loan is payable solely from water customer net revenues and is payable through fiscal year 2030. Annual principal and interest payments on the loan are expected to require 2.1% of net revenues. Principal and interest paid in the current year and total customer net revenues were \$62,223 and \$2,915,344 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 26% of net revenues. Interest paid in the current year and total customer net revenues were \$86,625 and \$2,915,344, respectively.

Wastewater Revenue Refunding Bonds, Series 2005

The government's wastewater fund has pledged future customer revenues, net of specified operating expenses, to repay \$9,800,000 in wastewater revenue refunding bonds issued in June 2005. Proceeds from the bonds provided funds to pay off the government's 2000 wastewater revenue bonds in June 2010. The 2005 refunding bonds are payable solely from wastewater customer net revenues and are payable through fiscal year 2025. Interest rates range from 3.5% to 4.1%. Interest only payments were due on the bonds through fiscal year 2010 with principal payments starting in fiscal year 2011. Annual principal and interest payments are expected to require less than 29% of net revenues. Interest and principal paid in the current year and total customer net revenues were \$885,825 and \$3,055,692, respectively.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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

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

In May 2008 the city voters approved the sale of \$4,000,000 in general obligation bonds to fund a portion of the remodeling, construction, purchase of equipment and furnishing of personal property for a City Police station. The bonds are to be paid from ad valorem taxes levied on all taxable property within the city boundaries. The taxes imposed are not subject to the limits of Sections 11 and 11b, Article XI of the Oregon Constitution. The bonds were sold in August 2008 and are payable through fiscal year 2038. Interest rates range from 5.0% to 5.25%. Taxes are imposed annually for the amount of the bond payments due in that fiscal year. Interest only payments are due through fiscal year 2017 with principal payments beginning in fiscal year 2018. Interest paid in the current year and taxes received were \$205,525 and \$204,872 respectively.

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

The government has pledged general non-restricted revenues and other funds that are lawfully available to repay \$3,995,000 in Full Faith and Credit Obligations issued in September of 2008. Proceeds of the bonds financed a portion of the costs of capital construction and capital improvements of the new City Police station facilities and equipment. The source for the repayment of the bonds are the ad valorem property taxes levied under the government's permanent rate limitations under sections 11 and 11b, Article XI of the Oregon Constitution, and revenues derived from other taxes, if any, levied by the government in accordance with and subject to limitations and restrictions imposed under applicable law or contract, that are not dedicated, restricted or obligated by law or contract to an inconsistent expenditure or use. Interest rates range from 3.5% to 5.0%. The bonds are payable through fiscal year 2029. Annual principal and interest payments on the bonds are expected to require less than 4.8% of the total non-restricted property taxes collected in any given fiscal year. Principal and interest paid in the current year and total non-restricted property taxes collected were \$291,133 and \$6,055,506 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, 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.

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 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.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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

Oregon Department of Environmental Quality – Wastewater Fund

In June of 2012 the City entered into a revenue secured loan with the Oregon Department of Environmental Quality (DEQ) for \$7,150,672 for design and construction of improvements to the wastewater treatment facility. The City has 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 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.

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CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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

Long-term liability activity for the year ended June 30, 2014	Balance June 30, 2013	Prior Period Adjustment	Balance June 30, 2013 Adjusted	Additions	Reductions	Balance June 30, 2014	Amounts Due Within One Year
Governmental Activities							
Bonds, notes, leases & contracts payable							
Airport Revenue Bonds, Series 1996:	\$ 395,000	\$ -	\$ 395,000	\$ -	\$ 125,000	\$ 270,000	\$ 130,000
Washington Federal (Lakefront Urban Renewal):	46,175	-	46,175	-	46,175	-	-
Washington Federal (Town Center Urban Renewal):	1,058,191	-	1,058,191	-	136,346	921,845	102,995
Renold Passien:	19,573	-	19,573	-	5,914	13,659	6,382
Timbermill Shores	-	2,248,564	2,248,564	-	-	2,248,564	-
General Obligation Bonds, Series 2008	4,000,000	-	4,000,000	-	-	4,000,000	-
Add issuance premiums and discounts, net	26,258	-	26,258	-	1,054	25,204	-
Full Faith and Credit Bonds, Series 2008:	3,315,000	-	3,315,000	-	150,000	3,165,000	150,000
Add issuance premiums and discounts, net	24,619	-	24,619	-	1,547	23,072	-
Total bonds, notes, leases & contracts payable	8,884,816	2,248,564	11,133,380	-	466,036	10,667,344	389,377
Other Liabilities							
Compensated Absences:							
General Fund	548,827	-	548,827	936,995	935,994	549,828	274,914
Airport Fund	52,895	-	52,895	42,303	36,232	58,966	29,483
Parks Fund	35,676	-	35,676	58,841	59,968	34,549	17,274
Street Fund	86,327	-	86,327	79,603	69,563	96,367	48,183
Parking Fund	1,745	-	1,745	5,275	4,092	2,928	1,464
Street Lighting Fund	1,338	-	1,338	1,124	880	1,582	791
Total governmental activities compensated absences	726,808	-	726,808	1,124,141	1,106,729	744,220	372,109
Governmental activities long-term liabilities	\$ 9,611,624	\$ 2,248,564	\$ 11,860,188	\$ 1,124,141	\$ 1,572,765	\$ 11,411,564	\$ 761,486
Business-Type Activities							
Bonds and notes payable							
Water Revenue Refunding Bonds, Series 2001:	1,575,000	-	1,575,000	-	-	1,575,000	1,120,000
Add issuance premiums and discounts, net	37,971	-	37,971	-	12,657	25,314	-
Wastewater Revenue Refunding Bonds, Series 2005	8,215,000	-	8,215,000	-	570,000	7,645,000	590,000
Less issuance discounts	(106,254)	-	(106,254)	-	(8,916)	(97,338)	-
Special Public Works Fund (Geo service line extension):	58,357	-	58,357	-	5,168	53,189	5,456
Special Public Works Fund (Geothermal rehabilitation):	680,476	-	680,476	505	-	680,981	21,936
Special Public Works Fund (Water line extension):	759,104	-	759,104	-	30,479	728,625	35,671
Total bonds, notes, and leases payable	11,219,654	-	9,780,074	505	609,388	10,610,771	1,773,063
Other Liabilities							
Compensated Absences:							
Wastewater Fund	113,193	-	113,193	170,814	170,331	113,676	56,838
Water Fund	125,846	-	125,846	156,481	145,486	136,841	68,420
Total business-type activities compensated absences	239,039	-	239,039	327,295	315,817	250,517	125,258
Business-type activities long-term liabilities	\$ 11,458,693	\$ -	\$ 10,019,113	\$ 327,800	\$ 925,205	\$ 10,861,288	\$ 1,898,321

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Airport Revenue Bonds, Series 1996				
Principal	\$ 130,000	\$ 140,000	\$	\$
Interest	14,850	7,700		
Water Revenue Refunding Bonds, Series 2001				
Principal	1,120,000	455,000		
Interest	48,950	25,025		
Wastewater Refunding Bonds, Series 2005				
Principal	590,000	595,000	615,000	635,000
Interest	293,025	272,375	251,253	229,113
Total Revenue Bonds	<u>\$ 2,196,825</u>	<u>\$ 1,495,100</u>	<u>\$ 866,253</u>	<u>\$ 864,113</u>

General Obligation Bonds

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

General Obligation Bonds, Series 2008				
Principal	\$	\$	\$	\$ 40,000
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>\$ 245,525</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	\$ 165,000	\$ 170,000	\$ 175,000
Interest	135,883	130,633	124,445	117,645
Total Full Faith and Credit Bonds	<u>\$ 285,883</u>	<u>\$ 295,633</u>	<u>\$ 294,445</u>	<u>\$ 292,645</u>

Other Long-term Liabilities

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

SPWF - Geothermal service line extension				
Principal	\$ 5,456	\$ 5,760	\$ 6,081	\$ 6,421
Interest	2,968	2,664	2,342	2,003
SPWF - Geothermal rehabilitation				
Principal	21,936	22,813	23,726	24,675
Interest	38,589	26,362	25,449	24,500
SPWF - Water line service extension				
Principal	35,671	35,870	36,082	36,310
Interest	30,677	29,428	28,128	26,775
Timbermill Shores				
Principal				
Washington Fed - Town Center Urban Renewal				
Principal	102,995	109,288	113,778	118,618
Interest	40,540	34,247	29,757	24,917
Passien				
Principal	6,382	7,277		
Interest	696	263		
Total other long-term liabilities	<u>\$ 285,910</u>	<u>\$ 273,972</u>	<u>\$ 265,343</u>	<u>\$ 264,219</u>
Total Long-term Liabilities	<u>\$ 2,974,143</u>	<u>\$ 2,270,230</u>	<u>\$ 1,631,566</u>	<u>\$ 1,666,502</u>

<u>2019</u>	<u>2020-2024</u>	<u>2025-2029</u>	<u>2030-2034</u>	<u>2035-2039</u>	<u>2040-2044</u>	<u>Total</u>
\$	\$	\$	\$	\$	\$	\$ 270,000
						22,550
						1,575,000
						73,975
665,000	3,715,000	830,000				7,645,000
205,618	623,195	33,255				1,907,834
<u>\$ 870,618</u>	<u>\$ 4,338,195</u>	<u>\$ 863,255</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 11,494,359</u>
\$ 50,000	\$ 400,000	\$ 760,000	\$ 1,260,000	\$ 1,490,000	\$ 1,490,000	\$ 4,000,000
203,425	968,300	827,863	579,538	193,750	193,750	3,594,975
<u>\$ 253,425</u>	<u>\$ 1,368,300</u>	<u>\$ 1,587,863</u>	<u>\$ 1,839,538</u>	<u>\$ 1,683,750</u>	<u>\$ 1,683,750</u>	<u>\$ 7,594,975</u>
\$ 185,000	\$ 1,035,000	\$ 1,285,000	\$	\$	\$	\$ 3,165,000
110,645	428,700	177,925				1,225,876
<u>\$ 295,645</u>	<u>\$ 1,463,700</u>	<u>\$ 1,462,925</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,390,876</u>
\$ 6,779	\$ 22,692	\$	\$	\$	\$	\$ 53,189
1,645	2,578					14,200
25,662	144,552	175,870	241,747			680,981
23,513	101,323	70,005	31,903			341,644
36,563	217,006	270,712	60,411			728,625
25,323	102,246	51,158	2,719			296,454
	140,600	575,000	575,000	575,000	382,964	2,248,564
123,579	353,587					921,845
19,956	28,036					177,453
						13,659
						959
<u>\$ 263,020</u>	<u>\$ 1,112,620</u>	<u>\$ 1,142,745</u>	<u>\$ 911,780</u>	<u>\$ 575,000</u>	<u>\$ 382,964</u>	<u>\$ 5,477,573</u>
<u>\$ 1,682,708</u>	<u>\$ 8,282,815</u>	<u>\$ 5,056,788</u>	<u>\$ 2,751,317</u>	<u>\$ 2,258,750</u>	<u>\$ 2,066,714</u>	<u>\$ 28,957,782</u>

CITY OF KLAMATH FALLS, OREGON
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2014

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 \$415,000 entered into with Washington Federal on July 10, 2013. The loan funds were used to complete various capital projects in the Downtown Urban Renewal District. Monthly payments of interest are required to be paid at a variable interest of prime (currently 3.250%) until maturity on July 1, 2014, 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 loan is payable solely from the property tax increment revenues of properties within the district boundaries. Principal and interest paid for the current year and total incremental property tax revenues were \$415,290 and \$401,657 respectively. The loan was paid in full.

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

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

	<u>Balance</u> 7/1/13	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> 6/30/14
Washington Federal	-	414,721	414,721	-

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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

L. Fund balance

Fund Balance as of June 30, 2014 is detailed as follows:

	General Fund	Airport Fund	Lakefront Urban Renewal Fund	Street Fund	Escrow Reserve Fund	Other Governmental Funds	Total Governmental Funds
Fund Balances:							
Nonspendable:							
Prepays	243,735	11,677		50,801		44,583	350,796
Inventory				3,429		39,082	42,511
Restricted for:							
Capital projects		1,085				69,019	70,104
Debt service		144,850					144,850
Forfeiture Money	56,624						56,624
DOJ Equitable Sharing	8,654						8,654
Parks Master Plan						61,980	61,980
Traffic signals				6,807			6,807
Third party claims						836,785	836,785
Urban renewal						1,045,493	1,045,493
Assigned for:							
Capital projects				65,530	6,972,403	1,152,767	8,190,700
Community program	39,638						39,638
Debt service						58,698	58,698
Operations		836,501		3,203,957		2,064,256	6,104,714
Unassigned:							
Unassigned	4,453,307		(796,705)				3,656,602
Total Fund Balances	<u>4,801,958</u>	<u>994,113</u>	<u>(796,705)</u>	<u>3,330,524</u>	<u>6,972,403</u>	<u>5,372,663</u>	<u>20,674,956</u>

M. Interfund receivables and payables

The composition of interfund balances as of June 30, 2014 is as follows:

Advances from / to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Escrow Reserve Fund	Airport Fund	\$300,000
Escrow Reserve Fund	Lakefront Urban Renewal Fund	\$810,000

An interfund loan in an amount not to exceed \$1,500,000 from the escrow reserve fund to the airport fund was authorized by the government’s council in March 2010. The loan was to provide cash flow for the quarterly payments on the wetlands mitigation settlement agreement while awaiting reimbursement from the Federal Aviation Administration. The total amount loaned from the escrow reserve fund was \$900,000 at 4.625% interest. Principal of \$25,000 and interest of \$15,031 were paid in fiscal year 2014.

An interfund loan in the amount of \$900,000 from the escrow reserve fund to the lakefront urban renewal fund was authorized by the government’s council in October 2013. The loan was used to reimburse the developer, Timbermill Shores, for work done on the lakefront of Lake Ewauna. The loan accrues interest at 3.75% and matures in 2023. The loan will be repaid using tax increment financing. Principal of \$90,000 and interest of \$21,914 were paid in fiscal year 2014.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

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

N. Interfund transfers

The composition of interfund transfers for the year ended June 30, 2014 is as follows:

Interfund transfers:

Transfer out	Transfer in	Amount
General Fund	Nonmajor Governmental Funds	435,043
Water Fund	Airport Fund	103,190
Water Fund	Nonmajor Governmental Fund	359,762
Nonmajor Governmental Fund	Escrow Reserve Fund	231,543
Nonmajor Governmental Fund	General Fund	375,043
Total		<u>\$ 1,504,581</u>

In the year ended June 30, 2014, the government made the following transfers:

The general fund transferred \$60,000 to the technology reserve fund for future replacement of the ERP system and \$375,043 to Parks for operations and capital from the cemetery fund.

