

City of Klamath Falls

Klamath Falls, Oregon

Comprehensive Annual Financial Report

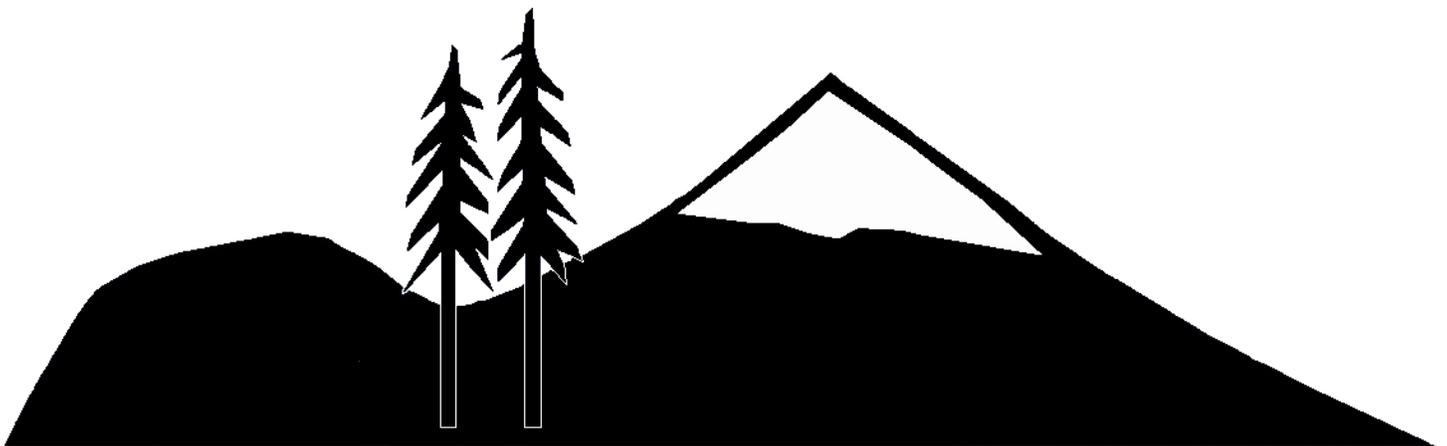
For the Fiscal Year Ended
June 30th, 2018





Comprehensive Annual Financial Report

For the Fiscal Year Ended
June 30, 2018



Prepared by the Finance Department of the City of Klamath Falls

This page intentionally left blank.



Comprehensive Annual Financial Report

June 30, 2018

Table of Contents

Introductory Section	1
Letter of Transmittal	3
Certificate of Achievement for Excellence in Financial Reporting.....	7
Organizational Chart	9
List of Principal Officials and Staff.....	10
Financial Section	11
Independent Auditor’s Report	13
Management’s Discussion and Analysis	19
Basic Financial Statements	33
Government-wide Financial Statements	
Statement of Net Position	36
Statement of Activities	38
Fund Financial Statements	
Governmental Fund Financial Statements	
Balance Sheet	40
Reconciliation of the Balance Sheet to the Statement of Net Position	40
Statement of Revenues, Expenditures, and Changes in Fund Balances	41
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	42
Proprietary Fund Financial Statements	
Statement of Net Position	44
Statement of Revenues, Expenses, and Changes in Fund Net Position.....	46
Statement of Cash Flows	47
Fiduciary Fund Financial Statements	
Statement of Fiduciary Net Position.....	51
Notes to the Financial Statements	53
Required Supplementary Information	95
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual	
General Fund (A-1).....	99
Airport Fund (A-2)	100
Schedule of Changes in Total OPEB Liability and Related Ratios (A-3)	101
Schedule of Proportionate Share of Net OPEB Liability (A-4).....	102
Schedule of OPEB Contributions - Retirement Health Insurance Account (A-5).....	103



Comprehensive Annual Financial Report
June 30, 2018

Table of Contents *Continued*

Schedule of OPEB Contributions- Implicit Rate Subsidy Plan (A-6)	104
Schedule of Proportionate Share of Net Pension Liability (A-7).....	105
Schedule of Pension Contributions (A-8)	106
Notes to the Required Supplementary Information	107
Other Supplementary Information	109
Nonmajor Governmental Funds Combining Schedules	
Combining Balance Sheet (B-1).....	112
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (B-2).....	113
Nonmajor Special Revenue Funds	
Combining Balance Sheet (C-1).....	116
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (C-2).....	118
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual	
Lakefront Urban Renewal Fund (C-3)	120
Town Center Urban Renewal Fund (C-4)	121
Parking Fund (C-5).....	122
Downtown Maintenance District (C-6).....	123
Economic Development/Property Fund (C-7).....	124
BINET Fund (C-8)	125
Capital Projects Funds	
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual	
Footpaths/Bicycle Trails Fund (D-1).....	128
Capital Projects Fund (D-2).....	129
Escrow Reserve Fund (D-3)	130
Debt Service Fund	
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual	
Debt Service Fund (E-1).....	132
Trust and Agency Fund	
Schedule of Changes in Assets and Liabilities	
Veteran’s Memorial Fund (F-1)	133
Enterprise Funds	
Schedule of Revenues, Expenditures, and Changes in Fund Net Position – Budget and Actual	
Wastewater Fund (G-1).....	136
Water Fund (G-2)	137



Comprehensive Annual Financial Report
June 30, 2018

Table of Contents *Continued*

Other Supplementary Schedules	
Capital Assets Used in the Operation of Government Funds	
Schedule by Function and Activity (H-1)	141
Schedule of Changes by Function and Activity (H-2)	142
Statistical Section	143
Financial Trends	147
Net Position (I-1).....	149
Changes in Net Position (I-2)	150
Fund Balances (I-3)	152
Changes in Fund Balances (I-4)	153
Revenue Capacity	155
Revenue Base (I-5).....	157
Direct Rate (I-6).....	158
Principal Revenue Payers (I-7).....	159
Property Taxes (I-8).....	160
Debt Capacity	161
Ratios of Outstanding Debt by Type (I-9).....	163
Ratios of General Bonded Debt Outstanding (I-10).....	164
Direct and Overlapping Debt (I-11).....	165
Legal Debt Margin (I-12)	166
Pledged Revenue Coverage (I-13).....	167
Demographic and Economic Information	169
Demographic and Economic Statistics (I-14).....	171
Principal Employers (I-15)	172
Operating Information	173
Full-Time Equivalent City Governmental Employees by Function (I-16).....	174
Operating Indicators by Function (I-17).....	175
Capital Asset Statistics by Function (I-18).....	176
Top Ten Water & Wastewater Customers (I-19).....	178



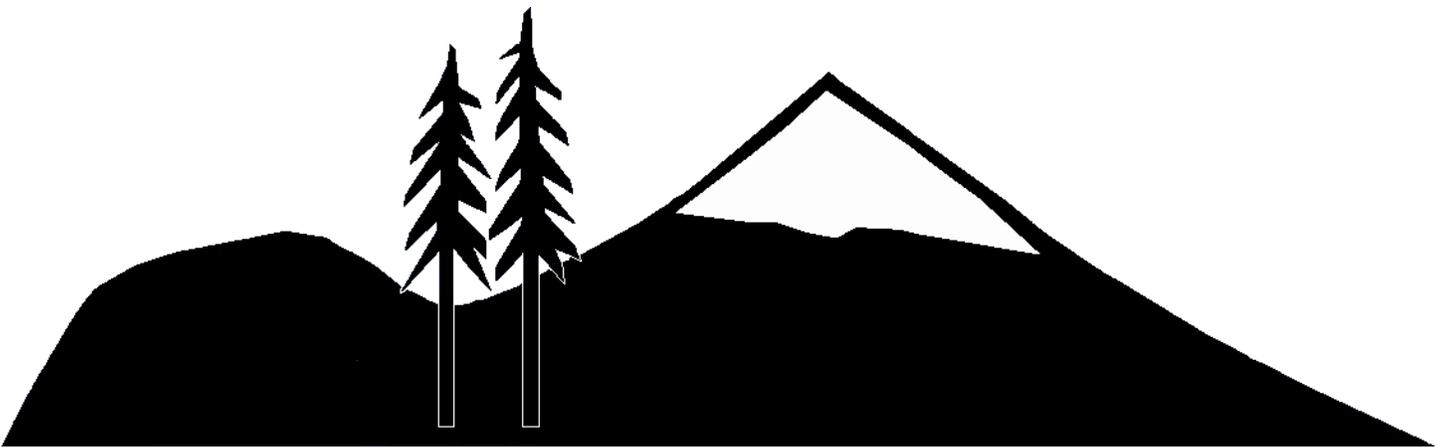
Comprehensive Annual Financial Report
June 30, 2018

Table of Contents *Continued*

Compliance Section	179
Passenger Facility Charges Audit	181
Independent Auditor’s Report on Compliance with Requirements Applicable to the Passenger Facility Charge Program and on Internal Control Over Compliance	183
Schedule of Findings and Responses.....	185
Schedule of Passenger Facility Charges Collected, Held, and Used	186
State of Oregon Compliance	187
Independent Auditor’s Report on Compliance and on Internal Control Over Financial Reporting on an Audit of Financial Statements Performed in Accordance with Oregon State Regulation	189
Bond Compliance	191
Independent Auditor’s Report on Compliance for Schedules of Compliance with the Rate and Revenue Covenants of the Wastewater Revenue Refunding Bonds, Series 2015.....	193
Schedule of Compliance with the Rate Covenants of the Wastewater Revenue Refunding Bonds, Series 2015	194



Introductory Section



This page intentionally left blank.



CITY OF KLAMATH FALLS

226 S. 5th Street - P.O. BOX 237
KLAMATH FALLS, OREGON 97601
Sister City - Rotorua, New Zealand
FAX (541) 883-5399 - TDD (541) 883-5324

January 31, 2019

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

We are pleased to submit the Comprehensive Annual Financial Report for the City of Klamath Falls for the fiscal year ended June 30, 2018. State law requires that every general purpose local government publish, within six months of the close of each fiscal year, a complete set of audited financial statements.

Management assumes full responsibility for both completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal controls it has established for this purpose. Because the cost of internal controls 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, 2018. 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 21,890. Although the population within the City limits is only 21,890, the entire urban growth boundary consists of approximately 42,000 people.

The City of Klamath Falls operates under a 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 appointing 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 municipal 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 recession when they declined and are now beginning to recover. This revised value is called the "real value". 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. The rate received in fiscal year 2018 was approximately \$5.156 per \$1,000 of assessed value. The City of Klamath Falls collected about \$393,406 more in property taxes than the prior year, including delinquent taxes, which represents a 5% increase during the 2018 fiscal year.

The City provides a full range of services, including police protection, code enforcement, municipal court, airport, the construction and maintenance of streets and other infrastructure; as well as a pool and parks 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 and services).

Local economy

Although economic growth for the City of Klamath Falls is beginning to slowly recover, it has not recovered 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 within the City reflects a continued effort to diversify these elements.

Due to the City's location in a region with a limited economic base, the unemployment rate has traditionally exceeded that of the state and the nation. The rate was 6.7 percent in 2007, jumped to 13.4 percent in 2010, during the Great Recession, then, has continued to decline. As of June 30, 2018, our unemployment rate was approximately 5.3% percent. We remain 1.3% percent higher than the national average.

The Klamath Basin prides itself on its use of alternative energy sources. With the sun shining a majority of the year, there are several solar facilities in the Basin. Additionally, 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 continues to work hard to attract high-tech industries. Any success in this area is also directly tied to the presence of the Oregon Institute of Technology (OIT), located within the City of Klamath Falls. OIT offers computer science and engineering degrees and graduates are consistently recruited for positions around the country. Numerous technology companies compete to hire OIT graduates.

The City's airport suffered the loss of commercial air service, with Pen Air filing bankruptcy. Efforts are ongoing and the City is hopeful to secure commercial air service within the next fiscal year.

With access to fiber optic cable, a major highway system, technical college, numerous recreational opportunities, and a 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 attract new commercial and industrial businesses to Klamath Falls. We look forward to a Klamath Falls that continues to grow a stronger and more diverse economy.

Long-term financial planning and major initiatives

The City of Klamath Falls, guided by the City Manager, looks at a ten-year sustainability model for the City. The initial model in 2014, determined that the City could not operate at status quo without resulting fund deficits ten years out. Consequently, the City was reorganized into five departments led by a Director in each department. This eliminated two director positions. Other reorganizational actions and a soft hiring freeze have resulted in lower headcount. Personnel services continue to increase in dollar spend due to the pressure of Public Employment Retirement System (PERS) funding and health care costs.

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 continues to leverage the Enterprise Resource Planning system installed in 2014-2015. Looking forward, the City is in the implementation phase for new software that will impact and modernize the way we do business, including improvements to the utility billing services, including providing citizens and staff with access to "real-time" data. The City also continues to research citizen access portals in order to improve the manner in which a majority of transactions are conducted by citizens with the City.

During fiscal year 2014, the Crater Lake-Klamath Regional Airport lost commercial air service. In July 2015, PenAir announced they would bring air service back to Klamath Falls with two flights per day to Portland. It was a long process, but air service officially began in October 2016, but, then, citing pilot and equipment shortages, Pen Air ceased operations and declared bankruptcy in August 2017. Since that time, City officials have worked diligently to attract another provider for air service. During last fiscal year, the Airport completed construction of a \$7.3 million-dollar taxiway with a majority coming from discretionary Federal Aviation Administration (FAA) grants.

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 announcement of the TimberMill Shores area being selected for a new privately owned state leased DHS building, subject to property tax, could provide additional resources to complete the work in this area.

During 2016, the Town Center Urban Renewal District 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, Sportsman's Warehouse, Sherm's Thunderbird, and Michael's have been in operation in the District, in addition, to several additional smaller businesses.