The water fund transferred \$103,190 to the airport fund to support airport operations and \$359,762 to the parks fund to support parks operations and capital improvements.

The cogeneration fund transferred \$231,543 to the escrow reserve fund for capital.

The cemetery fund transferred \$375,043 to the general fund (which was ultimately transferred to the parks fund).

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

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 5 – CONTINGENCIES (continued)

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, 2014 the government's Teamster represented employees began paying the employee portion of PERS of 6%. 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.

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

In January of 2015, the City of Klamath Falls was sued by PacifiCorp for inverse condemnation and damages in the amount of \$200,000 and attorney fees. The claim arises out of the City's electricity franchise with PacifiCorp.

The City paid off 3 loans early in FY 2015 (two in business type activities and one in governmental activities) saving the City over \$300,000 in interest expense.

NOTE 7 – PRIOR PERIOD ADJUSTMENT

- Per GASB Statement No. 65, the government restated net position for the write off of bond issuance costs.
- In 2012 the government recorded a prior period adjustment for their portion of Klamath County property tax interest receivable estimated by the County. After further review it has been decided that this is a contingent receivable and should not be recorded as revenue by the government. \$169,928 was recorded as a prior period adjustment.
- During the current fiscal year, Timbermill Shores, a developer for the lakefront urban renewal district, became aware that the original loan taken out for development was paid off by the government. The developer requested reimbursement for additional work performed. The government required the developer to submit paid invoices to determine the amount of the reimbursement. The developer submitted invoices totaling \$3,863,314. Of that amount, the government determined that \$714,750 had already been recorded as assets and paid to the developer. An additional loan was budgeted in the current year for \$900,000 with the City of Klamath Falls (this amount was also recorded as assets and given to the developer). It was determined that the remaining balance of \$2,248,564 was due and payable to the developer for reimbursement for work done in prior years. \$1,654,469 was determined to be Agency assets (and were recorded as such), the remaining \$594,095 were determined to be assets that would be retained by the developer and were expensed.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7 – PRIOR PERIOD ADJUSTMENT (continued)

	Governmental Activities	Business-Type Activities
Beginning net position	135,134,219	67,945,404
Restatement due to Change in Accounting Principal Bond issuance cost reclassification	(103,241)	(275,665)
Prior Period Adjustment		
Property tax receivable	(169,928)	
Timbermill Shores liability	(594,095)	
Beginning net position, restated	134,266,955	67,669,739

NOTE 8- ACCOUNTING PRONOUNCEMENTS

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

The government adopted 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 adopted 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 adopted 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.

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 8- ACCOUNTING PRONOUNCEMENTS (continued)

The government plans to adopt GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, required for fiscal periods beginning after June 15, 2014, in fiscal year 2015. This objective of this Statement is to improve accounting and financial reporting by addressing an issue in Statement No. 68, *Accounting and Financial Reporting for Pensions*, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities.

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

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF KLAMATH FALLS, OREGON
MAJOR GOVERNMENTAL FUNDS

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

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

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

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

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CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Schedule A-1
	Original	Final		Variance with Final Budget - Positive (Negative)
Revenues				
Taxes	\$ 4,975,675	\$ 4,975,675	\$ 4,861,515	\$ (114,160)
Special assessments	1,500	1,500	800	(700)
Intergovernmental	2,328,325	2,328,325	548,028	(1,780,297)
Licenses, fees and permits	152,500	152,500	140,029	(12,471)
Franchise fees	1,113,650	1,113,650	1,124,880	11,230
Charges for services	3,805,075	3,805,075	3,545,790	(259,285)
Fines and forfeits	391,000	391,000	397,321	6,321
Investment income	32,500	32,500	84,592	52,092
Miscellaneous revenues	62,500	99,125	117,834	18,709
Total Revenues	12,862,725	12,899,350	10,820,789	(2,078,561)
Expenditures				
Police department				
Personnel services	4,614,850	4,614,850	4,327,510	287,340
Materials and services	1,313,275	1,317,875	1,192,076	125,799
Capital outlay	170,600	176,000	175,045	955
Debt Service	291,150	291,150	291,133	17
Code enforcement				
Personnel services	133,800	133,800	117,571	16,229
Materials and services	141,725	141,725	49,095	92,630
Municipal court				
Personnel services	195,025	189,025	180,793	8,232
Materials and services	67,725	77,100	70,056	7,044
Maintenance department				
Personnel services	843,525	843,525	797,617	45,908
Materials and services	92,425	92,425	79,322	13,103
Legislative department				
Personnel services	60,625	60,625	58,723	1,902
Materials and services	43,125	46,000	39,651	6,349
Legal department				
Personnel services	197,375	197,375	190,805	6,570
Materials and services	31,700	34,525	25,615	8,910
City manager department				
Personnel services	396,350	396,350	382,880	13,470
Materials and services	58,675	62,300	34,275	28,025
Finance department				
Personnel services	489,275	489,275	449,113	40,162
Materials and services	145,150	145,150	142,584	2,566
Human resources department				
Personnel services	227,900	227,900	215,958	11,942
Materials and services	33,975	50,075	36,040	14,035
Information systems department				
Personnel services	290,600	290,600	283,126	7,474
Materials and services	124,025	126,575	84,093	42,482
Planning department				
Personnel services	441,200	441,200	398,675	42,525
Materials and services	112,500	112,500	54,095	58,405
Public works engineering department				
Personnel services	566,375	593,200	562,422	30,778
Materials and services	106,775	106,775	88,791	17,984
Other general fund programs				
Materials and services	1,857,500	1,857,500	138,011	1,719,489
Capital outlay	73,000	73,000	7,106	65,894
Contingency	2,133,750	1,956,600	-	1,956,600
Total Expenditures	15,253,975	15,145,000	10,472,181	4,672,819
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,391,250)	(2,245,650)	348,608	2,594,258
Other Financing Sources (Uses)				
Transfers in	373,975	375,125	375,043	(82)
Transfers (out)	(433,975)	(435,125)	(435,043)	82
Proceeds from sale of capital assets	-	-	160,000	160,000
Total Other Financing Sources and (Uses)	(60,000)	(60,000)	100,000	160,000
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	(2,451,250)	(2,305,650)	448,608	2,754,258
Fund Balance - Beginning	4,585,000	4,439,400	4,353,350	(86,050)
Fund Balance - Ending	<u>\$ 2,133,750</u>	<u>\$ 2,133,750</u>	<u>\$ 4,801,958</u>	<u>\$ 2,668,208</u>

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, 2014

Schedule A-2

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 456,575	\$ 456,575	\$ 444,280	\$ (12,295)
Intergovernmental	1,264,500	1,582,300	1,117,293	(465,007)
Charges for services	650,900	650,900	607,930	(42,970)
Investment income	9,850	9,850	11,662	1,812
Miscellaneous revenues	-	20,000	67,980	47,980
Total Revenues	2,381,825	2,719,625	2,249,145	(470,480)
Expenditures				
Operations department				
Personnel services	557,975	557,975	530,885	27,090
Materials and services	668,725	823,725	656,083	167,642
Capital Outlay	330,000	330,000	260,963	69,037
Debt service	186,775	186,775	186,756	19
Contingency	656,825	607,700	-	607,700
FAA grants department				
Materials and services	22,000	22,000	2,175	19,825
Capital Outlay	1,007,500	1,283,750	810,785	472,965
Total Expenditures	3,429,800	3,811,925	2,447,647	1,364,278
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,047,975)	(1,092,300)	(198,502)	893,798
Other Financing Sources (Uses)				
Transfers in	75,250	75,250	103,190	27,940
Total Other Financing Sources and (Uses)	75,250	75,250	103,190	27,940
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	(972,725)	(1,017,050)	(95,312)	921,738
Fund Balance - Beginning	972,725	1,017,050	1,389,425	372,375
Fund Balance - Ending	\$ -	\$ -	\$ 1,294,113	\$ 1,294,113
Reconciliation				
Interfund Loan			(300,000)	
Fund Balance - Ending (GAAP)			\$ 994,113	

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, 2014

Schedule A-3

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 114,150	\$ 114,150	\$ 118,472	\$ 4,322
Investment income	925	925	1,432	507
Total Revenues	115,075	115,075	119,904	4,829
Expenditures				
Lakefront urban renewal agency				
Materials and Services	125	125	121	4
Capital outlay	117,300	900,000	900,000	-
Debt service	126,250	163,550	158,522	5,028
Contingency	5,000	5,000	-	5,000
Total Expenditures	248,675	1,068,675	1,058,643	10,032
Excess (Deficiency) of Revenues Over (Under) Expenditures	(133,600)	(953,600)	(938,739)	14,861
Other Financing Sources (Uses)				
Interfund loan proceeds	80,000	900,000	900,000	-
Total Other Financing Sources and (Uses)	80,000	900,000	900,000	-
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	(53,600)	(53,600)	(38,739)	14,861
Fund Balance - Beginning	53,600	53,600	52,034	(1,566)
Fund Balance - Ending	\$ -	\$ -	\$ 13,295	\$ 13,295
Reconciliation				
Interfund Loan			(810,000)	
Fund Balance - Ending (GAAP)			\$ (796,705)	

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, 2014

Schedule A-4

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 2,091,675	\$ 2,091,675	\$ 1,582,995	\$ (508,680)
Franchise fees	872,275	872,275	879,108	6,833
Charges for services	187,275	187,275	286,389	99,114
Investment income	13,825	13,825	16,294	2,469
Miscellaneous revenues	-	-	14,458	14,458
Total Revenues	3,165,050	3,165,050	2,779,244	(385,806)
Expenditures				
Operations department				
Personnel services	787,350	787,350	733,220	54,130
Materials and services	1,182,725	1,182,725	826,783	355,942
Capital outlay	1,120,750	1,120,750	508,798	611,952
Contingency	1,547,325	1,547,325	-	1,547,325
Public works administration department				
Personnel services	74,100	74,100	72,257	1,843
Materials and services	16,400	16,400	13,338	3,062
Vehicle maintenance department				
Personnel services	159,350	159,350	154,999	4,351
Materials and services	42,825	42,825	39,888	2,937
Capital outlay	48,000	48,000	13,355	34,645
Total Expenditures	4,978,825	4,978,825	2,362,638	2,616,187
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,813,775)	(1,813,775)	416,606	2,230,381
Fund Balance - Beginning	2,563,775	2,563,775	2,913,917	350,142
Fund Balance - Ending	\$ 750,000	\$ 750,000	\$ 3,330,523	\$ 2,580,523

CITY OF KLAMATH FALLS, OREGON
 SCHEDULE OF FUNDING PROGRESS
 JUNE 30, 2014

Schedule A-5

Post Employment Health Care Plan - Implicit Medical Benefit

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b – a) / c)
July 1, 2006	\$ -	\$ 503,376	\$ 503,376	-	\$ 6,034,263	8.34%
July 1, 2009	-	930,240	930,240	-	6,007,311	15.49%
August 1, 2012	-	822,372	822,372	-	6,341,297	12.97%

CITY OF KLAMATH FALLS, OREGON
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2014

Stewardship, Compliance, and Accountability

On or before June 30 of each year, the City enacts a resolution approving the budget, appropriating the expenditures, and levying the property taxes. The City's budget is presented on the modified accrual basis of accounting which is the same basis as GAAP.

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

The resolution authorizing appropriations for each fund sets the legal level of control by which expenditures cannot legally exceed appropriations. Total expenditures by department as established by the resolution are the legal level of control for the General Fund. Expenditure categories of personal services, materials and services, capital outlay, debt service, transfers, and contingency are the legal level of control for all other funds. The detail budget document, however, is required to contain more specific information for the above mentioned expenditure categories. Unexpected additional resources may be added to the budget through the use of a supplemental budget. A supplemental budget requires hearings before the public, publications in newspapers, and adoption by the City Council. Management may modify original and supplemental budgets by the use of appropriation transfers between the legal levels of control within a fund. Such transfers require approval by the City Council. Management may not amend the budget without seeking the approval of the Council. The City had appropriation transfers during the year-ended June 30, 2014. The city had supplemental budgets during the year-ended June 30, 2014. Appropriations lapse as of year-end.

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, 2014

Schedule B-1

	Special Revenue Funds	Capital Projects Funds	Debt Service Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 2,032,169	\$ 1,153,017	\$ 53,407	\$ 3,238,593
Accounts receivable	166,153	966		167,119
Taxes receivable	118,342		24,495	142,837
Loans receivable	68,577			68,577
Interest receivable	2,869		624	3,493
Inventories	39,082			39,082
Prepaid items	44,583			44,583
Temporarily restricted assets				
Cash and cash equivalents	1,133,078	73,474		1,206,552
Investments	97,243			97,243
Interest receivable	6,764			6,764
Long-term investments				
Temporarily restricted investments	717,150			717,150
Total Assets	\$ 4,426,010	\$ 1,227,457	\$ 78,526	\$ 5,731,993
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 100,789	\$ 5,671	\$	\$ 106,460
Deposits payable	2,875			2,875
Unearned revenue	39,494			39,494
Total Liabilities	143,158	5,671	-	148,829
Deferred inflows of resources:				
Unavailable revenue - property taxes	96,574		19,828	116,402
Unavailable revenue - transient room tax	8,179			8,179
Unavailable revenue - downtown maint. district fees	474			474
Unavailable revenue - loans receivable	68,576			68,576
Unavailable revenue - parking fines	16,869			16,869
Total Deferred Inflows of Resources	173,803	-	19,828	210,500
Total Liabilities and Deferred Inflows of Resources	316,961	5,671	19,828	359,329
Fund Balances:				
Nonspendable	83,665			83,665
Restricted	1,944,258	69,019		2,013,277
Assigned	2,064,257	1,152,767	58,698	3,275,722
Total Fund Balances	4,092,180	1,221,786	58,698	5,372,664
Total Liabilities and Fund Balances	\$ 4,409,141	\$ 1,227,457	\$ 78,526	\$ 5,731,993

CITY OF KLAMATH FALLS, OREGON
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2014

Schedule B-2

	Special Revenue Funds	Capital Project Funds	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues				
Taxes	\$ 1,327,529	\$	\$ 204,872	\$ 1,532,401
Intergovernmental	193,829	355,433		549,262
Licenses, fees and permits	43,735			43,735
Franchise fees	334,190			334,190
Charges for services	423,551			423,551
Fines and forfeits	55,355			55,355
Investment income	44,369	55,210	2,376	101,955
Miscellaneous revenues	120,562	10,133		130,695
Total Revenues	2,543,120	420,776	207,248	3,171,144
Expenditures				
Current:				
General government	224,917	3,231		228,148
Culture and recreation	1,258,030			1,258,030
Highways and streets	418,181			418,181
Debt service:				
Principal	556,981			556,981
Interest	23,880		205,525	229,405
Capital outlay:				
General government	70,088	290,943		361,031
Culture and recreation	105,539			105,539
Public Safety				
Highways and streets	217,664	363,745		581,409
Total Expenditures	2,875,280	657,919	205,525	3,738,724
Excess (Deficiency) of Revenues Over (Under) Expenditures	(332,160)	(237,143)	1,723	(567,580)
Other Financing Sources (Uses)				
Proceeds from sale of asset	27,706			27,706
Transfers in	734,805	60,000		794,805
Transfers out	(606,586)			(606,586)
Issuance of debt	414,721			414,721
Total Other Financing Sources and (Uses)	570,646	60,000	-	630,646
Net Change in Fund Balances	238,486	(177,143)	1,723	63,066
Fund Balance - Beginning	3,853,694	1,398,929	56,975	5,309,598
Fund Balances - Ending	\$ 4,092,180	\$ 1,221,786	\$ 58,698	\$ 5,372,664

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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 only activity in FY 2014 was interest income and a transfer to the General Fund closing out the fund.

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

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

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

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

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

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

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

CITY OF KLAMATH FALLS, OREGON
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 June 30, 2014

	Cemetery Fund	Parks Fund	Downtown Urban Renewal Fund	Town Center Urban Renewal Fund
ASSETS				
Cash and cash equivalents	\$	\$ 1,319,118	\$	\$
Receivables				
Accounts		88,237	5,675	
Taxes		97,298		21,044
Loans			68,577	
Interest		2,353		516
Inventories			16,234	
Prepaid items		41,024		
Temporarily restricted assets				
Cash and cash equivalents		61,980	1,006,387	49,083
Investments				
Interest receivable				
Long-term investments				
Temporarily restricted investments				
Total Assets	\$ -	\$ 1,610,010	\$ 1,096,873	\$ 70,643
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$	\$ 58,662	\$ 19,741	\$
Deposits payable		2,875		
Unearned revenue		5,753	325	
Total Liabilities	-	67,290	20,066	-
Deferred inflows of resources:				
Unavailable revenue - property taxes		79,427		17,147
Unavailable revenue - transient room tax		8,179		
Unavailable revenue - downtown maint. district fees				
Unavailable revenue - loans receivable			68,576	
Unavailable revenue - parking fines				
Total Deferred Inflows of Resources	-	87,606	68,576	17,147
Total Liabilities and Deferred Inflows of Resources	-	154,896	88,642	17,147
Fund Balances:				
Nonspendable		41,024	16,234	
Restricted		61,980	991,997	53,496
Assigned		1,352,110		
Total Fund Balances	-	1,455,114	1,008,231	53,496
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ -	\$ 1,610,010	\$ 1,096,873	\$ 70,643

Schedule C-1

Off-Street Parking Fund	Street Lighting Fund	Downtown Maintenance Fund	Economic Development Fund	Cogeneration Fund	Total
\$ 94,837	\$ 382,528	\$ 25,355	\$ 210,331	\$	\$ 2,032,169
17,050	53,717	474	1,000		166,153
					118,342
					68,577
	22,848				2,869
2,225	1,334				39,082
					44,583
				15,628	1,133,078
				97,243	97,243
				6,764	6,764
				717,150	717,150
<u>\$ 114,112</u>	<u>\$ 460,427</u>	<u>\$ 25,829</u>	<u>\$ 211,331</u>	<u>\$ 836,785</u>	<u>\$ 4,426,010</u>
\$ 1,825	\$ 16,248	\$ 2,268	\$ 2,045	\$	\$ 100,789
					2,875
23,960		9,456			39,494
25,785	16,248	11,724	2,045	-	143,158
					96,574
					8,179
		474			474
					68,576
16,869					16,869
16,869	-	474	-	-	190,672
42,654	16,248	12,198	2,045	-	333,830
2,225	24,182				83,665
69,233	419,997	13,631	209,286	836,785	1,944,258
					2,064,257
71,458	444,179	13,631	209,286	836,785	4,092,180
<u>\$ 114,112</u>	<u>\$ 460,427</u>	<u>\$ 25,829</u>	<u>\$ 211,331</u>	<u>\$ 836,785</u>	<u>\$ 4,426,010</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, 2014

	Cemetery Fund	Parks Fund	Downtown Urban Renewal Fund	Town Center Urban Renewal Fund
Revenues				
Taxes	\$	\$ 749,711	\$ 401,657	\$ 176,161
Intergovernmental		193,829		
Licenses, fees and permits				
Franchise fees				
Charges for services		130,929	72,455	
Fines and forfeits				
Investment income	1,005	13,941	13,174	1,958
Miscellaneous revenues		87,564	60	
	<u>1,005</u>	<u>1,175,974</u>	<u>487,346</u>	<u>178,119</u>
Total Revenues				
Expenditures				
Current:				
General government			140,372	121
Culture and recreation		1,258,030		
Highways and streets				
Debt service:				
Principal			414,721	136,346
Interest			569	22,189
Capital outlay:				
General government			70,088	
Culture and recreation		105,539		
Highways and streets				
	<u>-</u>	<u>1,363,569</u>	<u>625,750</u>	<u>158,656</u>
Total Expenditures				
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,005</u>	<u>(187,595)</u>	<u>(138,404)</u>	<u>19,463</u>
Other Financing Sources (Uses)				
Proceeds from sale of asset			27,706	
Transfers in		734,805		
Transfers out	(375,043)			
Issuance of debt			414,721	
	<u>(375,043)</u>	<u>734,805</u>	<u>442,427</u>	<u>-</u>
Total Other Financing Sources and (Uses)				
Net Change in Fund Balances	<u>(374,038)</u>	<u>547,210</u>	<u>304,023</u>	<u>19,463</u>
Fund Balance - Beginning	<u>374,038</u>	<u>907,904</u>	<u>704,208</u>	<u>34,033</u>
Fund Balances - Ending	<u>\$ -</u>	<u>\$ 1,455,114</u>	<u>\$ 1,008,231</u>	<u>\$ 53,496</u>

Schedule C-2

Off-Street Parking Fund	Street Lighting Fund	Downtown Maintenance Fund	Economic Development Fund	Cogeneration Fund	Total
\$	\$	\$	\$	\$	\$ 1,327,529
					193,829
43,735					43,735
	334,190				334,190
	188,084	18,991	13,092		423,551
55,355					55,355
458	1,972	117	1,248	10,496	44,369
471	32,467				120,562
<u>100,019</u>	<u>556,713</u>	<u>19,108</u>	<u>14,340</u>	<u>10,496</u>	<u>2,543,120</u>
		15,260	67,664	1,500	224,917
					1,258,030
82,130	336,051				418,181
5,914					556,981
1,122					23,880
					70,088
					105,539
	217,664				217,664
<u>89,166</u>	<u>553,715</u>	<u>15,260</u>	<u>67,664</u>	<u>1,500</u>	<u>2,875,280</u>
<u>10,853</u>	<u>2,998</u>	<u>3,848</u>	<u>(53,324)</u>	<u>8,996</u>	<u>(332,160)</u>
					27,706
					734,805
				(231,543)	(606,586)
					414,721
-	-	-	-	(231,543)	570,646
<u>10,853</u>	<u>2,998</u>	<u>3,848</u>	<u>(53,324)</u>	<u>(222,547)</u>	<u>238,486</u>
<u>60,605</u>	<u>441,181</u>	<u>9,783</u>	<u>262,610</u>	<u>1,059,332</u>	<u>3,853,694</u>
<u>\$ 71,458</u>	<u>\$ 444,179</u>	<u>\$ 13,631</u>	<u>\$ 209,286</u>	<u>\$ 836,785</u>	<u>\$ 4,092,180</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, 2014

	Budgeted Amounts			Actual	Schedule C-3
	Original	Final	Amounts	Variance with	
				Final Budget - Positive (Negative)	
Revenues					
Investment income	\$ -	\$ 1,075	\$ 1,005	\$ (70)	
Total Revenues	-	1,075	1,005	(70)	
Other Financing Sources (Uses)					
Transfers (out)	(373,975)	(375,125)	(375,043)	82	
Total Other Financing Sources and (Uses)	(373,975)	(375,125)	(375,043)	82	
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	(373,975)	(374,050)	(374,038)	12	
Fund Balance - Beginning	373,975	374,050	374,038	(12)	
Fund Balance - Ending	\$ -	\$ -	\$ -	\$ -	

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, 2014

Schedule C-4

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 768,200	\$ 768,200	\$ 749,711	\$ (18,489)
Intergovernmental	419,775	419,775	193,829	(225,946)
Charges for services	115,250	115,250	130,929	15,679
Investment income	7,075	7,075	13,941	6,866
Miscellaneous revenues	20,200	20,200	87,564	67,364
Total Revenues	<u>1,330,500</u>	<u>1,330,500</u>	<u>1,175,974</u>	<u>(154,526)</u>
Expenditures				
Operations department				
Personnel services	572,900	572,900	535,853	37,047
Materials and services	637,625	637,625	448,491	189,134
Capital outlay	500,000	500,000	105,539	394,461
Contingency	622,325	804,125	-	804,125
Ella Redkey Pool department				
Personnel services	244,550	242,875	144,186	98,689
Materials and services	127,850	129,525	129,500	25
Capital outlay	-	30,000	-	30,000
Total Expenditures	<u>2,705,250</u>	<u>2,917,050</u>	<u>1,363,569</u>	<u>1,553,481</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,374,750)</u>	<u>(1,586,550)</u>	<u>(187,595)</u>	<u>1,398,955</u>
Other Financing Sources (Uses)				
Transfers in	737,200	737,200	734,805	(2,395)
Total Other Financing Sources and (Uses)	<u>737,200</u>	<u>737,200</u>	<u>734,805</u>	<u>(2,395)</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	<u>(637,550)</u>	<u>(849,350)</u>	<u>547,210</u>	<u>1,396,560</u>
Fund Balance - Beginning	<u>637,550</u>	<u>849,350</u>	<u>907,904</u>	<u>58,554</u>
Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,455,114</u>	<u>\$ 1,455,114</u>

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, 2014

Schedule C-5

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

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, 2014

Schedule C-6

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

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, 2014

Schedule C-7

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Licenses, fees and permits	\$ 44,000	\$ 44,000	\$ 43,735	\$ (265)
Fines and forfeits	47,100	47,100	55,355	8,255
Investment income	300	300	458	158
Miscellaneous revenues	-	-	471	471
Total Revenues	91,400	91,400	100,019	8,619
Expenditures				
Off street parking				
Personnel services	56,500	56,500	55,102	1,398
Materials and services	32,375	32,375	27,028	5,347
Debt service	7,100	7,100	7,036	64
Contingency	49,200	49,200	-	49,200
Total Expenditures	145,175	145,175	89,166	56,009
Excess (Deficiency) of Revenues Over (Under) Expenditures	(53,775)	(53,775)	10,853	64,628
Fund Balance - Beginning	53,775	53,775	60,605	6,830
Fund Balance - Ending	\$ -	\$ -	\$ 71,458	\$ 71,458

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, 2014

Schedule C-8

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Franchise fees	\$ 330,150	\$ 330,150	\$ 334,190	\$ 4,040
Charges for services	193,800	193,800	188,084	(5,716)
Investment income	2,225	2,225	1,972	(253)
Miscellaneous revenues	-	-	32,467	32,467
Total Revenues	526,175	526,175	556,713	30,538
Expenditures				
Operations department				
Materials and services	375,000	375,000	321,208	53,792
Capital outlay	250,000	250,000	217,664	32,336
Contingency	268,600	268,600	-	268,600
Public works administration department				
Personnel services	13,125	13,125	12,615	510
Materials and services	2,950	2,950	2,228	722
Total Expenditures	909,675	909,675	553,715	355,960
Excess (Deficiency) of Revenues Over (Under) Expenditures	(383,500)	(383,500)	2,998	386,498
Fund Balance - Beginning	413,500	413,500	441,181	27,681
Fund Balance - Ending	\$ 30,000	\$ 30,000	\$ 444,179	\$ 414,179

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, 2014

Schedule C-9

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Charges for services	\$ 19,100	\$ 19,100	\$ 18,991	\$ (109)
Investment income	100	100	117	17
Total Revenues	19,200	19,200	19,108	(92)
Expenditures				
Downtown maintenance district				
Materials and services	18,975	18,975	15,260	3,715
Contingency	10,500	10,500	-	10,500
Total Expenditures	29,475	29,475	15,260	14,215
Excess (Deficiency) of Revenues Over (Under) Expenditures	(10,275)	(10,275)	3,848	14,123
Fund Balance - Beginning	10,275	10,275	9,783	(492)
Fund Balance - Ending	\$ -	\$ -	\$ 13,631	\$ 13,631

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, 2014

	Budgeted Amounts			Schedule C-10
	Original	Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Charges for services	\$ 11,500	\$ 11,500	\$ 13,092	\$ 1,592
Investment income	1,300	1,300	1,248	(52)
Total Revenues	12,800	12,800	14,340	1,540
Expenditures				
Economic development/property				
Materials and services	77,600	77,600	67,664	9,936
Contingency	174,150	174,150	-	174,150
Total Expenditures	251,750	251,750	67,664	184,086
Excess (Deficiency) of Revenues Over (Under) Expenditures	(238,950)	(238,950)	(53,324)	185,626
Fund Balance - Beginning	238,950	238,950	262,610	23,660
Fund Balance - Ending	-	-	209,286	209,286