The City completed the process to form a new Urban Renewal Area in the Spring Street area. This area has suffered from deferred maintenance for many years on both the public and private side. The plan hopes to stimulate renewed private investment in the urban renewal area.

The Streets Division utilized microsurfacing as a newer treatment for our road infrastructure. Results seem positive. The new treatment allows more roads to be repaired, as it is less expensive than other treatments used by the City. In this year, the City was able to treat approximately 28 miles of road.

The City's Parks Division 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. Additionally, the City receives grant funding for Parks projects, including the

Lake Ewauna Trail Project. Major development has occurred at Kit Carson Park, with the installation of a new play features. Development of trails within the Park is continuing. A new park, a partnership with Sky Lakes Medical Center and other partners is in progress near downtown. Klamath Commons will provide additional natural open space for citizens to enjoy throughout the year. 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 is beginning a major overhaul to the front end of the wastewater treatment plant to replace facilities and equipment that are in excess of 50 years old. The nature of this work is complex in that there are several options for constructing the improvements and the existing plant must remain operational while construction moves forward. The City is utilizing an alternative delivery process known as progressive design build. After issuing the RFQ and RFP for the progressive design build process, the City awarded a contract to Slayden/Corollo. Phase 1A of the design build is close to completion.

During last fiscal year, the City completed a project of upgrading our water meters and, along with our radio read meter installations, is continuing to implement the Advanced Metering Infrastructure (AMI) Project. These new meters increase the efficiency of water meter reads and provide access to the meters during snowy weather. A listing of capital projects can be found in the MD&A.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Klamath Falls for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2017. This was the twenty-fifth 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 Division. We wish to thank all government departments for their assistance in providing the data necessary to prepare this report. Credit is also 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,



Brooke Marshall, Support Services Director



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

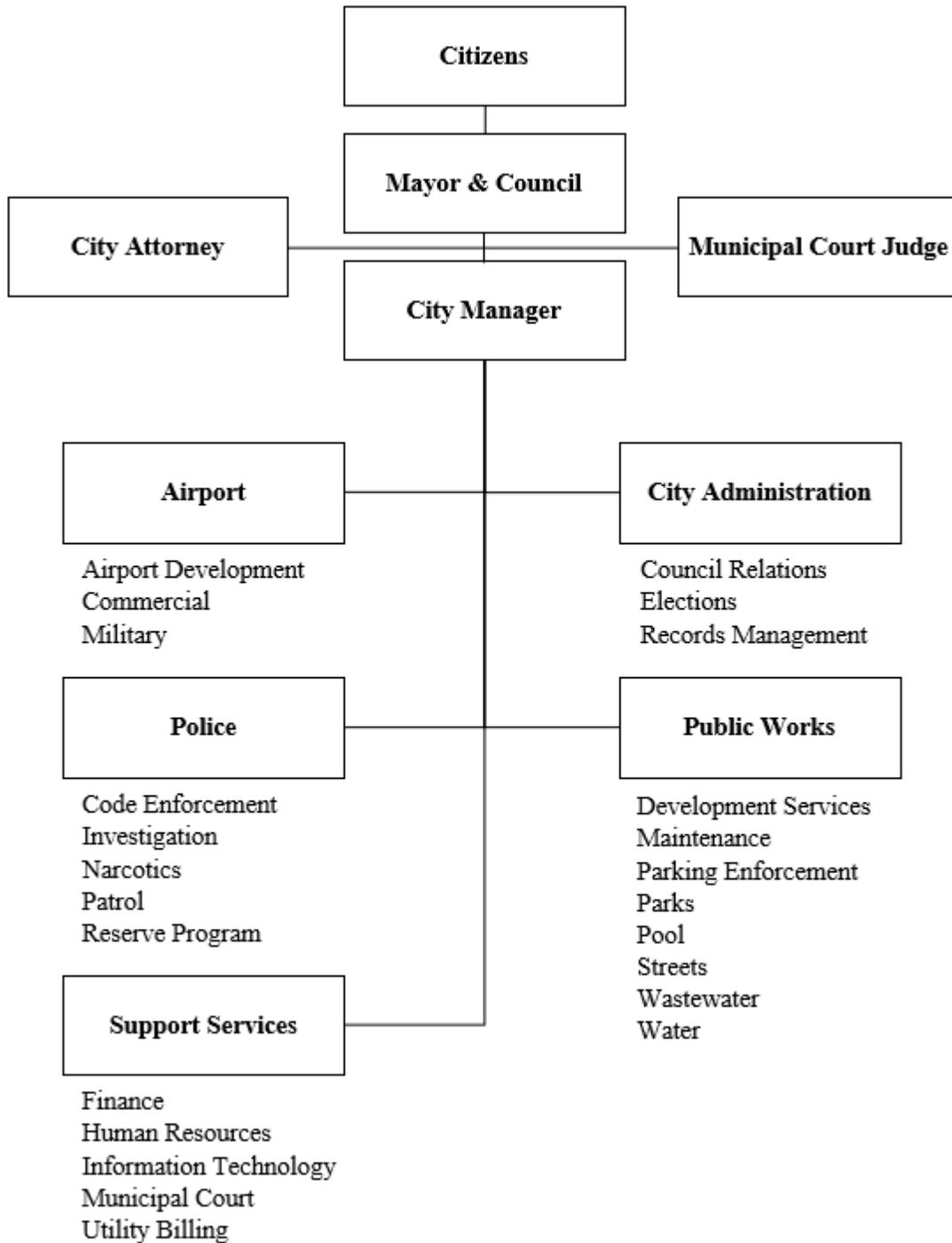
June 30, 2017

Christopher P. Morill

Executive Director/CEO

This page intentionally left blank.

Organization Chart





List of Principal Officials and Staff
As of June 30, 2018

Elected Officials

Length of Service



Carol Westfall
Mayor
1 yr. 6 mos.



Phil Studenberg
Ward I
1 yr. 6 mos.



Kendall Bell
Ward II
1 yr. 6 mos.



Matt Dodson
Ward III
5 yrs. 10 mos.



Dan Tofell
Ward IV
7 yrs. 6 mos.



Bill Adams
Ward V
15 yrs. 6 mos.

Appointed Directors

Time in Current Position



Nathan Cherpeski
City Manager
5 yrs. 5 mos.



City Attorney
Open Position



John Barsalou
Airport Director
2 yrs. 11 mos.



David Henslee
Police Chief
3 yrs. 3 mos.



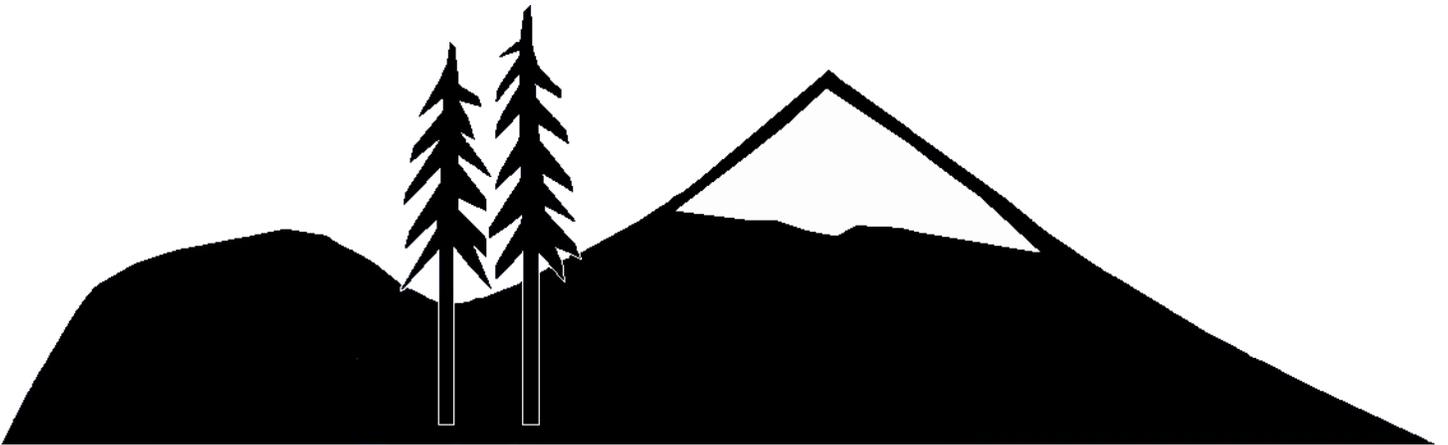
Mark Willrett
Public Works Director
12 yrs. 3 mos.



Brooke Marshall
Support Services Director
1 yrs. 1 mos.



Financial Section



This page intentionally left blank.

INDEPENDENT
AUDITOR'S REPORT

This page intentionally left blank.

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of 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 City of Klamath Falls, Oregon, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise City of Klamath Falls' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

City of Klamath Falls' 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 City of Klamath Falls, as of June 30, 2018, 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 6 to the financial statements, the City of Klamath Falls adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, GASB Statement No. 88, *Certain Disclosures related to Debt, Including Direct Borrowings and Direct Placements*, and GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. 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 the required supplementary information, such as management's discussion and analysis and schedule of revenues, expenditures and changes in fund balance – budget and actual, as listed in the table of contents under required supplementary information, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management's discussion and analysis, schedule of changes in total OPEB liability and related ratios, schedule of proportionate share of net OPEB liability, schedule of OPEB contributions – retirement health insurance account, schedule of OPEB contributions – implicit rate subsidy plan, schedule of the proportionate share of the net pension liability, and schedule of pension contributions, as listed in the table of contents under required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The schedules of revenues, expenditures and changes in fund balance – budget and actual, as listed in the table of contents under required supplementary information, are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Supplemental and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Klamath Falls' basic financial statements. The introductory section, other supplementary information, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of passenger facility charge revenues and expenditures is presented for purposes of additional analysis as required by the Federal Aviation Administration and is also not a required part of the basic financial statements. The accompanying schedule of compliance with the rate covenants of the wastewater revenue refunding bonds, series 2015 is presented for purposes of additional analysis as required by the rate covenants of the 2015 series wastewater revenue refunding bonds and is also not a required part of the basic financial statements.

The other supplementary information, schedule of passenger facility charge revenues and expenditures, and schedule of compliance with the rate covenants of the wastewater revenue refunding bonds, series 2015, as listed in the table of contents, are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional

procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 29, 2019, on our consideration of 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Klamath Falls' 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 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 29, 2019, on our consideration of 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.



For Merina & Company, LLP
Tualatin, Oregon
January 29, 2019

This page intentionally left blank.

MANAGEMENT'S
DISCUSSION AND ANALYSIS

This page intentionally left blank.

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, 2018 and June 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the introductory section of this report.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities at the close of the most recent fiscal year by \$213,404,245 (*net position*). Of this amount, \$35,705,032 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 \$8,063,297 due to expense decrease and revenue increase in governmental activities and the normal increase for business type activities, and inclusive of a restatement of beginning balance.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$34,665,939, a decrease of \$3,860,852 in comparison with the prior year. Approximately 22% of this amount, \$7,654,240, is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$8,295,803, or approximately 49% of total General Fund expenditures.
- The City's total outstanding long-term debt decreased by \$957,326 during the current fiscal year.

Overview of the Financial Statements

The 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 and other supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-wide Financial Statements

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other

functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, airport, culture and recreation, public safety, and highways and streets. The business-type activities of the City include wastewater, water, and geothermal operations.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also three legally separate districts for which the City is financially accountable. The Klamath Falls Urban Renewal Agency, although legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government.

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

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

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

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

The City maintains nine individual governmental funds (plus two 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, Escrow Reserve Fund, and Capital Projects 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 Federal Aviation Administration (FAA) grants. The Escrow Reserve Fund is a major capital project fund whose primary source of revenue is proceeds from the sale of the Cogeneration Plant. Expenditures include projects outside the scope of normal business approved by City Council. Data from the other 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 of its funds. A budgetary comparison statement has been provided for the General Fund and Airport Fund in the required supplementary information. All other budgetary comparisons have been included in the other supplementary information to demonstrate compliance with this budget.

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

Proprietary Funds

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

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

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

Fiduciary Funds

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

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

The fiduciary fund financial statements follow the proprietary fund statements.

Notes to Financial Statements

The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found at the end of the financial section's basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's budgetary comparisons for the General Fund and Airport Fund and Other Post-Employment Benefits (OPEB) and pension schedules. Required supplementary information statements can be found in the financial section following the notes to the financial statements.

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

Other Supplementary Schedules

Other schedules contain pertinent information that round out the financial section of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$213,404,245, at the close of the most recent fiscal year.

City of Klamath Falls' Net Position

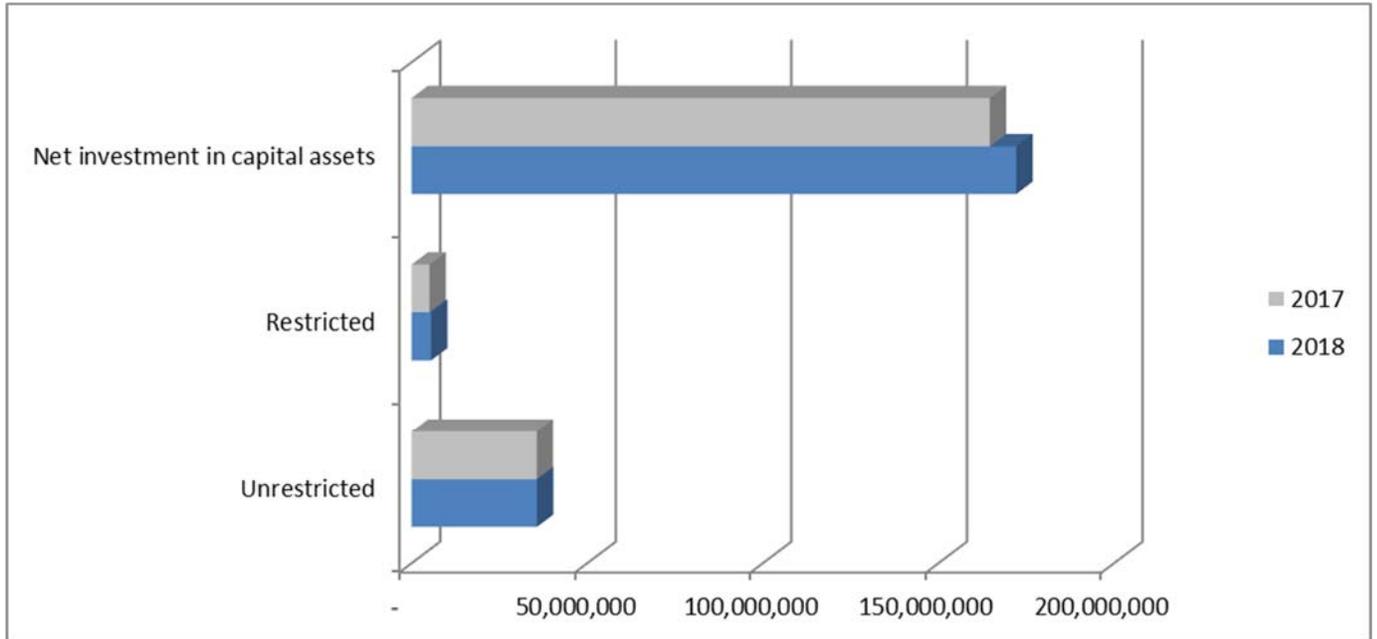
	Governmental activities		Business-type activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 38,627,442	\$ 42,551,533	\$ 17,146,033	\$ 11,990,473	\$ 55,773,475	\$ 54,542,006
Capital assets	119,980,797	114,660,826	66,007,342	64,809,211	185,988,139	179,470,037
Total assets	158,608,239	157,212,359	83,153,375	76,799,684	241,761,614	234,012,043
Deferred outflow of resources	3,590,421	5,806,567	983,474	1,552,258	4,573,895	7,358,825
Long-term liabilities outstanding	19,784,528	21,508,497	7,691,830	8,734,873	27,476,358	30,243,370
Other liabilities	2,695,453	3,474,090	2,113,856	1,929,463	4,809,309	5,403,553
Total liabilities	22,479,981	24,982,587	9,805,686	10,664,336	32,285,667	35,646,923
Deferred inflows of resources	516,509	308,872	129,088	74,125	645,597	382,997
Net position:						
Net investment in capital assets	111,784,474	106,175,191	60,389,249	58,483,110	172,173,723	164,658,301
Restricted	4,420,534	3,971,617	1,104,956	1,092,164	5,525,490	5,063,781
Unrestricted	22,997,162	27,580,659	12,707,870	8,038,207	35,705,032	35,618,866
Total net position	\$139,202,170	\$137,727,467	\$ 74,202,075	\$ 67,613,481	\$ 213,404,245	\$ 205,340,948

By far, the largest portion of the City's net position (80.6%) 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 (2.5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$35,705,032 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 reported positive balances in all 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, 2017 and 2018**

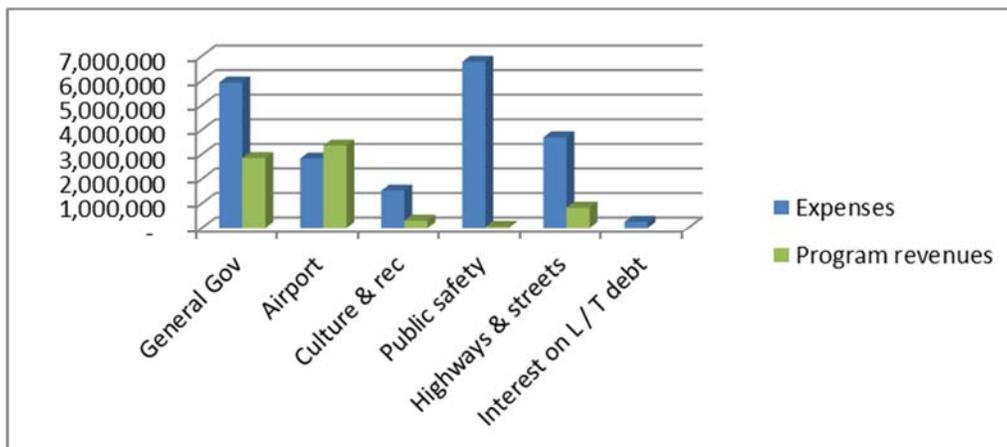


The City’s overall net position increased \$8,063,297 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

Governmental Activities

During the current fiscal year, net position for governmental activities increased by \$1,474,703. As net position has increased for governmental activities, governmental expenses have decreased \$33,318 from the prior year mainly due to a decrease in pension expense. Program revenues increased \$4,787,549 due to an increase in grant revenue for the Airport and general revenues increased slightly by \$552,728. The City’s main source of revenue for governmental activities, property taxes, increased \$420,775 which is a six percent (6%) increase over the prior fiscal year. \$108,672 of this increase came from surplus property sales. The City uses a ten-year forecasting model which helps to ensure a positive net position.

Expenses and Program Revenues Governmental Activities



Business-type Activities

For the City's business-type activities, the results for the current fiscal year show an increase in the overall net position. The net position increased to an ending balance of \$74,202,075. The total increase in net position for business-type activities (wastewater and water funds) was \$6,588,594 or 92% from the prior fiscal year. Current and Other Assets increased \$6,353,691. 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. The City has finished the design phase for the Wastewater Treatment Plant and construction began in Fiscal Year 2018.

City of Klamath Falls' Changes in Net Position

	Governmental activities		Business-type activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 6,483,657	\$ 4,036,688	\$ 16,705,351	\$ 15,615,195	\$ 23,189,008	\$ 19,651,883
Operating grants & contributions	247,859	353,709	-	-	247,859	353,709
Capital grants & contributions	4,904,680	3,010,978	7,200	48,030	4,911,880	3,059,008
General revenues:						
Property taxes	7,430,283	7,009,508	-	-	7,430,283	7,009,508
Other taxes	5,216,247	5,083,292	-	-	5,216,247	5,083,292
Other	344,146	345,147	201,465	91,880	545,611	437,027
Total revenues	24,626,872	19,839,322	16,914,016	15,755,105	41,540,888	35,594,427
Expenses:						
General government	5,923,080	5,727,651	-	-	5,923,080	5,727,651
Airport	2,833,505	3,128,916	-	-	2,833,505	3,128,916
Culture & recreation	1,525,628	1,315,260	-	-	1,525,628	1,315,260
Public safety	6,769,496	6,678,984	-	-	6,769,496	6,678,984
Highways & streets	3,694,992	3,795,646	-	-	3,694,992	3,795,646
Interest on long-term debt	252,843	386,404	-	-	252,843	386,404
Wastewater	-	-	5,862,851	5,396,231	5,862,851	5,396,231
Water	-	-	6,483,466	5,959,718	6,483,466	5,959,718
Total expenses	20,999,544	21,032,861	12,346,317	11,355,949	33,345,861	32,388,810
Increase (decrease) in net position before transfers & other sources	3,627,328	(1,193,539)	4,567,699	4,399,156	8,195,027	3,205,617
Special & extraordinary items	-	-	-	-	-	-
Transfers	(2,041,525)	948,520	2,041,525	(948,520)	-	-
Increase (decrease) in net position	1,585,803	(245,019)	6,609,224	3,450,636	8,195,027	3,205,617
Net position - beginning	137,727,467	138,002,948	67,613,481	64,162,845	205,340,948	205,340,948
Restatement	(111,100)	(30,462)	(20,630)	-	(131,730)	(30,462)
Net position - ending	\$ 139,202,170	\$ 137,727,467	\$ 74,202,075	\$ 67,613,481	\$ 213,404,245	\$ 205,340,948

Financial Analysis of the Government's Funds

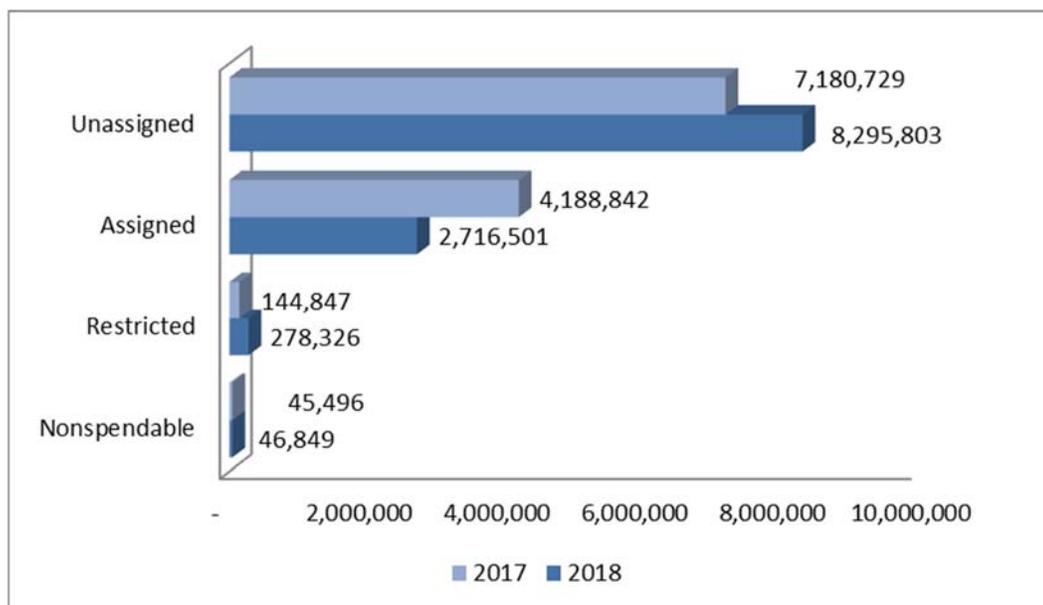
As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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, 2018, the City's governmental funds reported combined fund balances of \$34,665,939 a decrease of \$3,860,852 in comparison with the prior year. Approximately 22% of this amount, \$7,654,240, 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 (\$46,849), 2) legally required to be maintained intact or restricted for particular purposes (\$4,420,534), or 3) assigned for particular purposes (\$22,544,316).

**General Fund - Components of Fund Balance
June 30, 2017 and 2018**

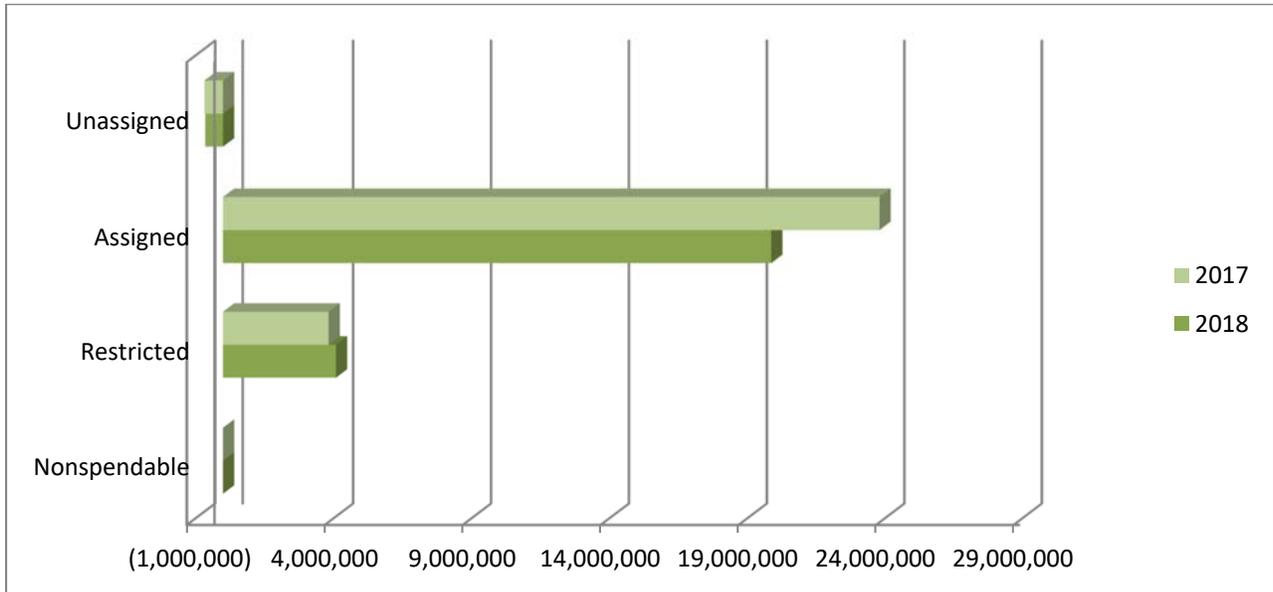


The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$8,295,803, while total fund balance increased to \$11,337,479. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and fund balance to total General Fund expenditures. Unassigned fund balance represents approximately 48.6% of total General Fund expenditures, while total fund balance represents approximately 66.4% of that same amount. The City's fund balance policies are in the notes to the financial statements.

The fund balance of the City's General Fund decreased by \$222,435 during the current fiscal year. Revenues increased from the prior year \$1,334,101 due to small increases in most of the revenue categories. Property taxes, the General Fund's primary revenue source, increased by \$469,975 which

is a seven percent (7%) increase. A portion of this increase comes from allocating a higher percentage of the property tax to the General Fund from the airport fund. Intergovernmental revenue increased \$463,978 of which \$216,272 was in increase in Federal grants due to the Lake Ewauna Trail Project. Expenditures were \$2,020,754 higher in the current year compared to the prior year, of which \$1,616,453 was due to capital outlay. Overall expenditures exceeded revenues by \$601,015 before transfers and a property sale. Transfer activity is detailed in the interfund transfers section of the notes to the financial statements.