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, 2014

Schedule C-11

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Investment income	\$ 50,950	\$ 50,950	\$ 10,496	\$ (40,454)
Total Revenues	50,950	50,950	10,496	(40,454)
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	49,450	49,450	8,996	(40,454)
Other Financing Sources (Uses)				
Transfers out	(268,500)	(268,500)	(231,543)	36,957
Total Other Financing Sources and (Uses)	(219,050)	(268,500)	(231,543)	36,957
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	(219,050)	(219,050)	(222,547)	(3,497)
Fund Balance - Beginning	1,021,300	1,021,300	1,059,332	38,032
Fund Balance - Ending	<u>\$ 802,250</u>	<u>\$ 802,250</u>	<u>\$ 836,785</u>	<u>\$ 34,535</u>

CITY OF KLAMATH FALLS, OREGON
NONMAJOR GOVERNMENTAL FUNDS

Capital Projects Funds

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

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

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

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

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

Debt Service Fund

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

Fiduciary Fund

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

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

CITY OF KLAMATH FALLS, OREGON
 COMBINING BALANCE SHEET
 CAPITAL PROJECTS FUNDS
 June 30, 2014

Schedule D-1

	Footpaths/Bicycle Trails Fund	Technology Services Fund	Building Fund	Total
ASSETS				
Cash and cash equivalents	\$	\$ 67,452	\$ 1,085,565	\$ 1,153,017
Accounts receivable	966			966
Advances to other funds				-
Temporarily restricted assets				
Cash and cash equivalents	73,474			73,474
Total Assets	\$ 74,440	\$ 67,452	\$ 1,085,565	\$ 1,227,457
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 5,421	\$ 250	\$ -	\$ 5,671
Total Liabilities	5,421	250	-	5,671
Fund Balances				
Restricted	69,019			69,019
Assigned		67,202	1,085,565	1,152,767
Total Fund Balances	69,019	67,202	1,085,565	1,221,786
Total Liabilities and Fund Balances	\$ 74,440	\$ 67,452	\$ 1,085,565	\$ 1,227,457

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, 2014

Schedule D-2

	Footpaths/Bicycle Trails Fund	Technology Services Fund	Building Fund	Total
Revenues				
Intergovernmental	\$ 355,433	\$	\$	\$ 355,433
Investment Income	180	1,030	54,000	55,210
Miscellaneous	<u> </u>	<u>4,420</u>	<u>5,713</u>	<u>10,133</u>
Total Revenues	<u>355,613</u>	<u>5,450</u>	<u>59,713</u>	<u>420,776</u>
Expenditures				
Materials and services		3,231		3,231
Capital Outlay	<u>363,745</u>	<u>290,943</u>	<u> </u>	<u>654,688</u>
Total Expenditures	<u>363,745</u>	<u>294,174</u>	<u>-</u>	<u>657,919</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(8,132)	(288,724)	59,713	(237,143)
Other Financing Sources (Uses)				
Transfers in	<u> </u>	<u>60,000</u>	<u> </u>	<u>60,000</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	(8,132)	(228,724)	59,713	(177,143)
Fund Balances - Beginning	<u>77,151</u>	<u>295,926</u>	<u>1,025,852</u>	<u>1,398,929</u>
Fund Balances - Ending	<u>\$ 69,019</u>	<u>\$ 67,202</u>	<u>\$ 1,085,565</u>	<u>\$ 1,221,786</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, 2014

Schedule D-3

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 221,575	\$ 276,650	\$ 355,433	\$ 78,783
Investment income	950	950	180	(770)
Total Revenues	222,525	277,600	355,613	78,013
Expenditures				
Footpaths/bicycle trails				
Capital outlay	356,975	430,575	363,745	66,830
Contingency	42,525	26,325	-	26,325
Total Expenditures	399,500	456,900	363,745	93,155
Excess (Deficiency) of Revenues Over (Under) Expenditures	(176,975)	(179,300)	(8,132)	171,168
Fund Balance - Beginning	176,975	179,300	77,151	(102,149)
Fund Balance - Ending	\$ -	\$ -	\$ 69,019	\$ 69,019

CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
TECHNOLOGY RESERVE FUND
For the Year Ended June 30, 2014

Schedule D-4

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Investment income	\$ 1,600	\$ 1,600	\$ 1,030	\$ (570)
Miscellaneous revenues	-	-	4,420	4,420
Total Revenues	<u>1,600</u>	<u>1,600</u>	<u>5,450</u>	<u>(570)</u>
Expenditures				
Technology reserve				
Materials & services	22,575	22,575	3,231	19,344
Capital outlay	743,000	743,000	290,943	452,057
Debt service	10,075	10,075	-	10,075
Contingency	5,700	5,700	-	5,700
Total Expenditures	<u>781,350</u>	<u>781,350</u>	<u>294,174</u>	<u>487,176</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(779,750)</u>	<u>(779,750)</u>	<u>(288,724)</u>	<u>491,026</u>
Other Financing Sources (Uses)				
Interfund loan	425,000	425,000	-	425,000
Transfers in	60,000	60,000	60,000	-
Total Other Financing Sources and (Uses)	<u>485,000</u>	<u>485,000</u>	<u>60,000</u>	<u>425,000</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	<u>(294,750)</u>	<u>(294,750)</u>	<u>(228,724)</u>	<u>66,026</u>
Fund Balance - Beginning	<u>294,750</u>	<u>294,750</u>	<u>295,926</u>	<u>1,176</u>
Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 67,202</u>	<u>\$ 67,202</u>

CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
BUILDING RESERVE FUND
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Schedule D-5
	Original	Final	Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Charges for services	\$ 54,000	\$ 54,000	\$ 54,000	\$ -
Investment income	5,525	5,525	5,713	188
Total Revenues	59,525	59,525	59,713	188
Expenditures				
Building				
Capital outlay	265,000	265,000	-	265,000
Contingency	816,025	816,025	-	816,025
Total Expenditures	1,081,025	1,081,025	-	1,081,025
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,021,500)	(1,021,500)	59,713	1,081,213
Fund Balance - Beginning	1,021,500	1,021,500	1,025,852	4,352
Fund Balance - Ending	-	-	1,085,565	1,085,565

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, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Investment Income	\$ 59,675	\$ 59,675	\$ 69,078	\$ 9,403
Total Revenues	59,675	59,675	69,078	9,403
Expenditures				
Capital				
Materials and services	150,000	200,000	185,243	14,757
Contingency	6,178,250	5,469,775	-	5,469,775
Total Expenditures	6,328,250	5,669,775	185,243	5,484,532
Excess (Deficiency) of Revenues Over (Under) Expenditures	(6,268,575)	(5,610,100)	(116,165)	5,493,935
Other Financing Sources (Uses)				
Interfund loan repayment	25,000	134,575	115,000	(19,575)
Interfund loan	(425,000)	(1,325,000)	(900,000)	425,000
Transfers in	268,500	268,500	231,543	(36,957)
Total Other Financing Sources and (Uses)	(131,500)	(921,925)	(553,457)	368,468
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	(6,400,075)	(6,532,025)	(669,622)	5,862,403
Fund Balance - Beginning	6,400,075	6,532,025	6,532,025	-
Fund Balance - Ending	\$ -	\$ -	5,862,403	\$ 5,862,403
Reconciliation				
Interfund Loan			1,110,000	
Fund Balance - Ending (GAAP)			\$ 6,972,403	

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, 2014

	Budgeted Amounts			Schedule E-1 Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
	Revenues			
Taxes	\$ 201,500	\$ 201,500	\$ 204,872	\$ 3,372
Investment income	775	775	2,376	1,601
Total Revenues	202,275	202,275	207,248	4,973
Expenditures				
Debt service				
Debt service	205,525	205,525	205,525	-
Contingency	47,775	47,775	-	47,775
Total Expenditures	253,300	253,300	205,525	47,775
Excess (Deficiency) of Revenues Over (Under) Expenditures	(51,025)	(51,025)	1,723	52,748
Fund Balances - Beginning	51,025	51,025	56,975	5,950
Fund Balances - Ending	\$ -	\$ -	\$ 58,698	\$ 58,698

CITY OF KLAMATH FALLS, OREGON
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
VETERAN'S MEMORIAL AGENCY FUND
For the Year Ended June 30, 2014

Schedule F-1

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
ASSETS				
Assets				
Cash and cash equivalents	\$ 154,366	\$ 10,255	\$ 112,619	\$ 52,002
Accounts Receivable		10,255	10,153	102
Investments	-	100,000	176	99,824
Total Assets	\$ 154,366	\$ 120,510	\$ 122,948	\$ 151,928
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable	\$ -	\$ 13,054	12,694	\$ 360
Due to Veterans Associations	154,366		2,798	151,568
Total Liabilities	\$ 154,366	\$ 13,054	\$ 15,492	\$ 151,928

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CITY OF KLAMATH FALLS, OREGON
PROPRIETARY FUNDS

Enterprise Funds

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

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

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

CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - BUDGET AND ACTUAL
WASTEWATER FUND
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Schedule G-1
	Original	Final		Variance with Final Budget - Positive (Negative)
Revenues				
Special assessments	\$ -	\$ -	\$ 1,968	\$ 1,968
Charges for services	6,680,100	6,680,100	6,636,187	(43,913)
Interest income	55,300	55,300	43,009	(12,291)
System development charges	40,000	40,000	71,125	31,125
Miscellaneous revenues	950	950	5,575	4,625
	6,776,350	6,776,350	6,757,864	(18,486)
Expenses				
Collections department				
Personnel services	545,350	560,350	533,786	26,564
Materials and services	1,005,250	1,005,250	891,237	114,013
Capital outlay	705,000	705,000	589,942	115,058
Treatment department				
Personnel services	671,400	671,400	605,269	66,131
Materials and services	1,742,250	1,742,250	1,294,616	447,634
Capital outlay	90,000	90,000	80,649	9,351
Utility billing department				
Personnel services	141,200	135,700	134,850	850
Materials and services	107,725	113,225	106,071	7,154
Public works administration department				
Personnel services	74,100	74,100	72,257	1,843
Materials and services	15,725	15,725	13,342	2,383
Other wastewater				
Debt service	885,825	885,825	885,825	-
Contingency	2,594,300	2,579,300	-	2,579,300
	8,578,125	8,578,125	5,207,844	3,370,281
Excess (Deficiency) of Revenues Over (Under) Expenses	(1,801,775)	(1,801,775)	1,550,020	3,351,795
Fund Balance - Beginning	8,691,750	8,691,750	9,511,856	820,106
Fund Balance - Ending	\$ 6,889,975	\$ 6,889,975	11,061,876	\$ 4,171,901
Reconciliation				
Capital assets, net of accumulated depreciator			29,646,162	
OPEB implicit subsidy			(69,710)	
Compensated absences			(113,678)	
Bond prepaid insurance			54,697	
Accrued interest payable			(24,419)	
Bonds payable			(7,547,663)	
Net Position - Ending (GAAP)			\$ 33,007,265	

CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - BUDGET AND ACTUAL
WATER FUND
For the Year Ended June 30, 2014

Schedule G-2

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Charges for services	\$ 7,052,325	\$ 7,052,325	\$ 7,117,387	\$ 65,062
Intergovernmental	155,000	155,000	-	(155,000)
Interest income	33,275	33,275	61,498	28,223
System development charges	56,000	56,000	104,369	48,369
Miscellaneous revenues	12,375	12,375	27,341	14,966
Total Revenues	7,308,975	7,308,975	7,310,595	1,620
Expenses				
Operations department				
Personnel services	956,725	968,225	968,108	117
Materials and services	2,435,575	2,429,075	2,224,948	204,127
Capital outlay	1,306,000	1,306,000	629,239	676,761
Utility billing department				
Personnel services	650,150	640,150	595,004	45,146
Materials and services	224,850	234,850	214,572	20,278
Geothermal department				
Personnel services	53,525	48,525	14,429	34,096
Materials and services	167,825	167,825	117,282	50,543
Capital outlay	45,000	45,000	-	45,000
Debt service	66,575	66,575	8,424	58,151
Public works administration department				
Personnel services	74,100	74,100	72,257	1,843
Materials and services	15,725	15,725	13,335	2,390
Other Water fund programs				
Debt service	833,875	809,375	148,848	660,527
Contingency	842,825	842,825	-	842,825
Total Expenses	7,672,750	7,648,250	5,006,446	2,641,804
Excess (Deficiency) of Revenues Over (Under) Expenses	(363,775)	(339,275)	2,304,149	2,643,424
Other Financing Sources (Uses)				
Transfers out	(438,475)	(462,975)	(462,952)	23
Total Other Financing Sources and (Uses)	(438,475)	(462,975)	(462,952)	23
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenses and Other (Uses)	(802,250)	(802,250)	1,841,197	2,643,447
Fund Balance - Beginning	4,470,075	4,470,075	7,066,435	2,596,360
Fund Balance - Ending	\$ 3,667,825	\$ 3,667,825	8,907,632	\$ 5,239,807
Reconciliation				
Capital assets, net of accumulated depreciation			32,898,650	
OPEB implicit subsidy			(86,004)	
Compensated absences			(136,840)	
Bond prepaid insurance			4,510	
Accrued interest payable			(46,865)	
Loans payable			(1,462,795)	
Bonds payable			(1,600,314)	
Net Position - Ending (GAAP)			\$ 38,477,974	

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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, 2014

Schedule H-1

Fiscal Year	Assessor's Current Levy and Balances July 1, 2013	Discounts/ Adjustments	Taxes Collected	Balance Uncollected June 30, 2014	Interest Collected
2013-2014	\$ 7,157,432	\$ (272,251)	\$ 6,521,752	\$ 363,429	\$ 2,207
Prior years					
2012-13	424,662	(21,362)	214,059	189,241	10,152
2011-12	229,196	(14,179)	78,453	136,564	11,028
2010-11	158,089	(10,609)	74,743	72,737	16,743
2009-10	86,462	(8,465)	60,745	17,252	17,176
2008-09	16,674	(4,730)	4,261	7,683	1,913
2007-08	9,342	(4,357)	2,292	2,693	1,272
2006-07 and Prior	41,292	(20,034)	3,046	18,212	3,910
Total - Prior Years	965,717	(83,736)	437,599	444,382	62,194
Total	<u>\$ 8,123,149</u>	<u>\$ (355,987)</u>	<u>\$ 6,959,351</u>	<u>\$ 807,811</u>	<u>\$ 64,401</u>