**Other Governmental Funds - Components of Fund Balance
June 30, 2017 and 2018**



The Airport Fund, a major fund, had a decrease in fund balance of \$835,711. Revenues increased \$2,141,626 from the prior fiscal year primarily due to FAA grant funds for the Taxiway B project. Charges for services decreased \$25,403 due to cancelled air service which began in August of 2017, when the company providing service declared bankruptcy. Miscellaneous revenues decreased \$98,840 due to a \$100,000 contribution from Sky Lakes Medical Center the previous year. Expenditures increased from the prior fiscal year \$3,231,991 which again was primarily due to the Taxiway B project. Overall expenditures exceeded revenues by \$1,306,336.

The Capital Projects Fund serves as a savings account for major capital projects to be built in future years. Its fund balance decreased by \$2,958,477 due to a \$3,000,000 interfund transfer to Wastewater.

The final major governmental fund, the Escrow Reserve Fund, had an increase in fund balance of \$80,983 which was due to interest earnings.

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 \$8,127,328. Total net position increased \$5,394,017. Operating revenues increased \$142,873 from the prior fiscal year due to a January 1st rate increase of 2.2%. Operating expenses had an increase of \$482,011 associated with an increase in administrative expenses due to a new allocation method. The Fund is preparing for extensive renovations to the Wastewater Treatment Plant.

Unrestricted net position of the Water Fund at the end of the year was \$4,580,542. Total net position increased \$1,194,577. Operating revenues increased \$577,252 due to a rate increase of 2.2% on January 1, 2018. Operating expenses had an increase of \$523,040 associated with an increase in administrative expenses due to a new allocation method.

General Fund Budgetary Highlights

Original budget compared to final budget

Revenues: Intergovernmental revenues increased \$5,775 due to Department of Homeland Security funding. Miscellaneous revenue decreased \$33,000 due to a contribution that was budgeted twice.

Expenditures: City Manager increased \$50,000 due to a severance payment. Support Services increased \$13,950 due to investigative services. Development Services increased \$41,200, which included \$10,000 for a quiet zone study, \$28,700 for quiet zone engineering, and \$2,500 for an urban growth boundary comprehensive plan study. Police increased \$5,775 due to Homeland Security training. Maintenance increased \$15,350 due to payment of unemployment benefits. Facilities Maintenance increased \$65,000 due to \$5,00 in roof repairs and a \$60,000 property purchase. Parks and Recreation increased \$50,975 due to a repayment of a prior year grant. Ella Redkey Pool increased \$36,250 for increased costs on the pool resurfacing. Street Maintenance increased \$59,225 including \$14,225 for design services on a protected bike lane and \$45,000 for a pavement roller.

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

Revenues: Intergovernmental revenue has a variance of (\$2,722,221) due to the timing of capital projects/purchases and grant funding. The largest of these was the ODOT Lake Ewauna Trail Project. Fines and forfeits has a variance of \$161,159 due to larger collection agency payments and increased ticketing. Miscellaneous revenue has a variance of \$186,961 due to increased contributions of \$104,618 and an increase in system development charges.

Expenditures: Development Services has a variance of \$121,775 due to open positions throughout the year. Parks and Recreation has a variance of \$1,004,899 primarily due to the delay in the ODOT Lake Ewauna Trail Project. Street Maintenance has a variance of \$1,004,899 due to timing of a sidewalk project and a street project.

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, 2018, amounts to \$185,988,139 (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 increase in capital assets after disposals and depreciation for the current fiscal year was approximately 3.6%.

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

	Governmental activities		Business-type activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 14,152,898	\$ 14,092,581	\$ 1,563,599	\$ 1,563,599	\$ 15,716,497	\$ 15,656,180
Intangible assets	546,346	554,645	237,086	185,728	783,432	740,373
Construction in progress	10,462,654	4,231,453	5,331,862	3,577,987	15,794,516	7,809,440
Buildings & system	11,553,916	12,048,494	3,262,324	3,371,801	14,816,240	15,420,295
Machinery & equipment	3,558,000	2,932,232	7,246,997	7,783,866	10,804,997	10,716,098
Infrastructure	79,706,983	80,801,421	48,365,474	48,326,230	128,072,457	129,127,651
Total	<u>\$ 119,980,797</u>	<u>\$ 114,660,826</u>	<u>\$ 66,007,342</u>	<u>\$ 64,809,211</u>	<u>\$ 185,988,139</u>	<u>\$ 179,470,037</u>

Major capital asset events during the fiscal year 2017-2018 included the following:

- Various street projects around the City in the amount of \$1,434,890
- Streets Sweepers and Equipment \$571,059
- Police vehicles and equipment \$173,090
- Airport airfield improvements including Taxiway B construction \$6,217,344
- Wastewater Treatment Plant construction in progress \$1,328,629
- Water meter replacements \$328,559
- Water main replacement on Etna Street \$663,338
- Water Pelican City Booster Station \$642,510

Additional information on the City's capital assets can be found in the notes to the financial statements.

Long-term Debt

At the end of the current fiscal year, the City had outstanding debt totaling \$15,323,086. Of this amount, \$5,172,122 is bonded debt secured by revenue from the City's applicable funds, \$4,065,687 is general obligation bonded debt that will be paid from ad valorem taxes levied on all taxable property within the city boundaries, and \$2,521,886 is full faith and credit bonds that the City has pledged all general unrestricted revenues to repay. There is a \$730,135 loan for economic growth that is secured by the revenues derived from that growth and another \$584,692 is a loan for acquisition of capital assets which are secured by the revenues of the applicable funds owning those assets.

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

	Governmental activities		Business-type activities		Total	
	2018	2017	2018	2017	2018	2017
Leases/loans payable	\$ 2,978,699	\$ 3,096,716	\$ 584,692	\$ 621,002	\$ 3,563,391	\$ 3,717,718
General obligation bonds	4,065,687	4,022,043	-	-	4,065,687	4,022,043
Full faith and credit bond	2,521,886	2,698,432	-	-	2,521,886	2,698,432
Revenue bonds	-	-	5,172,122	5,842,219	5,172,122	5,842,219
Total	<u>\$ 9,566,272</u>	<u>\$ 9,817,191</u>	<u>\$ 5,756,814</u>	<u>\$ 6,463,221</u>	<u>\$ 15,323,086</u>	<u>\$ 16,280,412</u>

The City's total debt decreased \$957,326 or 5.9% during the current fiscal year. The City refinanced the General Obligation Bond Series 2008. See the notes to the financial statements for more information.

State statutes limit the amount of general obligation debt a government entity may issue to 3% of its total assessed valuation. The current debt limitation for the City is approximately \$40,904,000 which is significantly in excess of the City's outstanding general obligation debt of \$4,065,687.

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

Economic Factors and Next Year's Rates

The following economic factors currently affect the City of Klamath Falls and were considered in developing the Fiscal Year 2018-2019 budget.

- The unemployment rate for Klamath County at June 30, 2018 was five point three percent (5.3%), a slight increase from one year ago. The rate is still higher than the national average of four percent (4.0%) as of June 30, 2018.
- On January 1, 2018, sewer and water rates increased by the CPI two point two percent (2.2%).
- The City continued to invest \$37,190,145 in diversified bonds and the state pool intermediate fund in FY 2018. Veteran's Memorial Fund also had \$103,754 in investments.
- The Teamsters Union agreed to a three-year contract starting July 1, 2018 with no significant changes. The contract included a COLA of 3% for year 1 and future COLA's of 4% to 2%.
- The AFSCME Union will enter into negotiations for a new contract with the City during 2019. The current contract will expire June 30, 2019.

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 Manager, City of Klamath Falls, 500 Klamath Avenue, Klamath Falls, OR 97601.

This page intentionally left blank.

BASIC FINANCIAL STATEMENTS

This page intentionally left blank.

GOVERNMENT-WIDE
FINANCIAL STATEMENTS

City of Klamath Falls, Oregon
Statement of Net Position
June 30, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 4,851,215	\$ 5,960,250	\$ 10,811,465
Accounts receivable (<i>net of uncollectibles</i>)	2,115,003	2,222,593	4,337,596
Taxes receivable	733,889	-	733,889
Special assessments receivable	122,754	19,748	142,502
Interest receivable	168,602	34,607	203,209
Inventories	46,849	277,083	323,932
Prepaid items	282,502	57,308	339,810
Restricted assets			
Cash and cash equivalents	449,468	1,104,956	1,554,424
Total Current Assets	<u>8,770,282</u>	<u>9,676,545</u>	<u>18,446,827</u>
Noncurrent Assets:			
Investments	25,793,966	7,469,488	33,263,454
Prepaid bond insurance	7,709	-	7,709
Restricted assets			
Investments	4,055,485	-	4,055,485
Capital assets not being depreciated			
Land	14,152,898	1,563,599	15,716,497
Intangible assets	116,771	185,728	302,499
Construction in progress	10,462,654	5,331,862	15,794,516
Capital assets (<i>net of accumulated depreciation</i>)			
Buildings and system	11,553,916	3,262,324	14,816,240
Intangible assets	429,575	6,696	436,271
Machinery, equipment and vehicles	3,558,000	7,291,659	10,849,659
Infrastructure	79,706,983	48,365,474	128,072,457
Total Noncurrent Assets	<u>149,837,957</u>	<u>73,476,830</u>	<u>223,314,787</u>
Total Assets	<u>158,608,239</u>	<u>83,153,375</u>	<u>241,761,614</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on refunding	141,919	138,721	280,640
Deferred outflow of resources - OPEB related	82,356	27,596	109,952
Deferred outflow of resources - pension related	3,366,146	817,157	4,183,303
Total Deferred Outflows of Resources	<u>3,590,421</u>	<u>983,474</u>	<u>4,573,895</u>

Continued on next page

City of Klamath Falls, Oregon
Statement of Net Position *Continued*
June 30, 2018

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Current Liabilities (<i>payable from unrestricted assets</i>):			
Accounts payable	1,547,334	882,515	2,429,849
Retainage payable	96,200	-	96,200
Accrued interest payable	27,274	-	27,274
Compensated Absences	434,387	107,507	541,894
Customer deposits	108,695	246,220	354,915
Unearned revenues	81,363	124,131	205,494
Leases / loans payable	120,626	-	120,626
Bonds payable	279,574	-	279,574
Current Liabilities (<i>payable from restricted assets</i>):			
Accrued interest payable	-	24,771	24,771
Leases / loans payable	-	36,563	36,563
Bonds payable	-	692,149	692,149
Total Current Liabilities	<u>2,695,453</u>	<u>2,113,856</u>	<u>4,809,309</u>
Noncurrent Liabilities:			
Compensated absences	434,386	107,506	541,892
Leases / Loans / Contracts payable	2,858,073	548,129	3,406,202
Bonds payable (<i>net of unamortized discounts and premiums</i>)	6,307,999	4,479,973	10,787,972
Post employment benefits	488,146	202,463	690,609
Net pension liability	9,695,924	2,353,759	12,049,683
Total Noncurrent Liabilities	<u>19,784,528</u>	<u>7,691,830</u>	<u>27,476,358</u>
Total Liabilities	<u>22,479,981</u>	<u>9,805,686</u>	<u>32,285,667</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - OPEB related	38,118	12,955	51,073
Deferred inflows of resources - pension related	478,391	116,133	594,524
Total Deferred Inflows of Resources	<u>516,509</u>	<u>129,088</u>	<u>645,597</u>
NET POSITION			
Net investment in capital assets	111,784,474	60,389,249	172,173,723
Restricted for:			
Outside Legal Authority	202,126	-	202,126
System development	123,611	224,740	348,351
Capital outlay	39,312	-	39,312
Debt service	-	880,216	880,216
Environmental	4,055,485	-	4,055,485
Unrestricted	<u>22,997,162</u>	<u>12,707,870</u>	<u>35,705,032</u>
Total Net Position	<u>\$ 139,202,170</u>	<u>\$ 74,202,075</u>	<u>\$ 213,404,245</u>

City of Klamath Falls, Oregon
Statement of Activities
For the Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 5,636,155	\$ 2,933,356	\$ 152,136	\$ 286,925	\$ (2,263,738)	\$ -	\$ (2,263,738)
Airport	2,833,505	571,764	48,002	5,568,328	3,354,589	-	3,354,589
Culture and recreation	1,511,771	222,568	16,683	415,871	(856,649)	-	(856,649)
Public safety	6,783,353	61,438	14,810	-	(6,707,105)	-	(6,707,105)
Highways and streets	3,694,992	354,625	-	688,759	(2,651,608)	-	(2,651,608)
Interest on long-term debt	252,843	-	-	-	(252,843)	-	(252,843)
Total Government Activities	20,712,619	4,143,751	231,631	6,959,883	(9,377,354)	-	(9,377,354)
Business-Type Activities:							
Wastewater	5,862,851	8,174,984	-	-	-	2,312,133	2,312,133
Water	6,483,466	8,530,367	-	7,200	-	2,054,101	2,054,101
Total Business-Type Activities	12,346,317	16,705,351	-	7,200	-	4,366,234	4,366,234
Total	\$ 33,058,936	\$ 20,849,102	\$ 231,631	\$ 6,967,083	(9,377,354)	4,366,234	(5,011,120)
General Revenues:							
Property taxes					7,430,283	-	7,430,283
Franchise taxes					2,490,622	-	2,490,622
Motor fuel taxes					1,400,638	-	1,400,638
Alcoholic beverage taxes					346,268	-	346,268
Cigarette taxes					26,782	-	26,782
Transient room taxes					681,281	-	681,281
State revenue sharing					284,662	-	284,662
Federal forest receipts					-	-	-
Unrestricted investment earnings					344,146	201,465	545,611
Transfers					(2,041,525)	2,041,525	-
Total General Revenues and Transfers					10,963,157	2,242,990	13,206,147
Change in Net Position					1,585,803	6,609,224	8,195,027
Net Position - Beginning					137,727,467	67,613,481	205,340,948
Restatement (see note 5)					(111,100)	(20,630)	(131,730)
Net Position - Beginning as restated/adjusted					137,616,367	67,592,851	205,209,218
Net Position - Ending					\$ 139,202,170	\$ 74,202,075	\$ 213,404,245

FUND FINANCIAL
STATEMENTS

CITY OF KLAMATH FALLS, OREGON
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018

	General Fund	Airport Fund	Capital Projects Fund	Escrow Reserve Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 2,598,942	\$ 548,481	\$ 789,619	\$ 621,462	\$ 292,711	\$ 4,851,215
Accounts receivable	850,733	1,246,357	-	-	17,913	2,115,003
Taxes receivable	659,666	29,280	-	-	44,943	733,889
Special assessments receivable	122,754	-	-	-	-	122,754
Interest receivable	51,708	759	61,242	29,724	25,169	168,602
Advances to other funds	70,000	-	-	725,125	-	795,125
Inventories	46,849	-	-	-	-	46,849
Restricted assets						
Cash and cash equivalents	278,326	39,312	-	-	131,830	449,468
Long-term assets						
Investments	8,924,000	-	10,060,704	6,809,262	-	25,793,966
Restricted investments	-	-	4,055,485	-	-	4,055,485
Total Assets	\$ 13,602,978	\$ 1,864,189	\$ 14,967,050	\$ 8,185,573	\$ 512,566	\$ 39,132,356
LIABILITIES						
Liabilities:						
Accounts payable	\$ 1,136,062	\$ 362,862	\$ -	\$ -	\$ 37,251	\$ 1,536,175
Retainage payable	96,200	-	-	-	-	96,200
Advances from other funds	-	-	-	-	795,125	795,125
Deposits payable	99,315	9,380	-	-	-	108,695
Unearned revenue	54,586	-	-	-	26,777	81,363
Total Liabilities	1,386,163	372,242	-	-	859,153	2,617,558
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue - property taxes	551,215	23,341	-	-	37,531	612,087
Unavailable revenue - grant	-	883,870	-	-	-	883,870
Unavailable revenue - franchise fees	25,766	-	-	-	-	25,766
Unavailable revenue - special assessment debt receivable	119,893	-	-	-	-	119,893
Unavailable revenue - accounts receivable	5,768	18,564	-	-	-	24,332
Unavailable revenue - municipal court fines	166,513	-	-	-	6,217	172,730
Unavailable revenue - code enforcement fines	10,181	-	-	-	-	10,181
Total Deferred Inflows of Resources	879,336	925,775	-	-	43,748	1,848,859
Total Liabilities and Deferred Inflows of Resources	2,265,499	1,298,017	-	-	902,901	4,466,417
FUND BALANCES (DEFICITS)						
Nonspendable	46,849	-	-	-	-	46,849
Restricted	278,326	39,312	4,055,485	-	47,411	4,420,534
Assigned	2,716,501	526,860	10,911,565	8,185,573	203,817	22,544,316
Unassigned	8,295,803	-	-	-	(641,563)	7,654,240
Total Fund Balances	11,337,479	566,172	14,967,050	8,185,573	(390,335)	34,665,939
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 13,602,978	\$ 1,864,189	\$ 14,967,050	\$ 8,185,573	\$ 512,566	

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

Prepaid assets are not reported in the funds.	282,502
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	119,980,797
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.	1,848,859
Pension related liability and deferred outflows and inflows of resources.	(6,808,169)
Other post employment benefits related liability and deferred outflows and inflows of resources.	(443,908)

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.

Long-term debt	9,566,272
Deferred charge on refunding	(141,919)
Prepaid bond insurance	(7,709)
Accrued interest	27,274
Accounts Payable	11,159
Compensated absences	868,773
	<u>(10,323,850)</u>
	<u>\$ 139,202,170</u>

CITY OF KLAMATH FALLS, OREGON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018

	General Fund	Airport Fund	Capital Projects Fund	Escrow Reserve Fund	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 6,693,760	\$ 303,910	\$ -	\$ -	\$ 431,437	\$ 7,429,107
Special assessments	15,456	-	-	-	-	15,456
Intergovernmental	3,106,229	5,357,595	-	-	217,311	8,681,135
Licenses, fees and permits	138,347	-	-	-	41,287	179,634
Franchise fees	2,473,145	-	-	-	-	2,473,145
Charges for services	450,216	547,982	54,000	-	104,253	1,156,451
Internal charges for services	2,602,322	-	-	-	-	2,602,322
Fines and forfeits	365,934	-	-	-	51,226	417,160
Investment income	178,679	24,644	47,523	80,983	12,317	344,146
Miscellaneous revenues	459,036	13,244	-	-	213	472,493
Total Revenues	16,483,124	6,247,375	101,523	80,983	858,044	23,771,049
EXPENDITURES						
Current:						
General government	4,629,080	-	-	-	583,636	5,212,716
Airport	-	1,312,918	-	-	-	1,312,918
Culture and recreation	1,295,251	-	-	-	-	1,295,251
Public safety	5,694,881	-	-	-	13,857	5,708,738
Highways and streets	1,719,733	-	-	-	91,682	1,811,415
Debt service:						
Principal	175,000	-	-	-	280,866	455,866
Interest	117,645	5,911	-	-	134,448	258,004
Capital outlay:						
General government	81,097	-	-	-	-	81,097
Airport	-	6,234,882	-	-	-	6,234,882
Culture and recreation	785,602	-	-	-	-	785,602
Public safety	400,969	-	-	-	-	400,969
Highways and streets	2,184,881	-	-	-	-	2,184,881
Total Expenditures	17,084,139	7,553,711	-	-	1,104,489	25,742,339
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(601,015)</u>	<u>(1,306,336)</u>	<u>101,523</u>	<u>80,983</u>	<u>(246,445)</u>	<u>(1,971,290)</u>
OTHER FINANCING SOURCES (USES)						
Proceeds from the sale of capital assets	4,000	26,000	-	-	51,414	81,414
Transfers in	657,106	444,625	-	-	294,125	1,395,856
Transfers out	(294,125)	-	(3,060,000)	-	(83,256)	(3,437,381)
Issuance of refunding bonds	-	-	-	-	4,188,535	4,188,535
Payment to refunded bond escrow agent	-	-	-	-	(4,129,585)	(4,129,585)
Insurance recoveries	11,599	-	-	-	-	11,599
Total Other Financing Sources (Uses)	378,580	470,625	(3,060,000)	-	321,233	(1,889,562)
Net Change in Fund Balances	(222,435)	(835,711)	(2,958,477)	80,983	74,788	(3,860,852)
Fund Balance - Beginning	11,559,914	1,401,883	17,925,527	8,104,590	(465,123)	38,526,791
Fund Balance - Ending	<u>\$ 11,337,479</u>	<u>\$ 566,172</u>	<u>\$ 14,967,050</u>	<u>\$ 8,185,573</u>	<u>\$ (390,335)</u>	<u>\$ 34,665,939</u>

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, 2018

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

Net change in fund balances - total governmental funds	\$	(3,860,852)
--	----	-------------

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.

Expenditures for capital assets	\$ 9,687,430	
Less current year depreciation	<u>(4,352,535)</u>	5,334,895

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net position.

Contributions from outside parties	538	
Cost of capital assets sold	<u>(15,462)</u>	(14,924)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes	1,176	
Special assessments against benefiting properties	(16,218)	
Transient Room Tax	(152,232)	
Grant receivable - non-current portion	883,870	
Franchise Fees - non-current portion	17,477	
Accounts receivable - non-current portion	13,827	
Fines and forfeitures - non current portion	<u>10,010</u>	757,910

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal payments	(455,866)	
Amortization of deferred charge on refunding	(5,624)	
Amortization of bond premium	(1,546)	
Amortization of bond insurance	<u>706</u>	392,132

The net effect of various pension related transactions		(1,109,285)
--	--	-------------

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.

Prepaid expenses	(410)	
Accrued interest on long-term obligations	9,239	
Compensated absences	33,444	
Other postemployment benefits	<u>43,654</u>	<u>85,927</u>

Change in net position of governmental activities	\$	<u>1,585,803</u>
---	----	------------------

PROPRIETARY
FUNDS

CITY OF KLAMATH FALLS, OREGON
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2018

	Business-Type Activities - Enterprise Funds		
	Wastewater	Water	Totals
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 3,317,506	\$ 2,642,744	\$ 5,960,250
Accounts receivable (net of uncollectables)	965,645	1,256,948	2,222,593
Loans receivable	1,754	17,994	19,748
Interest receivable	23,983	10,624	34,607
Inventories	25,394	251,689	277,083
Prepaid items	19,487	37,821	57,308
Restricted assets			
Cash and cash equivalents	959,744	145,212	1,104,956
Total Current Assets	5,313,513	4,363,032	9,676,545
Long-term Assets:			
Investments	5,147,922	2,321,566	7,469,488
Capital assets (net of accumulated depreciation)			
Land	1,322,899	240,700	1,563,599
Intangible assets	54,936	137,488	192,424
Construction in progress	2,100,516	3,231,346	5,331,862
Buildings and system	2,407,640	854,684	3,262,324
Machinery and equipment	3,971,856	3,319,803	7,291,659
Infrastructure	20,541,530	27,823,944	48,365,474
Total Noncurrent Assets	35,547,299	37,929,531	73,476,830
Total Assets	40,860,812	42,292,563	83,153,375
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on refunding	138,721	-	138,721
Deferred outflow of resources - OPEB related	12,753	14,843	27,596
Deferred outflow of resources - pension related	356,969	460,188	817,157
Total Deferred Outflows of resources	508,443	475,031	983,474
Total Assets & Deferred Outflows of Resources	\$ 41,369,255	\$ 42,767,594	\$ 84,136,849

Continued on next page

CITY OF KLAMATH FALLS, OREGON
STATEMENT OF NET POSITION *CONTINUED*
PROPRIETARY FUNDS
June 30, 2018

	Business-Type Activities - Enterprise Funds		
	Wastewater	Water	Totals
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 472,874	\$ 409,641	\$ 882,515
Compensated absences	40,054	67,453	107,507
Customer deposits	-	246,220	246,220
Unearned revenue	-	124,131	124,131
Current Liabilities (payable from restricted assets):			
Accrued interest payable	9,999	14,772	24,771
Loans/leases payable	-	36,563	36,563
Revenue bonds payable	692,149	-	692,149
Total Current Liabilities	<u>1,215,076</u>	<u>898,780</u>	<u>2,113,856</u>
Long-term Liabilities:			
Compensated absences	40,053	67,453	107,506
Loans/Leases payable	-	548,129	548,129
Revenue bonds payable (net of unamortized discounts and premiums)	4,479,973	-	4,479,973
Post employment benefits	96,151	106,312	202,463
Net pension liability	<u>1,028,223</u>	<u>1,325,536</u>	<u>2,353,759</u>
Total Noncurrent Liabilities	<u>5,644,400</u>	<u>2,047,430</u>	<u>7,691,830</u>
Total Liabilities	<u>6,859,476</u>	<u>2,946,210</u>	<u>9,805,686</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - OPEB related	5,999	6,956	12,955
Deferred inflows of resources - pension related	<u>50,732</u>	<u>65,401</u>	<u>116,133</u>
Total Deferred Inflows of resources	<u>56,731</u>	<u>72,357</u>	<u>129,088</u>
NET POSITION			
Net investment in capital assets	25,365,976	35,023,273	60,389,249
Restricted for:			
System development	147,602	77,138	224,740
Debt Service	812,142	68,074	880,216
Unrestricted	<u>8,127,328</u>	<u>4,580,542</u>	<u>12,707,870</u>
Total Net Position	<u>34,453,048</u>	<u>39,749,027</u>	<u>74,202,075</u>
Total Liability, Deferred Inflows of Resources and Net Position	<u>\$ 41,369,255</u>	<u>\$ 42,767,594</u>	<u>\$ 84,136,849</u>

CITY OF KLAMATH FALLS, OREGON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2018

	Business-Type Activities - Enterprise Funds		
	Wastewater	Water	Totals
OPERATING REVENUES			
Charges for sales and services			
Wastewater charges (net of allowances)	\$ 7,752,261	\$ -	\$ 7,752,261
Geothermal charges (net of allowances)	-	255,143	255,143
Water charges (net of allowances)	-	8,111,968	8,111,968
	<hr/>	<hr/>	<hr/>
Total operating revenues	7,752,261	8,367,111	16,119,372
	<hr/>	<hr/>	<hr/>
OPERATING EXPENSES			
Costs of sales and services	3,810,959	4,292,850	8,103,809
Administration	684,700	638,150	1,322,850
Depreciation and amortization	1,213,165	1,524,307	2,737,472
	<hr/>	<hr/>	<hr/>
Total operating expenses	5,708,824	6,455,307	12,164,131
	<hr/>	<hr/>	<hr/>
Operating income (loss)	2,043,437	1,911,804	3,955,241
	<hr/>	<hr/>	<hr/>
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	96,444	105,021	201,465
Interest expense	(154,027)	(28,159)	(182,186)
System development charges	422,723	163,256	585,979
	<hr/>	<hr/>	<hr/>
Total nonoperating revenue (expenses)	365,140	240,118	605,258
	<hr/>	<hr/>	<hr/>
Income before contributions and transfers	2,408,577	2,151,922	4,560,499
	<hr/>	<hr/>	<hr/>
CAPITAL CONTRIBUTIONS	-	7,200	7,200
TRANSFERS IN	3,000,000	-	3,000,000
TRANSFERS OUT	-	(958,475)	(958,475)
	<hr/>	<hr/>	<hr/>
Change in net position	5,408,577	1,200,647	6,609,224
	<hr/>	<hr/>	<hr/>
Total net position - beginning	29,059,031	38,554,450	67,613,481
	<hr/>	<hr/>	<hr/>
Restatement (see note 5)	(14,560)	(6,070)	(20,630)
	<hr/>	<hr/>	<hr/>
Total net position - beginning as restated	29,044,471	38,548,380	67,592,851
	<hr/>	<hr/>	<hr/>
Total net position - ending	\$ 34,453,048	\$ 39,749,027	\$ 74,202,075
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