Summary by Fund	
General Fund	\$ 594,042
Airport Fund	57,106
Parks Fund	97,297
Downtown Urban Renewal Fund	
Lakefront Urban Renewal Fund	13,827
Town Center Urban Renewal Fund	21,044
2008 General Obligation Bond	<u>24,495</u>
Total	<u>\$ 807,811</u>

CITY OF KLAMATH FALLS, OREGON
 CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
 SCHEDULE BY FUNCTION AND ACTIVITY
 June 30, 2014

Schedule H-2

Function and Activity	Land	Buildings	Machinery and Equipment	Infrastructure	Construction in Progress	Total
General Government:						
Manager	\$ 775,757	\$ 1,603,632	\$ 348,522	\$ 861,100	\$ 11,815	\$ 3,600,826
Information Systems			1,129,330		1,656	1,130,986
Engineering			297,452			297,452
Maintenance		79,087	83,975			163,062
Economic Development	544,243					544,243
Urban renewal	261,167	1,946,486		330,985	1,687,390	4,226,028
Total General Government	1,581,167	3,629,205	1,859,279	1,192,085	1,700,861	9,962,597
Airport	9,087,413	3,892,295	2,672,697	55,893,888	1,004,655	72,550,948
Culture and Recreation	319,224	1,320,518	1,543,902	3,100,665	219,521	6,503,830
Public Safety:						
Police	399,111	8,336,078	2,159,046	24,059	5,178	10,923,472
Code enforcement			62,535			62,535
Total Public Safety	399,111	8,336,078	2,221,581	24,059	5,178	10,986,007
Highways and Streets:						
Maintenance	1,500	275,883	3,273,838			3,551,221
Street system	2,077,286		218,265	130,465,936	53,162	132,814,649
Total Highways and Streets	2,078,786	275,883	3,492,103	130,465,936	53,162	136,365,870
Total Governmental Funds Capital Assets	\$ 13,465,701	\$ 17,453,979	\$ 11,789,562	\$ 190,676,633	\$ 2,983,377	\$ 236,369,252

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, 2014

Schedule H-3

Function and Activity	Governmental Funds Capital Assets July 1, 2013	Prior Period Adjustment	Governmental Funds Capital Assets July 1, 2013 Adjusted	Additions	Deductions, Transfers in & (Transfers out)	Governmental Funds Capital Assets June 30, 2014
General Government:						
Manager	\$ 3,495,112	\$	\$ 3,495,112	\$ 7,107	\$ 98,606	\$ 3,600,825
Information Systems	840,043		840,043	290,943		1,130,986
Engineering	297,452		297,452			297,452
Maintenance	147,399		147,399		15,663	163,062
Economic Development	544,243		544,243			544,243
Urban renewal	2,623,247	1,654,469	4,277,716	970,088	(1,021,775)	4,226,029
Total General Government	7,947,496	1,654,469	9,601,965	1,268,138	(907,506)	9,962,597
Airport	71,479,201		71,479,201	1,071,747		72,550,948
Culture and Recreation	6,387,033		6,387,033	116,797		6,503,830
Public Safety:						
Police	10,764,088		10,764,088	175,046	(15,662)	10,923,472
Code enforcement	62,535		62,535			62,535
Total Public Safety	10,826,623		10,826,623	175,046	(15,662)	10,986,007
Highways and Streets:						
Maintenance	3,523,967		3,523,967	27,254		3,551,221
Street system	130,281,712		130,281,712	1,710,701	822,236	132,814,649
Total Highways and Streets	133,805,679		133,805,679	1,737,955	822,236	136,365,870
Total Governmental Funds Capital Assets	\$ 230,446,032	\$ 1,654,469	\$ 232,100,501	\$ 4,369,683	\$ (100,932)	\$ 236,369,252

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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	157
<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	163
<i>These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.</i>	
Debt Capacity	167
<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	172
<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	174
<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									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Governmental activities										
Net investment in capital assets	\$ 113,684,484	\$ 115,096,825	\$ 119,231,089	\$ 120,623,415	\$ 117,426,374	\$ 92,499,417	\$ 93,122,533	\$ 89,451,135	\$ 84,152,802	\$ 81,416,004
Restricted	2,324,012	2,851,180	3,800,188	5,705,016	12,853,050	10,439,805	998,106	2,492,693	821,666	756,612
Unrestricted	16,908,446	17,186,214	14,361,606	11,814,580	7,948,267	9,927,193	9,391,036	7,907,273	9,156,698	8,915,930
Total governmental activities net position	\$ 132,916,942	\$ 135,134,219	\$ 137,392,883	\$ 138,143,011	\$ 138,227,691	\$ 112,866,415	\$ 103,511,675	\$ 99,851,101	\$ 94,131,166	\$ 91,088,546
Business-type activities										
Net investment in capital assets	\$ 51,934,040	\$ 51,447,145	\$ 49,262,631	\$ 49,086,527	\$ 47,325,073	\$ 36,340,357	\$ 34,075,653	\$ (18,771,844)	\$ (25,067,214)	\$ (26,876,623)
Restricted	5,402,198	9,062,712	7,691,035	5,823,352	4,055,414	20,547,492	18,221,131	50,993,327	62,991,009	54,290,892
Unrestricted	14,149,001	7,435,547	7,086,144	6,789,017	7,971,682	7,817,326	12,808,080	10,243,022	11,136,384	9,288,459
Total business-type activities net position	\$ 71,485,239	\$ 67,945,404	\$ 64,039,810	\$ 61,698,896	\$ 59,352,169	\$ 64,705,175	\$ 65,104,864	\$ 42,464,505	\$ 49,060,179	\$ 36,702,728
Primary government										
Net investment in capital assets	\$ 165,618,524	\$ 166,543,970	\$ 168,493,720	\$ 169,709,942	\$ 164,751,447	\$ 128,839,774	\$ 127,198,186	\$ 70,679,291	\$ 59,085,588	\$ 54,539,381
Restricted	7,726,210	11,913,892	11,491,223	11,528,368	16,908,464	30,987,297	19,219,237	53,486,020	63,812,675	55,047,504
Unrestricted	31,057,447	24,621,761	21,447,750	18,603,597	15,919,949	17,744,519	22,199,116	18,150,295	20,293,082	18,204,389
Total primary government net position	\$ 204,402,181	\$ 203,079,623	\$ 201,432,693	\$ 199,841,907	\$ 197,579,860	\$ 177,571,590	\$ 168,616,539	\$ 142,315,606	\$ 143,191,345	\$ 127,791,274

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

Schedule I-2a

	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Expenses										
Governmental activities:										
General government	\$ 1,117,501	\$ 998,328	\$ 916,736	\$ 1,858,704	\$ 965,249	\$ 1,166,541	\$ 1,968,063	\$ 1,736,240	\$ 2,564,468	\$ 2,076,730
Airport	2,979,505	2,738,308	3,056,676	2,711,318	2,416,914	2,955,132	2,090,904	2,212,159	1,882,408	1,710,673
Culture and recreation	1,429,718	1,393,933	1,315,332	1,170,962	1,126,984	1,104,576	855,338	877,478	743,067	711,190
Public safety	6,392,398	6,643,034	6,592,397	6,728,610	6,245,613	6,211,412	5,980,528	5,681,870	5,122,162	4,699,250
Highways and streets	5,376,296	5,443,451	6,069,358	5,548,199	6,980,014	6,998,760	6,580,800	6,073,551	5,858,103	5,533,887
Interest on long-term debt	409,176	435,161	468,537	514,306	549,840	470,765	407,383	432,661	421,747	332,850
Total governmental activities	17,704,594	17,652,215	18,419,036	18,532,099	18,284,614	18,907,186	17,883,016	17,013,959	16,591,955	15,064,580
Business-type activity -										
Wastewater	5,045,680	4,992,855	4,914,640	5,021,711	5,784,920	5,788,994	5,639,417	5,373,761	5,492,687	4,802,493
Water	5,682,323	5,566,016	5,588,110	5,479,594	5,557,164	5,652,839	5,116,142	4,642,124	4,651,917	4,107,389
Electric	-	-	-	-	-	-	93,333,875	171,122,266	170,839,198	173,937,183
Total business-type activities	10,728,003	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
Total Expenses	\$ 28,432,597	\$ 28,211,086	\$ 28,921,786	\$ 29,033,404	\$ 29,626,698	\$ 30,349,019	\$ 121,972,450	\$ 198,152,110	\$ 197,575,757	\$ 197,911,645
Program Revenues										
Governmental activities:										
Charges for services										
General government	\$ 286,623	\$ 484,091	\$ 375,711	\$ 297,346	\$ 307,620	\$ 444,397	\$ 612,722	\$ 1,105,100	\$ 1,152,869	\$ 948,220
Airport	714,909	709,978	690,670	752,472	714,295	792,410	741,703	786,589	761,785	748,090
Culture and recreation	152,142	139,322	32,895	26,465	62,635	36,938	73,467	16,185	104,911	115,361
Public safety	446,467	421,800	511,539	486,579	477,764	627,543	718,489	820,536	636,445	486,543
Highways and streets	355,562	302,871	310,576	298,671	293,013	290,611	138,292	133,324	100,354	104,662
Operating grants and contributions	117,860	278,724	408,138	1,228,734	500,695	770,859	434,462	437,146	305,567	1,322,016
Capital grants and contributions	2,236,523	986,649	1,824,829	3,123,541	21,676,883	11,419,781	6,507,816	8,762,011	6,504,254	5,107,419
Total governmental activities	4,310,086	3,323,435	4,154,358	6,213,808	24,032,905	14,382,539	9,226,951	12,060,891	9,566,185	8,832,311
Business-type activity -										
Charges for services										
Wastewater	6,714,855	6,791,552	6,223,467	6,181,257	6,190,377	4,874,626	4,994,068	4,887,063	4,606,349	5,070,731
Water	7,244,563	7,434,803	6,732,455	6,767,730	7,128,762	6,955,464	6,931,420	7,285,457	6,733,075	5,867,423
Electric	-	-	-	-	-	-	79,743,915	156,136,085	176,380,149	174,922,542
Operating grants and contributions	-	-	1,989	45,623	104,527	-	-	-	21,771	17,198
Capital grants and contributions	864,767	428,094	43,543	172,287	307,195	527,998	1,133,629	1,525,949	1,533,013	626,837
Total business-type activity	14,824,185	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
Total program revenues	\$ 19,134,271	\$ 17,977,884	\$ 17,155,812	\$ 19,380,705	\$ 37,763,766	\$ 26,740,627	\$ 102,029,983	\$ 181,895,445	\$ 198,840,542	\$ 195,337,042
Net (expense)/revenue										
Governmental activities	\$ (13,394,508)	\$ (14,328,780)	\$ (14,264,678)	\$ (12,318,291)	\$ 5,748,291	\$ (4,524,647)	\$ (8,656,065)	\$ (4,953,068)	\$ (7,025,770)	\$ (6,232,269)
Business-type activity	4,096,182	4,095,578	2,498,704	2,665,592	2,388,777	916,255	(11,286,402)	(11,303,597)	8,290,555	3,657,666
Total net expense (revenue)	\$ (9,298,326)	\$ (10,233,202)	\$ (11,765,974)	\$ (9,652,699)	\$ 8,137,068	\$ (3,608,392)	\$ (19,942,467)	\$ (16,256,665)	\$ 1,264,785	\$ (2,574,603)

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

Schedule I-2b

	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
General Revenues										
Governmental activities:										
Property taxes	\$ 6,801,445	\$ 7,205,147	\$ 7,443,904	\$ 7,519,701	\$ 7,455,530	\$ 6,951,966	\$ 6,659,364	\$ 6,111,968	\$ 5,248,764	\$ 5,002,890
Franchise taxes	2,338,179	2,285,109	2,112,940	2,032,875	1,897,175	1,884,227	1,925,103	1,781,794	1,666,103	1,544,092
911 excise tax	-	51,006	102,784	105,920	-	-	-	-	-	-
Motor fuel taxes	1,227,480	1,165,774	1,145,033	1,044,517	887,985	815,573	906,914	955,921	983,565	980,852
Alcoholic beverage taxes	300,889	284,182	268,841	250,378	241,280	255,551	238,360	217,772	216,961	193,935
Cigarette taxes	28,905	30,238	30,699	32,418	31,174	33,304	34,359	37,453	37,764	34,809
Transient room taxes	448,867	400,655	470,879	494,922	375,233	381,837	349,415	359,218	399,169	395,595
State revenue sharing	202,054	183,829	177,232	163,365	159,682	165,415	158,907	142,365	141,698	122,945
Unrestricted investment earnings	199,778	178,996	227,402	222,930	482,757	504,718	968,114	706,203	434,838	244,315
Gain on sale of capital assets	111,709	-	750	30,435	-	350,266	288,583	368,809	150,396	270,334
Special and extraordinary items	-	-	1,133,000	-	(397,783)	-	899,194	-	-	-
Transfers in/out	385,189	285,180	238,653	379,138	8,236,517	2,536,530	212,550	(8,500)	789,132	352,569
Total general revenues, transfers, and special items	<u>12,044,495</u>	<u>12,070,116</u>	<u>13,352,117</u>	<u>12,276,599</u>	<u>19,369,550</u>	<u>13,879,387</u>	<u>12,640,863</u>	<u>10,673,003</u>	<u>10,068,390</u>	<u>9,142,336</u>
Business-type activity -										
Unrestricted investment earnings	104,507	95,196	80,863	60,273	494,734	1,220,586	6,710,258	4,699,423	3,916,544	2,785,989
Special and extraordinary items	-	-	-	-	-	-	39,047,754	-	-	-
Transfers in/out	(385,189)	(285,180)	(238,653)	(379,138)	(8,236,517)	(2,536,530)	(212,550)	8,500	(789,132)	(352,569)
Total business-type activities	<u>(280,682)</u>	<u>(189,984)</u>	<u>(157,790)</u>	<u>(318,865)</u>	<u>(7,741,783)</u>	<u>(1,315,944)</u>	<u>45,545,462</u>	<u>4,707,923</u>	<u>3,127,412</u>	<u>2,433,420</u>
Total primary government	<u>\$ 11,763,813</u>	<u>\$ 11,880,132</u>	<u>\$ 13,194,327</u>	<u>\$ 11,957,734</u>	<u>\$ 11,627,767</u>	<u>\$ 12,563,443</u>	<u>\$ 58,186,325</u>	<u>\$ 15,380,926</u>	<u>\$ 13,195,802</u>	<u>\$ 11,575,756</u>
Change in Net Position										
Governmental activities	\$ (1,350,013)	\$ (2,258,664)	\$ (912,561)	\$ (41,692)	\$ 25,117,841	\$ 9,354,740	\$ 3,984,798	\$ 5,719,935	\$ 3,042,620	\$ 2,910,067
Business-type activity	3,815,500	3,905,594	2,340,914	2,346,727	(5,353,006)	(399,689)	34,259,060	(6,595,674)	11,417,967	6,091,086
Total Change in Net Position	<u>\$ 2,465,487</u>	<u>\$ 1,646,930</u>	<u>\$ 1,428,353</u>	<u>\$ 2,305,035</u>	<u>\$ 19,764,835</u>	<u>\$ 8,955,051</u>	<u>\$ 38,243,858</u>	<u>\$ (875,739)</u>	<u>\$ 14,460,587</u>	<u>\$ 9,001,153</u>