CITY OF KLAMATH FALLS, OREGON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2018

	Business-Type Activities - Enterprise Funds		
	Wastewater	Water	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 7,595,978	\$ 8,267,777	\$ 15,863,755
Receipts from interfund services provided	41,859	155,465	197,324
Payments to suppliers	(1,305,653)	(2,525,183)	(3,830,836)
Payments to employees	(1,007,063)	(1,394,747)	(2,401,810)
Payments for interfund services used	(1,730,153)	(1,016,007)	(2,746,160)
Net cash provided by operating activities	<u>3,594,968</u>	<u>3,487,305</u>	<u>7,082,273</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Transfers in (out)	<u>3,000,000</u>	<u>(958,475)</u>	<u>2,041,525</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
System development fees collected	422,723	163,256	585,979
Purchases and construction of capital assets	(1,866,497)	(2,061,906)	(3,928,403)
Principal paid on capital debt	(670,097)	(36,310)	(706,407)
Interest paid on capital debt	(155,322)	(26,775)	(182,097)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(2,269,193)</u>	<u>(1,961,735)</u>	<u>(4,230,928)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of investments	(4,151,471)	(1,669,613)	(5,821,084)
Interest and dividends received	92,729	121,274	214,003
Net Cash Provided (Used) by Investing Activities	<u>(4,058,742)</u>	<u>(1,548,339)</u>	<u>(5,607,081)</u>
Net Change in Cash and Cash Equivalents	267,033	(981,244)	(714,211)
Cash and Cash Equivalents - Beginning of Year	<u>4,010,217</u>	<u>3,769,200</u>	<u>7,779,417</u>
Cash and Cash Equivalents - End of Year	<u>\$ 4,277,250</u>	<u>\$ 2,787,956</u>	<u>\$ 7,065,206</u>
Cash and Cash Equivalents - Unrestricted	\$ 3,317,506	\$ 2,642,744	\$ 5,960,250
Cash and Cash Equivalents - Restricted	<u>959,744</u>	<u>145,212</u>	<u>1,104,956</u>
Total Cash and Cash Equivalents	<u>\$ 4,277,250</u>	<u>\$ 2,787,956</u>	<u>\$ 7,065,206</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 2,043,437	\$ 1,911,804	\$ 3,955,241
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization expense	1,213,165	1,524,307	2,737,472
(Increase) decrease in assets and deferred outflows of resources			
Accounts receivable	(114,424)	49,616	(64,808)
Inventories	3,044	(5,424)	(2,380)
Prepaid items	10,991	(5,028)	5,963
Deferred charges on refunding	20,037	-	20,037
Deferred outflows related to other post employment benefits	(629)	(671)	(1,300)
Deferred outflows related to pensions	240,217	336,126	576,343
Increases (decrease) in liabilities			
Accounts payable	309,563	(128,025)	181,538
Retainage payable	-	(21,638)	(21,638)
Compensated absences	(21,398)	12,564	(8,834)
Customer deposits	-	(8,921)	(8,921)
Unearned revenue	-	15,436	15,436
Other post employment benefits	(10,693)	(12,873)	(23,566)
Net pension liability	(123,307)	(209,966)	(333,273)
Deferred inflows related to other post employment benefits	5,999	6,956	12,955
Deferred inflows related to pensions	18,966	23,042	42,008
Total Adjustments	<u>1,551,531</u>	<u>1,575,501</u>	<u>3,127,032</u>
Net cash provided by operating activities	<u>\$ 3,594,968</u>	<u>\$ 3,487,305</u>	<u>\$ 7,082,273</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES			
Capital assets, contributed by others	<u>\$ -</u>	<u>\$ 7,200</u>	<u>\$ 7,200</u>

This page intentionally left blank.

FIDUCIARY FUNDS

This page intentionally left blank.

CITY OF KLAMATH FALLS, OREGON
STATEMENT OF FIDUCIARY NET POSITION
VETERANS MEMORIAL AGENCY FUND
June 30, 2018

	<u>Veterans Memorial Fund</u>
ASSETS	
Cash and cash equivalents	\$ 52,314
Interest receivable	20
Investments	<u>103,754</u>
Total Assets	<u><u>\$ 156,088</u></u>
LIABILITIES	
Due to Veterans Associations	<u>\$ 156,088</u>
Total Liabilities	<u><u>\$ 156,088</u></u>

This page intentionally left blank.

**NOTES TO THE
FINANCIAL STATEMENTS**

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 unit. 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 unit, an entity for which the government is considered to be financially accountable. The blended component unit is, in substance, part of the government's operations, even though it is a legally separate entity. Thus, the blended component unit is appropriately presented as a fund of the primary government.

Blended component unit. The Klamath Falls Urban Renewal Agency (Agency) is composed of the Lakefront Urban Renewal Fund and the Town Center Urban Renewal Fund. The Agency is a legally separate entity, governed by a board comprised of the members of City Council. The City Council has the ability to impose its will on the Agency as determined on the basis of budget adoption, taxing authority, and funding for the Agency.

Requests for the Agency's financial statements can be addressed to: Finance Manager, City of Klamath Falls, 500 Klamath Avenue, Klamath Falls, OR 97601, or can be viewed online at: <https://www.klamathfalls.city/i-want-to/find/city-hall/support-services/finance>.

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 unit. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Principal sources of revenue are property taxes, franchise fees, grants, state and county shared revenues, and administrative services from other funds. Primary expenditures are for general government, police, streets, and culture and recreation.

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 *capital projects fund* accounts for the funds received for major projects and acquisitions. Revenues consist of lease payments for the finance/utility billing building and investment income. Capital projects may be completed and expensed within the capital projects fund or funds may be transferred out to the originating fund once the projects begin.

The *escrow reserve fund* is a capital projects fund whose primary source of revenue is proceeds from the sale of the Cogeneration Plant that have been completely paid out. 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.

The government also reports nonmajor funds in the following categories: special revenue funds, capital projects funds, and debt service funds.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

E. Measurement focus and basis of accounting

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

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

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

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred, 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. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Investments

The government's investment policy is in accordance with ORS 294 and sets the parameters within which funds are invested to ensure effective and judicious management of funds. Investments for the government are reported at fair value. The government participates in the Oregon State Treasurer's Local Government Investment Pool (LGIP), an open-ended, no-load, diversified portfolio created under ORS 294.805 to 294.895. The LGIP is administered by the State Treasurer and the Oregon Investment Council with the advice of the Oregon Short-Term Bond Fund Board. The Oregon State Treasurer's Office has calculated the fair value of the underlying investments of the LGIP and the government's share of fair value is the same as the reported value. The individual funds' and blended component unit's portion of the pool's fair value are presented as "Cash and Cash Equivalents" in the basic financial statements as these are demand deposits.

3. Receivables

All trade 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 first-in/first-out (FIFO) basis and are accounted for using the consumption method.

Within the proprietary funds, prepaid items are accounted for using the consumption method. Within the governmental funds, prepaid items are accounted for using the purchases method.

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 recorded at historical cost or estimated historical cost if actual cost is not available. Donated capital assets, donated works of art and similar items are reported at acquisition value.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. The government capitalizes 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 systems, and engineering construction programs.

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

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

7. *Deferred outflows/inflows of resources*

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

8. *Pensions*

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

9. *Compensated absences*

Vacation

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

Sick Leave

The government's policy permits employees to accumulate earned but unused sick leave benefits. When AFSCME and Teamsters employees, hired before July 1, 2011, leave the government's employment, sick leave is paid at a graduated scale based on years employed, not to exceed 25% of 960 hours. AFSCME and Teamsters employees hired after July 1, 2011, no longer qualify for a sick leave payout upon leaving the government. Exempt employees may have two sick leave banks. All sick leave accumulated prior to July 1, 2011 is tracked as "frozen sick leave". Amounts remaining on the books upon termination are paid at a graduated scale based on years employed but not to exceed 25% of 960 hours. Leave amounts accrued after July 1, 2011 are tracked as current sick leave, which is no longer subject to a payout upon termination. Instead, the government will convert up to 32 hours of accrued current sick leave to cash and contribute the balance to a Voluntary Employee's Beneficiary Account (VEBA) on July 1st of each year for non-represented employees hired before July 1, 2015. 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.

Compensatory Time Leave

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

10. *Other Postemployment Benefits Obligation (OPEB)*

The government'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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

11. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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.

12. Net position flow assumption

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

13. Fund balance flow assumptions

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

14. Fund balance policies

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the government 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 government's highest formal action is an ordinance approved by the City Council.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 17-12 on August 7, 2017.

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

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

The City Council annually adopts a reserve balance in the Water and Wastewater Funds of at least 15% of the annual operating budget. The City Council annually adopts a reserve balance in other funds receiving property tax support at a minimum level of 10% of the annual operating budget. 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.

G. 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.

The government participates in a number of property tax abatement programs. All such abatement programs are authorized by Oregon revised statutes or by local resolution or ordinance. Some programs are initiated by the government and others by other local governments and state agencies. There were no taxes abated for the year ended June 30, 2018.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

H. Use of Estimates

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

NOTE 2 – 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), which requires that all airport revenues generated by a public airport will be expended for the capital or operating costs of the airport, the local airport system, or other local facilities which are owned or operated by the owner or operator of the airport, and are directly and substantially related to the actual air transportation of passengers or property.

B. Deficit fund equity

At June 30, 2018, the Lakefront Urban Renewal Fund has a deficit fund balance of \$590,867, and the Debt Service Fund has a deficit fund balance of \$50,696. The reason for the deficits are interfund loans. The interfund loans are reported as a fund liability in the Lakefront Urban Renewal and Debt Service Fund balance sheets (rather than an inflow on the statement of revenues, expenditures, and changes in fund balance). This deficit will be eliminated as the scheduled principal and interest payments on the loans are made.

C. Budgetary information

On or before June 30 of each year, the government enacts a resolution adopting the budget, appropriating the expenditures, and levying the property taxes. The government is required to prepare a balanced budget for each fund in accordance with ORS 294 – Local Budget Law. The government’s budget is presented on the modified accrual basis of accounting.

The Budget Committee, which consists of the City Council and an equal number of citizens of the City, conducts public hearings for the purpose of obtaining citizens’ comments, and then approves a budget and submits it to the City Council for final adoption. The approved expenditures for each fund may not be increased by more than ten (10) percent by Council without returning to the Budget Committee for a second approval.

The resolution authorizing appropriations for each fund sets the legal level of control by which expenditures cannot legally exceed appropriations. Total expenditures by division as established by the resolution are the legal level of control for the funds. Non-departmental expenditures within the funds are categorized by materials and services, capital outlay, debt service, transfers, and contingency, and are the legal level of control for non-departmental expenditures. The detail budget document, however, is required to contain more specific information for the above-mentioned expenditure categories.

The City Council may modify the budget by transferring appropriations between levels of control and by adopting supplemental budgets. 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,

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

and adoption 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 the City Council. The government had appropriation transfers and supplemental budgets during the year ending June 30, 2018. Appropriations lapse as of year-end.

1. Expenditures in excess of appropriations

Local budget law exempts reporting of over appropriations for a variety of situations related to the issuance, repayment and refunding of bonds as defined by ORS 294.338(3)-(5). For the fiscal year ended June 30, 2018, the Debt Service Fund had expenditures for bond refunding over appropriations that were exempt from supplementary budgetary requirements per ORS 294.338.

NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES AND FUND

A. Cash, cash equivalents and investments

At June 30, 2018, the government’s cash, cash equivalents and investments were comprised of the following:

Cash on hand	\$	1,500
Deposits with financial institutions		477,899
Investments:		
Oregon State Treasurer’s Local Government Investment Pool		11,886,490
Oregon State Treasurer’s Local Government Intermediate Fund		8,777,251
Negotiable certificates of deposit		391,182
U.S. agency and municipal obligations		20,694,156
Commercial paper and corporate bonds		7,456,350
Total cash and investments	\$	49,684,828

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

	Governmental Activities	Business-Type Activities	Total
Cash and cash equivalents	\$ 5,300,683	\$7,065,206	\$12,365,889
Investments	29,849,451	7,469,488	37,318,939
	\$35,150,134	\$14,534,694	\$ 49,684,828

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, 2018, the government’s bank balances were \$948,581 (\$3,981 of which belongs to the Veteran’s Memorial Fund).

Fair Value Measurement. GASB Statement No. 72, *Fair Value Measurement and Application*, specifies a hierarchy of valuation classifications based on whether the inputs to the valuation techniques used in each valuation classification are observable or unobservable. These Classifications are summarized in the three broad levels listed below:

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

Level 1 – Unadjusted quoted prices for identical instruments in active markets.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly, including quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as exchange rates, financing terms, interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risk and default rates).

Level 3 – Valuations derived from valuation techniques in which significant inputs or significant valuation drivers are unobservable. (added based on review notes)

The hierarchy gives the highest priority to unadjusted quoted prices in active markets of identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the fair value hierarchy classification is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The categorization of a value determined for investments is based on the pricing transparency of the investments and is not necessarily an indication of the risks associated with investing in those securities.

The government categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The government has recorded its investments at fair value, and primarily uses the Market Approach to value each security. Security pricing is provided by a third-party and reported to the government by its custodian bank. Assets are categorized by asset type, which is a key component of determining hierarchy levels. Asset types allowable per the government’s investment policy generally fall within hierarchy level 1 and 2.

As of June 30, 2018, the government’s investments in U.S. Treasury Securities are classified as Level 1. All other securities, excluding the Local Government Investment Pool, which is not in the leveling hierarchy, are classified as Level 2.

As of June 30, 2018, the government had the following investments:

Investment Type	Fair Value	% of Investment Portfolio	Weighted Average Maturity (Years)
Local Government Investment Pool	\$ 20,663,741	42.0%	0.52
Negotiable Certificates of Deposit	391,182	0.8%	1.43
U.S. Agency Securities	14,480,673	29.4%	1.98
U.S. Treasury Securities	4,361,105	8.9%	3.56
Municipal Commercial Paper	1,852,378	3.8%	2.33
Corporate Commercial Paper and Bonds	7,456,350	15.2%	2.20
Total	\$ 49,205,429	100.0%	

The earnings on investments reported in the Capital Projects Fund are assigned to and treated as direct revenue of the contributing funds.

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

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, 2018, 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, 2018, the government’s investments were rated by Standard & Poors as follows:

	Commercial Paper and Corporate Bonds	Municipal Corporations	US Agency Corporations	Certificates of Deposit	US Treasury Notes (1)	Local Government Investment Pool
AAA	2,934,944					
AA+	2,072,805		14,480,673			
AA	984,670					
AA-	988,475					
A+	236,959					
A	238,497					
Unrated	-	1,852,378		391,182	4,361,105	20,663,741
	<u>\$ 7,456,350</u>	<u>\$ 1,852,378</u>	<u>\$ 14,480,673</u>	<u>\$ 391,182</u>	<u>\$ 4,361,105</u>	<u>\$ 20,663,741</u>

(1) U.S. Treasury securities are not rated by the credit rating agencies as they carry an implicit guarantee of the U.S. Government.

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.

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

B. Receivables

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

Governmental Activities

<u>General Fund</u>	<u>Municipal Court</u>	<u>Code Enforcement</u>	<u>Other</u>	<u>Total General Fund</u>
Gross Accounts Receivable	\$ 3,511,135	\$ 224,507	\$ 627,868	\$ 4,363,510
Uncollectibles	(3,299,441)	(212,772)	(564)	(3,512,777)
Net Accounts Receivable	<u>\$ 211,694</u>	<u>\$ 11,735</u>	<u>\$ 627,304</u>	<u>\$ 850,733</u>

	<u>General Fund</u>	<u>Airport Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Activities</u>
Gross Accounts Receivable	\$ 4,363,510	\$ 1,246,357	\$ 59,849	\$ 5,669,716
Uncollectibles	(3,512,777)		(41,936)	(3,554,713)
Net Accounts Receivable	<u>\$ 850,733</u>	<u>\$ 1,246,357</u>	<u>\$ 17,913</u>	<u>\$ 2,115,003</u>

Business-type Activities

	<u>Wastewater Fund</u>	<u>Water Fund</u>	<u>Total Business-type Activities</u>
Gross Accounts Receivable	\$ 989,536	\$ 1,286,997	\$ 2,276,533
Uncollectibles	(23,891)	(30,049)	(53,940)
Net Accounts Receivable	<u>\$ 965,645</u>	<u>\$ 1,256,948</u>	<u>\$ 2,222,593</u>

C. Lease receivables

The government leases land and buildings under non-cancellable operating leases to other parties. The cost of the leased assets was \$35,368,666 and the carrying value was \$24,501,921. Payments received in the current year were \$656,706.

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

2019	\$ 458,155
2020	400,237
2021	366,374
2022	361,086
2023	292,356
2024-2028	1,227,990
2029-2033	731,624
2034-2038	93,774
2039-2043	62,867
2044-2048	49,797
Total	<u>\$ 4,044,260</u>

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

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, 2018, was as follows:

Governmental Activities:

	Balance July 1, 2017	Increases	Decreases & Transfers	Placed in Service	Balance June 30, 2018
Capital assets, not being depreciated:					
Land	\$ 14,092,581	\$ 60,317	\$ -	\$ -	\$ 14,152,898
Construction in progress	4,231,453	8,333,528	-	(2,102,327)	10,462,654
Intangible assets	116,771	-	-	-	116,771
Total capital assets, not being depreciated	18,440,805	8,393,845	-	(2,102,327)	24,732,323
Capital assets, being depreciated:					
Buildings	17,570,920	17,866	-	60,639	17,649,425
Intangible assets	997,414	28,500	-	-	1,025,914
Machinery, equipment, and vehicles	11,614,088	1,247,757	(224,579)	-	12,637,267
Infrastructure	195,442,944	-	-	2,041,688	197,484,631
Total capital assets being depreciated	225,625,366	1,294,123	(224,579)	2,102,327	228,797,237
Less accumulated depreciation for:					
Buildings	(5,522,427)	(573,082)	-	-	(6,095,509)
Intangible assets	(559,540)	(36,799)	-	-	(596,339)
Machinery, equipment, and vehicles	(8,681,856)	(606,528)	209,117	-	(9,079,267)
Infrastructure	(114,641,522)	(3,136,126)	-	-	(117,777,648)
Total accumulated depreciation	(129,405,345)	(4,352,535)	209,117	-	(133,548,763)
Total capital assets, being depreciated, net	96,220,021	(3,058,412)	(15,462)	2,102,327	95,248,474
Government activities capital assets, net	\$ 114,660,826	\$ 5,335,433	\$ (15,462)	\$ -	\$ 119,980,797

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	\$ 208,815
Public safety	497,245
Highways and streets	1,855,973
Culture and recreation	190,843
Airport	1,599,660
Total depreciation expense - governmental activities	\$ 4,352,535

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

Business-type Activities:

	Balance July 1, 2017	Increases	Placed in Service	Balance June 30, 2018
Capital assets, not being depreciated:				
Land	\$ 1,563,599	\$ -	\$ -	\$ 1,563,599
Construction in progress	3,577,987	3,631,862	(1,877,988)	5,331,862
Intangible assets	185,728	-	-	185,728
Total capital assets, not being depreciated	5,327,315	3,631,862	(1,877,988)	7,081,190
Capital assets, being depreciated:				
Buildings	7,476,408	-	22,667	7,499,076
Intangible assets	-	7,500	-	7,500
Machinery and equipment	19,694,999	289,041	73,975	20,058,015
Infrastructure	80,690,061	7,200	1,781,346	82,478,606
Total capital assets being depreciated	107,861,468	303,741	1,877,988	110,043,197
Less accumulated depreciation for:				
Buildings	(4,104,607)	(132,145)	-	(4,236,752)
Intangible assets	-	(804)	-	(804)
Machinery and equipment	(11,911,135)	(855,221)	-	(12,766,356)
Infrastructure	(32,363,829)	(1,749,303)	-	(34,113,132)
Total accumulated depreciation	(48,379,571)	(2,737,472)	-	(51,117,044)
Total capital assets, being depreciated, net	59,481,896	(2,433,731)	1,877,988	58,926,153
Business-type activities capital assets, net	\$ 64,809,211	\$ 1,198,131	\$ -	\$ 66,007,342

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

Business-type activities:	
Water	\$ 1,524,307
Wastewater	1,213,165
Total depreciation expense - business-type activities	\$ 2,737,472

E. Pension Plan

General Information about the Pension Plan

Plan description

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

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

Benefits provided

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

Pension Benefits

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

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

Death Benefits

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

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

Disability Benefits

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

Benefit Changes After Retirement

After retirement, members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in the market value of equity investments. Under ORS 238.360, monthly benefits are adjusted through cost-of-living changes (COLA). The COLA is capped at 2.0%.

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

2. OPSRP Pension Program (OPSRP DB)

Pension Benefits

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

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

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

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

Death Benefits

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

Disability Benefits

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

Benefit Changes After Retirement

Under ORS 238A.210, monthly benefits are adjusted annually through cost-of-living adjustments (COLA). The COLA is capped at 2.0%.

3. OPSRP Individual Account Program (OPSRP IAP)

Pension Benefits

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

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

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

Death Benefits

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

Recordkeeping

OPERS contracts with VOYA Financial to maintain IAP participant records.

Contributions

PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. This funding policy applies to the PERS Defined Benefit Plan and the Other Postemployment Benefit Plans. Employer contribution rates during the period were based on the December 31, 2015 actuarial valuation. The rates based on a percentage of payroll first became effective July 1, 2017. Employer contributions for the year ended June 30, 2018, were \$1,080,324, excluding amounts to fund employer specific liabilities. The rates in effect for the fiscal year ended June 30, 2018, were 16.09 percent for Tier One/Tier Two members, 7.09 percent for OPSRP Pension Program General Service Members, 11.86 percent for OPSRP Pension Program Police Members, and 6 percent for OPSRP Individual Account Program.

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

At June 30, 2018, the government reported a liability of \$12,049,683 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, rolled forward to June 30, 2017. The government's proportion of the net pension liability was based on a projection of the government's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2017, the government's proportion was 0.0894 percent, which was a decrease of .0031 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the government's recognized pension expense (income) was \$1,394,363. At June 30, 2018, the government reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 582,728	\$ -
Changes of assumptions	2,196,442	-
Net difference between projected and actual earnings on investments	124,140	-
Changes in proportion	199,669	209,444
Differences between employer contributions and proportionate share of contributions	-	385,080
Total (prior to post-MD contributions)	<u>3,102,979</u>	<u>594,524</u>
Contributions subsequent to the MD	<u>1,080,324</u>	<u>-</u>
 Total	 <u><u>\$ 4,183,303</u></u>	 <u><u>\$ 594,524</u></u>

\$1,080,324 reported as deferred outflows of resources related to pensions resulting from government contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Amortization Period	
FY2019	\$ 420,759
FY2020	\$ 1,404,042
FY2021	\$ 958,956
FY2022	\$ (301,470)
FY2023	<u>\$ 26,166</u>
Total	<u><u>\$ 2,508,453</u></u>

Actuarial assumptions

The employer contribution rates effective July 1, 2017, through June 30, 2018, were set using the entry age normal actuarial cost method. For the Tier One/Tier Two component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of: (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (2) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 20 years. For the OPSRP Pension Program component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of: (a) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (b) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 16 years. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

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

Valuation Date	December 31, 2015
Measurement Date	June 30, 2017
Experience Study Report	2014, published September 2015
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Inflation Rate	2.50 percent
Long-Term Expected Rate of Return	7.50 percent
Discount Rate	7.50 percent
Projected Salary Increases	3.50 percent overall payroll growth
Cost of Living Adjustments (COLA)	Blend of 2.00% COLA and grade COLA (1.25%/0.15%) in accordance with <i>Moro</i> decision, blend based on service.
Mortality	<p><i>Healthy retirees and beneficiaries:</i> RP-2000 Sex-distinct, generational per Scale BB, with collar adjustments and set-backs as described in the valuation.</p> <p><i>Active Members:</i> Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation.</p> <p><i>Disabled retirees:</i> Mortality rates are a percentage (70% for males, 95% for females) of the RP-2000 Sex-distinct, generational per Scale BB, disabled mortality table.</p>

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years. The methods and assumptions shown above are based on the 2014 Experience Study which reviewed experience for the four-year period ending on December 31, 2014.

Long-term expected rate of return

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2015, the PERS Board reviewed long-term assumptions developed by both Milliman’s capital market assumptions team and the Oregon Investment Council’s (OIC) investment advisors. The table below shows Milliman’s assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC’s description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

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

Asset Class/Strategy	Assumed Asset Allocation			Asset Class	Target Allocation	Compounded Annual Return (Geometric)
	Low Range	High Range	Target			
Cash	0.0%	3.0%	0.0%	Core Fixed Income	8.00%	4.00%
Debt Securities	15.0%	25.0%	20.0%	Short-Term Bonds	8.00%	3.61%
Public Equity	32.5%	42.5%	37.5%	Bank/Leveraged Loans	3.00%	5.42%
Private Equity	16.0%	24.0%	20.0%	High Yield Bonds	1.00%	6.20%
Real Estate	9.5%	15.5%	12.5%	Large/Mid Cap US Equities	15.75%	6.70%
Alternative Equity	0.0%	10.0%	10.0%	Small Cap US Equities	1.30%	6.99%
Opportunity Portfolio	0.0%	3.0%	0.0%	Micro Cap US Equities	1.30%	7.01%
Total			<u>100.0%</u>	Developed Foreign Equities	13.13%	6.73%
				Emerging Foreign Equities	4.12%	7.25%
				Non-US Small Cap Equities	1.88%	7.22%
				Private Equities	17.50%	7.97%
				Real Estate (Property)	10.00%	5.84%
				Real Estate (REITS)	2.50%	6.69%
				Hedge Fund of Funds - Diversified	2.50%	4.64%
				Hedge Fund - Event-Driven	0.63%	6.72%
				Timber	1.88%	5.85%
				Farmland	1.88%	6.37%
				Infrastructure	3.75%	7.13%
				Commodities	1.88%	4.58%
				Total	<u>100.00%</u>	
				Assumed Inflation - Mean		2.50%

Depletion Date Projection

GASB 68 generally requires that a blended discount rate be used to measure the Total Pension Liability (the Actuarial Accrued Liability calculated using the Individual Entry Age Normal Cost Method). The long-term expected return on plan investments may be used to discount liabilities to the extent that the plan’s Fiduciary Net Position is projected to cover benefit payments and administrative expenses. A 20-year high quality (AA/Aa or higher) municipal bond rate must be used for periods where the Fiduciary Net Position is not projected to cover benefit payments and administrative expenses. Determining the discount rate under GASB 68 will often require that the actuary perform complex projections of future benefit payments and pension plan investments. GASB 68 (paragraph 67) does allow for alternative evaluations of projected solvency, if such evaluation can reliably be made. GASB does not contemplate a specific method for making an alternative evaluation of sufficiency; it is left to professional judgment.