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

Schedule I-3

	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
General Fund										
Nonspendable	\$ 243,735	\$ 96,586	\$ 94,654	\$ 123,265						
Restricted	65,278	56,596								
Assigned	39,638	49,638	521,743	954,280						
Unassigned	4,453,307	4,150,530	3,887,663	3,005,764						
Reserved					\$ 213,091	\$ 314,051	\$ 433,900			
Unreserved					3,266,208	3,091,150	3,166,075	\$ 4,213,632	\$ 3,684,637	\$ 3,480,394
Total general fund	<u>\$ 4,801,958</u>	<u>\$ 4,353,350</u>	<u>\$ 4,504,060</u>	<u>\$ 4,083,309</u>	<u>\$ 3,479,299</u>	<u>\$ 3,405,201</u>	<u>\$ 3,599,975</u>	<u>\$ 4,213,632</u>	<u>\$ 3,684,637</u>	<u>\$ 3,480,394</u>
All other governmental funds										
Nonspendable	149,572	91,110	75,919	\$ 104,942						
Restricted	2,166,019	2,201,094	3,432,013	5,325,961						
Assigned	14,354,112	13,904,795	10,915,284	8,605,567						
Unassigned	(796,705)			(206,459)						
Reserved for:										
Prepays and inventory					\$ 177,656	\$ 107,973	\$ 110,200			
Advances to other funds					500,000	500,000				
System development charges					64,759	59,695	131,182	\$ 203,449	\$ 277,891	\$ 193,769
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
Outside Third Party Claims					5,873,283					
Perpetual care-Nonexpendable						436,100	430,446	406,469	398,750	417,818
Unreserved, reported in:										
Special revenue funds					3,540,839	3,963,066	5,040,643	4,998,025	4,929,325	4,252,298
Capital project funds					4,701,679	1,340,445	1,962,118	804,099	595,226	5,216
Debt service fund					448,480	363,854	350,471	1,029,218	972,281	937,978
Perpetual care-Expendable						2,014				
Total all other governmental funds	<u>\$ 15,872,998</u>	<u>\$ 16,196,999</u>	<u>\$ 14,423,216</u>	<u>\$ 13,830,011</u>	<u>\$ 16,604,542</u>	<u>\$ 16,608,430</u>	<u>\$ 13,092,808</u>	<u>\$ 7,608,293</u>	<u>\$ 7,339,248</u>	<u>\$ 5,952,104</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									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenues										
Property taxes	\$ 6,956,668	\$ 7,211,003	\$ 7,507,727	\$ 7,387,533	\$ 7,340,106	\$ 6,819,648	\$ 6,526,160	\$ 6,184,818	\$ 5,396,974	\$ 5,041,709
Special assessments	800	97,227	2,479	6,387	10,350	7,942	30,541	42,166	156,287	45,413
Intergovernmental	3,797,578	3,158,117	4,984,594	6,886,229	22,573,756	13,577,485	6,912,621	9,582,481	8,020,987	8,062,222
Licenses, fees and permits	183,764	194,230	224,155	216,805	231,027	257,485	400,221	429,564	404,758	236,707
Franchise fees	2,338,178	2,293,767	2,120,371	2,040,041	1,905,227	1,896,824	1,940,380	1,812,114	1,694,587	1,570,000
Charges for services	4,863,660	4,933,476	5,134,894	5,260,072	5,114,039	5,349,311	4,951,836	5,035,000	4,797,951	3,570,448
Fines and forfeitures	452,676	432,056	471,487	441,085	464,037	573,498	642,191	694,081	544,560	546,025
Investment earnings	285,013	195,184	251,546	246,054	531,217	511,791	978,724	716,220	452,821	244,915
Miscellaneous	330,967	337,110	860,705	144,065	263,425	288,023	893,455	737,979	328,280	391,310
Total Revenues	\$ 19,209,304	\$ 18,852,170	\$ 21,557,958	\$ 22,628,271	\$ 38,433,184	\$ 29,282,007	\$ 23,276,129	\$ 25,234,423	\$ 21,797,205	\$ 19,708,749
Expenditures										
Current:										
General government	\$ 4,726,157	\$ 4,479,363	\$ 4,566,723	\$ 5,597,129	\$ 4,674,825	\$ 5,061,948	\$ 5,462,570	\$ 4,824,534	\$ 5,489,012	\$ 3,719,787
Airport	1,189,143	1,102,636	1,483,526	1,272,520	1,387,107	1,929,477	1,156,695	1,392,797	1,089,328	1,180,361
Culture and recreation	1,258,030	1,224,762	1,158,806	1,024,348	964,693	965,616	720,010	778,636	684,657	646,436
Public safety	5,686,252	6,202,304	6,270,405	6,523,042	6,072,095	6,069,531	5,871,247	5,568,272	5,040,205	4,604,567
Highways and streets	2,258,666	2,348,697	3,003,832	2,341,674	2,314,837	2,523,206	2,558,448	2,087,840	1,920,807	1,671,605
Debt service:										
Principal	878,156	1,078,192	1,246,208	1,679,938	1,097,091	1,063,693	1,018,380	1,181,185	887,702	570,394
Interest	429,641	454,509	482,696	542,702	603,483	451,763	435,932	438,399	442,938	202,217
Capital outlay:										
General government	1,268,137	98,237	1,243,738	427,806	609,577	1,461,962	475,013	320,689	257,422	1,186,350
Airport	1,071,748	487,536	204,245	1,772,448	19,655,722	12,165,551	2,219,716	2,303,642	3,446,344	3,406,017
Culture and recreation	105,539	224,123	343,890	401,250	192,133	528,296	404,824	721,112	209,856	170,978
Public safety	175,045	153,902	90,723	1,342,951	5,650,413	1,513,308	769,853	132,477	164,830	227,917
Highways and streets	1,103,562	283,734	1,537,863	2,325,970	3,932,092	566,050	3,155,222	5,828,300	2,988,717	2,189,779
Total Expenditures	20,150,076	18,137,995	21,632,655	25,251,778	47,154,068	34,300,401	24,247,910	25,577,883	22,621,818	19,776,408
Excess (Deficiency) of Revenues over Expenditures	(940,772)	714,175	(74,697)	(2,623,507)	(8,720,884)	(5,018,394)	(971,781)	(343,460)	(824,613)	(67,659)

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									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Other financing sources (uses)										
Transfers in	1,504,581	2,814,408	2,836,477	2,195,503	3,450,095	3,962,622	6,139,010	232,128	1,647,953	993,700
Transfers out	(1,041,629)	(2,529,228)	(2,597,824)	(1,805,028)	(3,089,424)	(695,379)	(5,926,460)	(240,628)	(772,953)	(289,500)
General long-term debt issued	414,721	600,000	350,000	105,500	1,022,228	9,135,000	810,000	1,150,000	1,541,000	191,811
Premium on general long-term debt issued						63,427				
Sale of general capital assets	187,706	23,718				403,548	4,810,025			
Total Other Financing Sources (Uses)	<u>1,065,379</u>	<u>908,898</u>	<u>588,653</u>	<u>495,975</u>	<u>1,382,899</u>	<u>12,869,218</u>	<u>5,832,575</u>	<u>1,141,500</u>	<u>2,416,000</u>	<u>896,011</u>
Net change in fund balances before extraordinary item	124,607	1,623,073	513,956	(2,127,532)	(7,337,985)	7,850,824	4,860,794	798,040	1,591,387	828,352
Extraordinary item			\$ 500,000		(408,837)					
Net change in fund balances	<u>\$ 124,607</u>	<u>\$ 1,623,073</u>	<u>\$ 1,013,956</u>	<u>\$ (2,127,532)</u>	<u>\$ (7,746,822)</u>	<u>\$ 7,850,824</u>	<u>\$ 4,860,794</u>	<u>\$ 798,040</u>	<u>\$ 1,591,387</u>	<u>\$ 828,352</u>
Debt service as a percentage of noncapital expenditures	7.96%	9.07%	9.41%	11.71%	9.94%	8.39%	8.44%	9.95%	8.55%	6.13%

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

Schedule I-5

Fiscal Year	Real Property		Personal Property		Total Assessed Value	Total Direct Tax Rate	Total Estimated Actual Value ¹	Ratio of Total Assessed Value to Total Estimated Actual Value
	Assessed Value	Estimated Actual Value ¹	Assessed Value	Estimated Actual Value				
2014	\$ 1,240,897	\$ 1,769,715	\$ 52,113	\$ 52,113	\$ 1,293,010	\$ 5.53	\$1,821,828	71.0%
2013	1,240,906	1,806,891	52,113	52,113	1,293,019	5.72	1,859,004	69.6
2012	1,239,596	1,941,724	52,576	52,576	1,292,172	5.93	1,994,300	64.8
2011	1,220,364	2,199,827	57,007	57,007	1,277,371	6.01	2,256,834	56.6
2010	1,183,111	2,289,058	58,260	58,260	1,241,371	6.12	2,347,318	52.9
2009	1,148,385	2,363,872	51,686	51,686	1,200,071	6.02	2,415,558	49.7
2008	1,077,366	2,318,787	49,593	49,593	1,126,959	5.93	2,368,380	47.6
2007	981,487	1,914,106	44,217	44,217	1,025,704	5.79	1,958,323	52.4
2006	904,016	1,499,192	43,763	43,763	947,779	5.79	1,542,955	61.4
2005	874,389	1,387,620	40,244	40,244	914,633	5.75	1,427,864	64.1

Source: Klamath County Assessors Office.

¹ Includes Downtown Urban Renewal District.

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

Schedule I-6

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		
2014	\$ 5.51	-	\$ 0.16	\$ 5.67	\$ 1.73	\$ -	\$ 1.73	\$ 4.73	\$ 3.59	\$ 15.72
2013	5.57	-	0.17	5.74	1.56	-	1.56	4.12	3.37	14.79
2012	5.75	-	0.18	5.93	1.66	-	1.66	4.10	2.98	14.67
2011	5.83	-	0.18	6.01	1.66	0.35	2.01	4.06	3.01	15.09
2010	5.94	-	0.18	6.12	1.27	0.48	1.75	3.99	3.94	15.80
2009	5.87	-	0.15	6.02	1.52	0.42	1.94	4.14	2.71	14.81
2008	5.93	-	-	5.93	1.48	0.38	1.86	4.08	2.86	14.73
2007	5.79	-	-	5.79	1.62	0.52	2.14	4.12	2.71	14.76
2006	5.56	0.23	-	5.79	1.45	0.60	2.05	4.18	3.30	15.32
2005	5.51	0.24	-	5.75	1.39	0.48	1.87	4.21	3.35	15.18

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, 2014
(amounts expressed in thousands)**

Schedule I-7

<u>Taxpayer</u>	<u>2014</u>			<u>2005</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	\$ 54,624	1	4.22%	\$ 46,222	1	5.21%
Wal Mart - Retail Department store	16,063	2	1.24			
Fred Meyer Stores, Inc. - Retail Department Store	14,200	3	1.10			
Charter Communications - Telecommunications	14,184	4	1.10			
Avista Corporation - Natural Gas Utility	12,102	5	0.94	6,828	8	0.77
Klamath Publishing, LLC	10,484	6	0.81			
Pacificorp - Electric utility	9,549	7	0.74	8,311	6	0.94
CenturyLink - Telecommunications	8,338	8	0.64	26,524	2	2.99
Argo K Falls LLC - Towncenter Commercial Site	7,716	9	0.60			
Klamath - Jefferson LLC - Shopping Center	7,413	10	0.57	6,280	9	0.71
Aqua Glass Western, Inc. - Bathtub & Shower Manufacturing				13,234	3	1.49
LXP II L.P. Land Development				10,437	4	1.18
Electro Scientific Industries, Inc.				8,669	5	0.98
Shilo Inn - Hotels & Suites				7,290	7	0.82
Crystal Terrace Retirement Community LLC				5,472	10	0.62
	<u>\$ 154,673</u>		<u>12.11%</u>	<u>\$ 139,267</u>		<u>17.51%</u>

Source: Klamath County Assessor and Klamath County Budget Officer.

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

Schedule I-8

Fiscal Year Ended June 30	Total Tax Levy for Fiscal Year	Discounts, Adjustments, and Collections within the Fiscal Year of the Levy			Subsequent Years		Total Collections to Date	
		Discounts and Adjustments	Collections	Percentage of Levy	Adjustments	Collections	Amount	Percentage of Levy
2014	\$ 7,157	(272)	\$ 6,522	94.73%	\$ -	\$ -	\$ 6,522	94.73%
2013	7,405	(192)	6,788	94.11	(21)	214	7,002	97.36
2012	7,658	(177)	6,955	92.97	(21)	330	7,285	97.65
2011	7,671	(197)	6,930	92.72	(33)	437	7,367	99.01
2010	7,599	(207)	6,869	92.92	(16)	490	7,359	99.77
2009	7,226	(348)	6,444	93.69	(17)	409	6,853	99.88
2008	6,683	(181)	6,138	94.40	(15)	346	6,484	99.95
2007	5,935	(149)	5,462	94.40	(12)	312	5,774	100.00
2006	5,487	(255)	4,912	93.88	110	430	5,342	100.00
2005	5,262	(276)	4,617	92.60	173	542	5,159	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

Fiscal Year	Governmental Activities						Total
	General Obligation Bonds	Full Faith and Credit Bonds	SPWF & Other Loans	Capital Leases	Revenue Bonds	Line of Credit Loans	
2014	\$ 4,025	\$ 3,188	\$ 2,262	\$ -	\$ 270	\$ 922	\$ 10,667
2013	4,026	3,340	20	-	395	1,104	8,885
2012	4,027	3,486	34	-	515	1,304	9,366
2011	4,028	3,633	47	-	625	1,925	10,258
2010	4,029	3,774	507	-	730	2,795	11,835
2009	4,030	3,911	211	-	830	2,930	11,912
2008	-	-	291	-	1,235	2,254	3,780
2007	-	-	4,546	-	1,615	1,903	8,064
2006	-	-	4,759	51	1,980	1,305	8,095
2005	-	-	4,879	232	2,330	-	7,441

Fiscal Year	Business-Type Activities							Total
	General Obligation Bonds	Water SPWF Loans	Water Revenue Bonds	Sewer Revenue Bonds	Sewer SPWF Loans	Sewer Capital Leases	Electric Revenue Bonds ²	
2014	\$ -	\$ 1,463	\$ 1,600	\$ 7,548	\$ -	\$ -	\$ -	\$ 10,611
2013	-	1,498	1,613	8,109	-	-	-	11,220
2012	-	1,574	2,281	8,650	50	-	-	12,555
2011	-	1,649	2,918	9,171	98	-	-	13,836
2010	-	1,722	3,526	9,667	142	-	-	15,057
2009	-	956	4,114	9,902	185	-	-	15,157
2008	-	989	4,681	10,123	224	31	-	16,048
2007	445	1,018	5,217	10,334	261	83	301,849	319,207
2006	875	818	5,719	10,531	297	133	310,294	328,667
2005	1,285	840	6,181	10,820	330	181	318,240	337,877

Fiscal Year	Total Primary Government	Percentage of Personal Income ¹	Per Capita ¹
2014	21,278	2.96%	990
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

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
2014	\$ 4,025	\$ 53	3,972	0.31%	\$ 185
2013	4,026	52	3,974	0.31%	185
2012	4,027	40	3,987	0.31%	186
2011	4,028	22	4,006	0.31%	190
2010	4,029	372	3,657	0.29%	175
2009	4,030	368	3,662	0.31%	172
2008	-	-	-	0.00%	-
2007	-	-	-	0.00%	-
2006	-	-	-	0.00%	-
2005	-	-	-	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, 2014
(amounts expressed in thousands)

Schedule I-11

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
Klamath Community College	\$ 5,500	26.69%	\$ 1,468
Klamath County Fire District 1	1,430	45.51%	651
Klamath City School District	34,832	7.30%	<u>2,541</u>
Subtotal, overlapping debt			4,660
City of Klamath Falls direct debt ¹			<u>10,667</u>
Total direct and overlapping debt			<u><u>\$ 15,327</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 \$4,025 general obligation, \$3,188 full faith and credit, and \$3,454 in other governmental activities debt.

City of Klamath Falls, Oregon
Legal Debt Margin Information
June 30, 2014
(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
2014	\$ 1,293,010	70.97%	\$ 1,821,828
2013	1,293,019	69.55%	1,859,004
2012	1,292,172	64.79%	1,994,300
2011	1,277,371	56.60%	2,256,834
2010	1,241,371	52.88%	2,347,318
Total Five Years Valuation			\$ 10,279,284
Five Year Average Full Valuation of Taxable Real Property			\$ 2,055,857
Constitutional Debt Limit (3% of total assessed value)			\$ 38,790
Outstanding General Obligation Indebtedness as of June 30, 2014			
Governmental Activities - General Obligation Debt			\$ 10,564
Governmental Activities - Short-term Debt - Current Portion of Lines of Credit			103
Net Indebtedness subject to debt limit			10,667
Net debt contracting margin			\$ 28,123
Percentage of net debt contracting margin available			72.50%
Percentage of net debt contracting power exhausted			27.50%

Last Ten Fiscal Years

Fiscal Year	Constitutional Debt Limit	Outstanding Indebtedness June 30	Percentage of Net Debt Contracting Margin Available
2014	\$ 38,790	\$ 10,667	72.50%
2013	38,791	8,865	77.15%
2012	38,765	9,332	75.93%
2011	38,321	10,211	73.35%
2010	37,241	11,328	69.58%
2009	36,002	11,701	67.50%
2008	33,809	3,489	89.68%
2007	30,771	3,518	88.57%
2006	29,746	3,285	88.96%
2005	27,491	2,330	91.52%

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

Schedule I-13

Sewer Revenue Bonds							Water Revenue Bonds					
Fiscal Year	Sewer Charges and Other	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage	Water Charges and Other	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest					Principal	Interest	
2014	\$ 6,716	\$ 3,661	\$ 3,055	\$ 570	\$ 323	3.42	\$ 7,025	\$ 4,110	\$ 2,915	\$ 685	\$ 87	3.78
2013	6,762	3,586	3,176	550	338	3.58	7,225	3,979	3,246	655	115	4.22
2012	6,265	3,445	2,820	530	359	3.17	6,463	3,992	2,471	625	147	3.20
2011	6,215	3,510	2,705	505	387	3.03	6,439	3,830	2,609	595	164	3.44
2010	6,117	3,551	2,566	385	387	3.32	6,983	3,722	3,261	575	188	4.27
2009	4,944	3,531	1,413	390	427	1.73	6,848	3,987	2,861	555	212	3.73
2008	5,146	3,427	1,719	375	445	2.10	6,968	3,577	3,391	995	290	2.64
2007	5,492	3,216	2,276	355	851	1.89	7,559	3,206	4,353	964	333	3.36
2006	5,150	3,379	1,771	445	874	1.34	6,933	3,062	3,871	913	554	2.64
2005	5,042	2,780	2,262	425	622	2.16	6,077	2,722	3,355	855	570	2.35

Airport Revenue Bonds							Electric Revenue Bonds ¹					
Fiscal Year	Airport Charges and Other	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage	Electric Charges and Other	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest					Principal	Interest	
2014	\$ 1,379	\$ 1,075	\$ 304	\$ 150	\$ 37	1.63						
2013	1,482	1,080	402	145	45	2.12						
2012	1,379	1,132	247	135	51	1.33						
2011	1,658	1,236	422	249	63	1.35						
2010	1,527	1,198	329	100	90	1.73						
2009	2,039	1,898	141	95	53	0.95						
2008	1,616	1,157	460	90	56	3.15	85,599	28,524	57,075	20,300	21,973	1.35
2007	1,814	1,393	421	85	60	2.90	159,643	140,919	18,724	8,500	21,200	0.63
2006	1,498	1,089	409	80	64	2.84	176,380	139,578	36,802	8,000	21,783	1.24
2005	1,554	1,180	374	75	68	2.62	174,923	142,303	32,620	7,600	22,187	1.10

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	City Per Capita Personal Income ⁴	City Aggregate Income ⁴ (amounts expressed in thousands)	City Education Level in Years of Formal Schooling ⁴	City Public School Enrollment ⁵	County Unemployment Rate ²
2014	21,500	33.6	Unavailable	Unavailable	Unavailable	3,198	9.7%
2013	21,495	33.6	19,947	425,718	12.8	3,302	10.8%
2012	21,465	33.6	19,557	409,642	12.8	3,271	12.1%
2011	21,120	33.6	18,743	390,699	12.8	3,341	12.6%
2010	20,925	33.6	19,992	417,521	12.7	3,397	13.4%
2009	21,305	33.4	20,710	419,208	12.7	3,942	14.5%
2008	21,305	33.4	21,987	442,223	12.7	4,065	8.4%
2007	21,040	33.4	Unavailable	Unavailable	Unavailable	3,991	6.7%
2006	20,720	33.4	Unavailable	Unavailable	Unavailable	3,854	6.7%
2005	20,400	33.4	Unavailable	Unavailable	Unavailable	3,730	7.7%

Data Sources:

¹ Portland State University, Population Research Center

² Oregon State Employment Division, Labor Market Information System

³ U.S. Census Bureau

⁴ U.S. Census Bureau, American Fact Finder; City data only available since 2008

⁵ Oregon Department of Education

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

Schedule I-15

Employer	2014			2006 ³		
	Employees ²	Rank	Percentage of Total City Employment	Employees ²	Rank	Percentage of Total County Employment
Sky Lakes Medical Center	1,127	1	6.44%	1,038	2	3.71%
Jeld-Wen Inc. Wood Products	1,108	2	6.33%	1,500	1	5.36%
Klamath County School District	784	3	4.48%	850	3	3.04%
Asurion Customer Service Companies	631	4	3.60%	650	5	2.32%
Kingsley Field Oregon Air National Guard	562	5	3.21%	725	4	2.59%
Klamath County	470	6	2.68%	510	6	1.82%
Wal-Mart	427	7	2.44%	400	9	1.43%
Klamath Falls City Schools	416	8	2.38%	500	7	1.79%
Oregon Institute of Technology	332	9	1.90%			
Fred Meyer	265	10	1.51%			
Columbia Forest Products ³				430	8	1.54%
Collins Company ³				335	10	1.20%
	6,122		35%	6,938		22%

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

² Numbers of employees furnished by employer.

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

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

Schedule I-16

Function	Full-time Equivalent Employees (FTE) as of June 30									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
General Government										
Manager	3.75	3.75	4.50	4.50	4.50	4.50	4.50	4.50	4.50	3.50
Legal	1.75	1.75	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Finance	6.00	7.00	7.00	8.00	8.00	7.00	7.00	7.50	8.00	8.00
Human Resources/Risk	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Information Systems	3.00	3.00	3.00	3.00	3.00	2.00	2.00	2.00	2.00	2.00
Public Works Engineering	5.50	6.50	7.50	7.50	7.50	9.50	9.50	9.50	8.50	9.00
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	10.50	10.00	10.00	10.00	10.00	11.00	11.00	11.00	11.00	8.50
Community Development										
Planning	4.50	4.67	4.92	6.17	6.17	6.17	6.17	6.17	6.17	4.67
Culture and Recreation ²	6.75	8.25	8.25	8.00	6.00	5.65	5.65	5.65	5.65	6.15
Cemetery ³	-	-	-	-	2.00	3.35	3.35	3.35	3.35	3.35
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	6.00	5.00	5.00	5.00
Public Safety										
Police	40.00	41.00	42.00	45.00	45.00	43.00	45.00	45.00	43.00	44.00
Municipal Court	3.25	3.25	3.00	3.25	3.25	3.50	3.50	3.50	3.00	3.50
Code enforcement	2.00	2.33	2.33	3.33	3.33	3.33	3.33	2.33	2.33	2.33
Highways and streets										
Streets	10.00	10.00	10.00	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 ¹		-	-	-	-	-	-	-	-	2.50
Water	22.08	21.10	22.10	22.85	22.85	24.85	23.85	22.83	22.83	21.75
Geothermal	0.75	0.75	0.75	0.50	0.50					
Wastewater	16.67	16.65	17.65	17.90	17.90	18.15	18.15	17.67	16.67	16.75
Total	<u>149.50</u>	<u>153.00</u>	<u>158.00</u>	<u>166.00</u>	<u>166.00</u>	<u>168.00</u>	<u>169.00</u>	<u>166.00</u>	<u>162.00</u>	<u>161.00</u>

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

¹ The street lighting staff were moved to the maintenance department in 2006 and a .50 FTE is assigned janitorial duties.

² The Ella Redkey Pool has an estimated 5.00 FTEs that are not included on this schedule.

³ The Klamath Memorial Park cemetery was sold November 30, 2009 and the two employees assigned to culture and recreation.

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

Schedule I-17

Function	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Police										
Police department personnel	40	41	42	45	45	43	45	45	43	44
Physical arrests	2,489	2,423	2,362	1,687	2,184	2,323	2,197	2,315	2,060	2,006
Parking violations	2,275	2,632	2,222	2,506	2,572	2,888	1,999	3,448	2,272	2,300
Traffic violations	2,706	2,691	2,999	2,146	2,432	2,999	3,422	3,680	2,323	2,649
Airport										
Takeoffs and landings	44,194	38,095	41,617	36,270	25,796	31,363	34,036	38,885	48,587	50,269
Passengers enplaned	11,972	14,254	17,376	20,486	21,893	23,588	29,626	27,398	28,426	28,444
Total passengers	23,648	27,950	35,409	41,284	43,693	47,059	59,131	57,548	56,700	57,162
Highways and streets										
Street resurfacing (feet)	12,157	4,135	8,200	8,151	40,400	7,920	2,800	5,166	1,200	930
Potholes (tons of asphalt)	34	27	42	38	27	85	20	286	114	53
Culture and recreation										
Park reservations	153	94	87	64	57	143	209	343	135	148
Municipal pool admissions ²	19,282	12,881								
Water										
New connections	36	36	24	26	32	20	112	244	363	15,419
Total connections	15,732	16,020	16,240	16,216	16,190	16,158	16,138	16,026	15,782	15,419
Average daily production (thousands of gallons)	6,899	6,790	6,700	6,400	7,800	8,500	7,600	8,558	7,800	8,100
Wastewater										
New connections	17	25	18	9	15	14	57	53	8	7,237
Total connections	7,680	7,668	7,411	7,393	7,384	7,369	7,355	7,298	7,245	7,237
Average daily sewage treatment (thousands of gallons)	2,650	2,963	3,080	2,820	2,970	3,267	3,575	4,280	3,880	3,650
Average daily reclaimed water produced (thousands of gallons) ¹	2,350	2,280	2,340	3,120	2,825	2,542	2,677	2,990	1,680	2,200

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-18

Function	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Public Safety										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol Units	40	37	33	32	37	32	33	33	36	31
Airport										
Miles of runways & taxiways	8.25	8.25	8.25	8.25	8.25	8.25	8	8	8	8
Highways and streets										
Streets (lane miles)	302	302	302	302	301	245	245	245	227	227
Streetlights	3,114	3,104	3,080	3,052	3,047	3,003	2,983	2,981	2,857	2,794
Traffic signals	34	31	31	31	31	30	30	30	28	22
Culture and recreation										
Park acreage										
Developed	119	119	119	119	119	119	119	119	85	85
Natural areas	514	514	514	514	514	514	514	514	542	542
Undeveloped	50	50	50	50	50	20	20	20	20	20
Parks	23	23	23	23	23	23	23	23	23	23
Tennis courts	3	3	3	3	3	3	6	7	7	7
Playground equipment areas	8	8	8	8	8	8	8	8	7	7
Cemetery										
Developed acres ¹	18	18	18	18	18	32	32	32	32	32
Undeveloped acres ¹	-	0	0	0	0	20	20	20	20	20
Water										
Water mains (miles)	240	240	240	239	239	237	236	233	231	228
Fire hydrants	1,186	1,176	1,093	1,089	1,084	1,080	1,065	1,036	979	957
Maximum daily capacity (thousands of gallons)	15,107	13,204	13,700	13,800	16,135	18,184	17,940	16,287	16,300	15,800
Wastewater										
Sanitary sewer (miles)	156	155	156	156	155	140	130	129	127	127
Storm sewers (miles)	40	40	40	40	40	40	33	32	30	30
Manholes	2,600	2,600	2,600	2,600	2,600	2,380	2,316	2,306		
Maximum daily treatment capacity (thousands of gallons)	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000
Maximum daily reclaimed water capacity (thousands of gallons)	6,500	6,500	6,500	6,500	6,500	6,500	3,000	3,900	3,900	3,900

Source: Various city departments.

¹ In November 2009 Klamath Memorial Park Cemetery was sold

**GOVERNMENT AUDITING
STANDARDS SECTION**

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Klamath Falls, Oregon, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Klamath Falls' basic financial statements and have issued our report thereon dated January 30, 2015.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs, to be a material weakness finding 2014-1.

Compliance and Other Matters

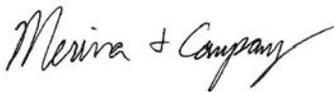
As part of obtaining reasonable assurance about whether the City of Klamath Falls' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct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

City of Klamath Falls' Response to Findings

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

Purpose of this Report

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



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

**SINGLE AUDIT AND PASSENGER FACILITY
CHARGES AUDIT SECTION**

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
THE MAJOR PROGRAM AND PASSENGER FACILITY CHARGE
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133 AND PASSENGER
FACILITY CHARGE AUDIT GUIDE FOR PUBLIC AGENCIES**

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

Report on Compliance for Each Major Federal Program

We have audited City of Klamath Falls, Oregon's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on City of Klamath Falls' major federal program for the year ended June 30, 2014. We have also audited the City of Klamath Falls' compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* issued by the Federal Aviation Administration. The City of Klamath Falls' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Klamath Falls' major federal program and passenger facility charges based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *Passenger Facility Charge Guide for Public Agencies*. Those standards and OMB Circular A-133, and the PFC 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 a

major federal program occurred. An audit includes examining, on a test basis, evidence City of Klamath Falls' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, City of Klamath Falls, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program and passenger facility charges for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of City of Klamath Falls, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Klamath Falls' internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program and passenger facility charge program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB 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 City of Klamath Falls' internal control over compliance.

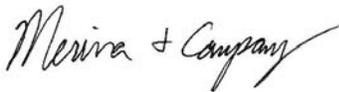
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did

not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and Passenger Facility Charges. Accordingly, this report is not suitable for any other purpose.

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

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

CITY OF KLAMATH FALLS, OREGON
OMB CIRCULAR A-133
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2014

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

Yes No

Significant deficiency(s) identified that are not considered to be material weaknesses?

Yes None reported

Noncompliance material to financial statements noted?

Yes No

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

Yes No

Significant deficiency (s) identified that are Not considered to be material weaknesses?

Yes None reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)?

Yes No

Identification of major programs:

CFDA Number **Name of Federal Program or Cluster**

20.106 Airport Improvement Program

Dollar threshold used to distinguish between Type A Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

Yes No

CITY OF KLAMATH FALLS, OREGON
OMB CIRCULAR A-133
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2014

Section II – Financial Statement Findings

2014-1

Condition: The City has not established the following policies and procedures: segregation of duties within the former accounting software, approval/review of journal entries into the general ledger, review of reconciliations and financial reports.

Criteria: The City should establish written policies and procedures including segregation of duties in the accounting software, approval/review of journal entries into the general ledger, and review of reconciliations and financial reports.

Effect: Due to a lack of written policies and procedures or checklist the City failed to make a required debt payment. There is a risk of undetected errors and undetected fraud, in a timely manner.

Cause: It appears the underlying cause relates to the City going through an accounting software conversion, ineffective controls due to the previous software limitations, and losing institutional knowledge that former employees had that is not in writing.

Recommendation: The City should consider designing and implementing written policies and procedures. These could include monthly and year-end closing checklist.

Views of Responsible Officials and Planned Corrective Actions: The City is in the process of establishing and implementing written policies and procedures including segregation of duties in the accounting software, approval/review of journal entries into the general ledger, and review of reconciliations and financial reports. The City has already implemented review of journal entries into the general ledger and review of reconciliations and financial reports.

Section III – Federal Awards Findings and Questioned Costs

None

Section IV – Schedule of Prior Federal Award Findings and Questioned Costs for the Years Ended June 30, 2013

None

CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

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>112,428</u> <u>112,428</u>	\$ <u>268,093</u> <u>268,093</u>
U.S. Department of the Interior Direct Program Partners for Fish and Wildlife	15.631	Direct	5,481	3,210
U.S. Department of Justice Direct Program Bulletproof Vest Partnership Program	16.607	Direct	3,712	4,256
JAG Program Cluster Direct program: Edward Byrne Memorial Justice Assistance Grant Program Sub-Total JAG Program Cluster	16.738	Direct	<u>12,467</u> <u>12,467</u>	<u>12,467</u> <u>12,467</u>
U.S. Department of Transportation Direct program: Airport Improvement Program	* 20.106	Direct	743,857	669,935
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>69,477</u> <u>69,477</u>	<u>69,477</u> <u>69,477</u>
Direct program: Payments for Small Community Air Service Development	20.930	Direct	61,323	
Total Expenditures of Federal Awards			<u>\$ 1,008,745</u>	<u>\$ 1,027,438</u>

* Major Programs

CITY OF KLAMATH FALLS, OREGON
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2014

Note 1. Basis of Presentation

The accompanying schedule of expenditures (the Schedule) of federal awards presents the activity of all federal financial grant activity of the City of Klamath Falls, Oregon under programs of the federal government for the year ended June 30, 2014. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a select portion of the operations of the City, it is not intended to and does not present the financial position, changes in financial position, or cash flows of the City.

Note 2. Significant Accounting Policies

Reporting Entity: The reporting entity is fully described in Note 1 to the City's basic financial statements. The schedule includes all federal financial assistance programs administered by the City for the year ended June 30, 2014.

Basis of Presentation: The information in the Schedule is presented in accordance with OMB Circular A-133.

Federal Financial Assistance: Pursuant to the Single Audit Act and OMB Circular A-133, federal financial assistance is defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance or direct appropriations. Accordingly, nonmonetary federal assistance, including federal surplus property, is included in federal financial assistance and, therefore, is reported on the Schedule, if applicable. Federal financial assistance does not include direct federal cash assistance to individuals. Solicited contracts between the state and federal government for which the federal government procures tangible goods or services are not considered to be federal financial assistance.

Major Programs: The Single Audit Act and OMB Circular A-133 establish criteria to be used in defining major federal financial assistance programs. Major programs for the City are those programs selected for testing by the auditor using a risk-assessment model, as well as certain minimum expenditure requirements, as outlined in OMB Circular A-133. Programs with similar requirements may be grouped into a cluster for testing purposes.

Revenue Recognition: The receipt and expenditure of federal awards are accounted for under the modified accrual method of accounting. Revenues are recorded as received in cash or when measurable and available. Expenditures are recorded when the liability is incurred. Receipts are presented using the cash basis on the schedule of federal awards.

**CITY OF KLAMATH FALLS, OREGON
PASSENGER FACILITY CHARGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2014**

Section I – Summary of Auditor’s Results

Passenger Facility Charge

Internal Control over major programs:

Material weakness(es) identified? Yes No

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

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

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

Section II – Passenger Facility Charge Findings and Questioned Costs

None

**Section III – Schedule of Prior Passenger Facility Charge Findings and Questioned Costs
for the Years Ended June 30, 2013**

None

CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF PASSENGER FACILITY CHARGES
COLLECTED, HELD AND USED
For the Year Ended June 30, 2014

12-03-C-00-LMT 03-001 Terminal Enhancements				
Quarter ending:	September 30, 2013	December 31, 2013	March 31, 2014	June 30, 2014
Unexpended PFC's and Interest, Beginning of Period	-	-	-	-
Add:				
PFC Receipts	12,930	17,241	7,363	10,136
Interest Earned				
Total	12,930	17,241	7,363	10,136
Expenses/Expenditures	12,930	17,241	7,363	10,136
Unexpended PFC and Interest	-	-	-	-

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

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**STATE OF OREGON
COMPLIANCE SECTION**

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

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

We have audited the basic financial statements of the City of Klamath Falls, Oregon (the City) as of and for the year ended June 30, 2014 and have issued our report thereon dated January 30, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

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

- Deposits of public funds with financial institutions (ORS Chapter 295).
- Indebtedness limitations, restrictions, and repayments.
- Budgets legally required (ORS Chapter 294).
- Insurance and fidelity bonds in force or required by law.
- Programs funded from outside sources.
- Highway revenues used for public highways, roads, and streets.
- Authorized investment of surplus funds. (ORS Chapter 294).
- Public contracts and purchasing (ORS Chapters 279A, 279B, and 279C).
- Accountability for collecting or receiving money by elected officials. The City does not have any elected officials collecting or receiving money.

In connection with our testing, nothing came to our attention that caused us to believe the City was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in the Oregon

Administrative Rules 162-10-000 through 162-10-320 of the *Minimum Standards for Audits of Oregon Municipal Corporations* except as follows:

1. The City failed to hold a public hearing as required for a supplemental budget before adoption. The City discovered the error and held a public hearing at a subsequent meeting.

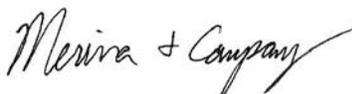
OAR 162-10-0230 Internal Control

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

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

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

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



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

BOND COMPLIANCE

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

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

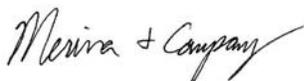
Report on Compliance

We have examined the City of Klamath Falls' compliance with the rate and revenue covenants described in the Water Revenue Refunding Bonds, Series 2001, the Wastewater Revenue Refunding Bonds, Series 2005, and the Airport Revenue Bonds, Series 1996 during the year ended June 30, 2014. Management is responsible for the City of Klamath Falls' compliance with those requirements. Our responsibility is to express an opinion on the City of Klamath Falls' compliance based on our examination.

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

In our opinion, the City of Klamath Falls complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2014.

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



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

CITY OF KLAMATH FALLS, OREGON
 SCHEDULE OF COMPLIANCE WITH THE RATE COVENANTS OF THE
 THE WATER REVENUE REFUNDING BONDS, SERIES 2001
 For the Year Ended June 30, 2014

Gross Revenues			
Operating revenues		\$	6,837,817
Other revenues			
Interest earned on investments	\$	58,346	
Miscellaneous revenue		131,710	
Less: SDC improvement fees		(2,651)	187,405
Total Gross Revenues			7,025,222
Total operating expense		5,333,383	
Less: depreciation and amortization expense		(1,223,505)	4,109,878
Net Revenues			2,915,344

Water Fund debt service for the fiscal year ended June 30, 2014 was supposed to be as shown below, however the City made the actual principal payment in FY 2015. Interest was paid during FY 2014.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2001 Water Revenue Refunding Bonds	\$ 685,000	\$ 86,625	\$ 771,625	
Total	<u>\$ 685,000</u>	<u>\$ 86,625</u>	771,625	<u>771,625</u>
1.25 Compliance			3.78	
Net Revenue after senior debt				2,143,719
Annual Subordinate Obligations				
SPWF Loan	\$ 30,479	\$ 31,744	\$ 62,223	
Total	<u>\$ 30,479</u>	<u>\$ 31,744</u>	62,223	62,223
1.10 Compliance			34.45	

On January 1, 2014 the city increased water rates by 1.2% in accordance with the National (U.S. City Average) CPI-U. These rates were in effect from January 1 through June 30, 2014 of the current fiscal year.

The Water Fund net revenues exceeded the expected annual debt service on bonds computed in compliance with provisions of the Bond Documents for the year ended June 30, 2014. The City is in compliance with the rate covenant of the 2001 Series Water Revenue Refunding Bonds. However as stated above, the principal payment was not made until FY 2015. See the notes to the financial statements for more information.

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, 2014

Gross Revenues			
Operating revenues		\$	6,636,187
Other revenues			
Interest earned on investments	\$	43,009	
Miscellaneous revenue		78,668	
Less: SDC improvement fees		<u>(41,470)</u>	<u>80,207</u>
Total Gross Revenues			6,716,394
Total operating expense			
Less: depreciation and amortization expense		<u>4,722,839</u>	<u>3,660,702</u>
Net Revenues			3,055,692

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2005 Wastewater Revenue Refunding	<u>570,000</u>	<u>322,841</u>	<u>892,841</u>	
Total	<u>\$ 570,000</u>	<u>\$ 322,841</u>	892,841	<u>892,841</u>
1.25 Compliance			3.42	
Net Revenue after senior debt				2,162,851

The City increased wastewater rates on January 1, 2014 by 1.2% in accordance with the National (U.S. City Average) CPI-U. These rates were in effect from January 1 through June 30, 2014 of the current fiscal year.

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

CITY OF KLAMATH FALLS, OREGON
 SCHEDULE OF COMPLIANCE WITH THE GROSS REVENUE COVENANT
 OF THE AIRPORT REVENUE BONDS, SERIES 1996
 For the Year Ended June 30, 2014

Gross Revenues			
Property taxes (including delinquent)	\$	444,280	
Charges for services		607,930	
Intergovernmental		312,112	
Interest earned on investments		11,662	
Miscellaneous revenues		2,980	
Total Gross Revenues	\$		1,378,964
Less total net operating expenditures			(1,074,971)
Net Revenues			303,993

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

	Principal	Interest	Total	
1996 Airport Revenue Bonds	\$ 125,000	\$ 21,725	\$ 146,725	
Interfund Loan	25,000	15,031	40,031	
	\$ 150,000	\$ 36,756		\$ 186,756

1.00 Compliance 1.63

The Airport Fund net revenues for the fiscal year ended June 30, 2014 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.