The following circumstances justify an alternative evaluation of sufficiency for PERS:

- PERS has a formal written policy to calculate an Actuarially Determined Contribution (ADC), which is articulated in the actuarial valuation report.
- The ADC is based on a closed, layered amortization period, which means that payment of the full ADC each year will bring the plan to a 100% funded position by the end of the amortization period if future experience follows assumption.
- GASB 68 specifies that the projections regarding future solvency assume that plan assets earn the assumed rate return and there are no future changes in the plan provisions or actuarial methods and assumptions, which means that the projections would not reflect any adverse future experience which might impact the plan’s funded position.

Based on these circumstances, it is our independent actuary’s opinion that the detailed depletion date projections outlined in GASB 68 would clearly indicate that the Fiduciary Net Position is always projected to be sufficient to cover benefit payments and administrative expenses.

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

Discount rate

The discount rate used to measure the total pension liability was 7.50 percent for the Defined Benefit Pension Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Defined Benefit Pension Plan was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the government's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the government's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
City's proportionate share of the net pension liability (asset)	\$ 20,534,858	\$ 12,049,683	\$ 4,954,503

Pension plan fiduciary net position

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

Changes in Plan Provisions During the Measurement Period

There were no changes during the June 30, 2017 measurement period that require disclosure.

Changes in Plan Provisions Subsequent to Measurement Date

On July 28, 2017, subsequent to the June 30, 2017 measurement date, the OSPERS Board lowered the assumed rate to 7.2 percent. The current assumed rate is 7.5 percent and has been in effect for member transactions since January 1, 2016. The new rate will take effect January 1, 2018. The effect on the City has not been determined.

F. Other Postemployment Benefit (OPEB) Obligations

City County Insurance Services (CIS)

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 75 is applicable to the government due only to the implicit rate subsidy. The implicit employer subsidy is measured as the expected health care cost per retiree and dependent, less the gross premiums charged by the insurance carrier for that coverage. The subsidy is only measured for retirees and spouses younger than age 65, at which point such retirees and spouses typically become eligible for Medicare. This “plan” is a single-employer defined benefit plan. This plan is not considered a trust or equivalent arrangement as there are no plan assets. It is not a stand-alone plan and therefore does not issue its own financial statements. GASB 75 is only applicable to the government’s non-represented and AFSCME-represented employees.

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

Benefits Provided. All employees of the government retiring from active service with a pension benefit payable immediately under Oregon PERS is eligible. Retirees and their dependents under age 65 are allowed to continue the health care coverage received prior to retirement. Premiums for retirees are tiered and based upon the premium rate available to active employees. The retiree is responsible to payment of the premiums.

The required monthly contributions of the plan members were as follows for the year ended June 30, 2018:

	<u>Contribution</u>
Employee	\$ 647.14
Employee + Child	1,185.73
Employee + Children	1,614.68
Employee + Spouse	1,352.38
Full Family	1,858.42

SUMMARY OF PARTICIPANT DATA

	PERS Police & Fire	PERS General Service	Employer Retirement Plan*	Total
Number of Members				
Active	5	101	0	106
Retired Members	0	6	0	6
Spouses of Ineligible Retirees	0	2	0	2
Total	5	109	0	114
Spouses of Eligible Retirees	0	3	0	3
Average Age				
Active	43.4	47.1	0.0	46.9
Retired	0.0	61.2	0.0	61.2
Average Service - Actives				
PERS Service	8.0	11.5	N/A	11.3
Employer-only Service	8.5	12.00	0.0	11.8

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

	<u>Active Members</u>		<u>Retired Members**</u>
Count as of August 1, 2014	108	Count as of August 1, 2014	7
Retired with benefits	(3)	Retired with benefits	3
Terminated without benefits	(16)	Benefits ceased	(4)
New hires / newly eligible	17	Newly covered (generally spouses of former retirees)	2
Ineligible for benefits valued	0	Ineligible for benefits valued	0
Count as of July 1, 2016	106	Count as of July 1, 2016	8

* Retirees are counted and valued under PERS assumptions.

** Includes spouses of ineligible retirees.

OPEB Assets, Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources. As of June 30, 2018, the government reported an OPEB liability of \$728,993. Total OPEB liability is determined using the entry age normal actuarial cost allocation method. In addition, GASB 75 requires that the allocation of costs for accounting purposes be made as a level percentage of employees' projected pay, including future anticipated pay increases. This measurement is based on the July 1, 2016 valuation date and a June 30, 2017 measurement date.

Changes in Total OPEB Liability

Balance as of June 30, 2017	\$ 766,761
Changes for the year:	
Service cost	37,018
Interest on Total OPEB liability	22,055
Effect of changes to benefit terms	-
Effect of economic/demographic gains or losses	-
Effect of assumptions changes or inputs	(36,597)
Benefit payments	<u>(60,244)</u>
Balance as of June 30, 2018	<u><u>\$ 728,993</u></u>

For the year ended June 30, 2018, the government's recognized OPEB expense (income) was \$54,610. At June 30, 2018, the government reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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

Deferred Inflows / Outflows of Resources	Deferred Inflows	Deferred Outflows
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions or inputs	(32,134)	-
Contributions made subsequent to measurement date	n/a	66,022
Total as of June 30, 2018	\$ (32,134)	\$ 66,022

\$66,022 reported as deferred outflows of resources related to OPEB resulting from government contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2018. Other amounts currently reported as deferred outflows of resources and deferred inflows of resources related to other postemployment benefits will be recognized in OPEB expense as follows:

Year ended June 30:	Annual
2019	\$ (4,463)
2020	(4,463)
2021	(4,463)
2022	(4,463)
2023	(4,463)
Thereafter	(9,819)
	\$ (32,134)

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 July 1, 2016 actuarial valuation, the entry age normal cost method was used. Demographic assumptions regarding retirement, mortality, and turnover are based on Oregon PERS valuation assumptions as of December 31, 2015.

Valuation Date	July 1, 2016	July 1, 2016
Measurement Date	June 30, 2016	June 30, 2017
Actuarial Assumptions:		
Inflation Rate	2.50%	2.50%
Salary Increases	3.50%	3.50%
Healthy Mortality	RP-2000 healthy white collar male and female mortality tables, set back one year for males. Mortality is projected on a generational bases using Scale BB for males and females.	RP-2000 healthy white collar male and female mortality tables, set back one year for males. Mortality is projected on a generational bases using Scale BB for males and females.
Actuarial cost method	Entry Age Normal	Entry Age Normal

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

Health Care Cost Trend	Medical and vision:	
	<u>Year</u>	<u>Pre-65 Trend</u>
	2016	7.00%
	2017	7.50
	2018	6.00
	2019	5.50
	2020-2025	5.25
	2026	5.00
	2027-2029	5.25
	2030	5.75
	2031-2035	6.25
	2036-2040	6.00
	2041-2043	5.75
	2044-2052	5.50
	2053-2063	5.25
	2064+	5.00

Dental: 4.50% per year

Discount Rate. Under GASB 75, unfunded plans must use a discount rate that reflects a 20-year tax-exempt municipal bond yield or index rate. The assumptions reflect the Bond Buyer 20-Year General Obligation Bond Index. The discount rate in effect for the June 30, 2018 reporting date is 3.58 percent. The previous year discount rate was 2.85 percent.

Sensitivity of the government's proportionate share of the total OPEB liability. The following presents the total OPEB liability of the Plan, calculated using the discount rate of 3.58%, as well as what the Plan's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.58%) or 1 percentage point higher (4.58%) than the current rate. A similar sensitivity analysis is then presented for changes in the healthcare cost trend assumptions.

	Current		
	1% Decrease	Discount Rate	1% Increase
Total OPEB liability	\$779,004	\$728,993	\$682,253

	Current Trend		
	1% Decrease	Rate	1% Increase
Total OPEB liability	\$668,150	\$728,993	\$799,290

The government's Teamsters-represented employees are provided OPEB through Oregon Teamsters Employers Trust which is administered by William C. Earhart Co., Inc. This is a cost-sharing OPEB plan that meets the requirements of GASB 85, as it is not a state or local governmental OPEB plan, provides benefits to employees of both government and non-government employers, and has no predominant government employer. The financial statements for the plan are not publicly available. As of June 30, 2018, there were 31 of the government's employees covered. Pursuant to the collective-bargaining agreement dated July 1, 2015 and ending June 30, 2018, the government will provide retirees the opportunity to purchase medical, dental, and vision insurance through the existing group health plan for Teamsters-covered employees, provided this coverage is available through the carrier of record. If Teamster-retired employees choose the retiree insurance, they will pay \$1,402 per month, but the government does not have any obligation to pay for the insurance.

NOTE 3 – 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 resides with the Oregon Legislature. The plan was closed to new entrants hired on or after August 29, 2003. OPERS issues a publicly available Comprehensive Annual Financial Report and Actuarial Valuation that can be obtained at: <https://www.oregon.gov/pers/EMP/Pages/Actuarial-Financial-Information.aspx>.

Benefits Provided. ORS requires 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.

Contributions. PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. This funding policy applies to the PERS Defined Benefit Plan and the Other Postemployment Benefit Plans. Employer contribution rates during the period were based on the December 31, 2015 actuarial valuation. The rates based on a percentage of payroll first became effective July 1, 2017. Employer RHIA contributions for the year ended June 30, 2018, were \$43,931. The rates in effect for the fiscal year ended June 30, 2018, were .50 percent for Tier One/Tier Two members, .43 percent for OPSRP Pension Program Members.

RHIA OPEB Assets, Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources. At June 30, 2018 the government reported an asset of \$38,383 for its proportionate share of the net OPEB asset. The net OPEB asset was measured as of June 30, 2017 and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2015 rolled forward to June 30, 2017. The government's proportion of the net OPEB asset was based on a projection of the government's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. As of June 30, 2017, the government's proportion was .0978 percent, which was a decrease of .0059 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the government's recognized OPEB expense (income) was (\$44,155). As of June 30, 2018, the government reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on investments	-	17,777.00
Changes in proportionate share	-	1,161.00
Difference between employer contributions and employer's proportionate share of system contributions	-	-
Total (prior to post-MD contributions)	-	18,938
Contributions subsequent to the MD	43,931	-
Total	<u>\$ 43,931</u>	<u>\$ 18,938</u>

\$43,931 reported as deferred outflows of resources related to pensions resulting from government contributions subsequent to the measurement date will be recognized as an addition to the net OPEB asset in the year ended June 30, 2019. Other amounts reported as deferred outflows or resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Employer subsequent fiscal years	Deferred Outflow/(Inflow) of Resources (prior to post-measurement date contributions)
1 st Fiscal Year	\$ (4,874)
2 nd Fiscal Year	(4,874)
3 rd Fiscal Year	(4,745)
4 th Fiscal Year	(4,444)
5 th Fiscal Year	0
Thereafter	0
Total	\$ (18,938)

Actuarial assumptions. Please see PERS above for assumptions, rate of return, and discount rate as these are the same for RHIA OPEB.

Sensitivity of the government's proportionate share of the net OPEB asset to changes in the discount rate. The following presents the government's proportionate share of the net OPEB asset calculated using the discount rate of 7.50 percent, as well as what the government's proportionate share of the net OPEB asset would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
City's proportionate share of the net OPEB liability (asset)	\$ 5,350	\$ (38,383)	\$ (75,580)

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

OPEB Plan Fiduciary Net Position

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

Changes in Plan Provisions Subsequent to Measurement Date

The PERS Board lowered the Assumed Rate of Return from 7.50% to 7.20% on July 28, 2017. This change is effective January 1, 2018 and will decrease the net OPEB asset or increase the net OPEB liability in future periods. The effect on the City has not been determined.

Defined Contribution Plans

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

Funding Policy. Under the plans, employees may make elective contributions and the authority to change the contributions remains with the employee. The government does not make any matching contributions to the plans and the plan assets are not included in the financial statements. Employees elected to contribute \$285,197 and \$37,367 to the section 457 and the section 401(k) plans respectively, in 2018.

G. Construction and other significant commitments

The government has active construction and professional service contracts as of June 30, 2018. General Fund construction are for Moore Park Road repairs and Eldorado Avenue improvements. Airport construction is Taxiway B and G, roof repair and airfield crack sealing. Wastewater construction is Phase One of treatment plant and wastewater professional services is the wastewater treatment plant design build project. Water construction is the Pelican City Water Main and Booster Station. The significant commitment in the nonmajor governmental funds is the economic development EPA Brownfields Grant implementation. At year-end, the government’s contract commitments were as follows:

<u>Project</u>	<u>Cost to date</u>	<u>Commitment</u>
General Fund professional service contracts	\$ 133,997	\$ 47,546
General Fund construction contracts	506,635	575,460
Airport professional service contracts	428,528	721,566
Airport construction contracts	-	62,594
Wastewater professional services contract	404,344	488,977
Wastewater construction contracts	1,230,842	2,470,548
Water professional services contract	191,714	82,971
Water construction contracts	-	-
Nonmajor Governmental Funds professional service contracts	140,024	161,882
Total	<u>\$ 3,036,084</u>	<u>\$ 4,611,544</u>

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

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, 2018	Year Ended June 30, 2017
Unpaid claims, beginning	\$ -	\$ -
Incurred claims (including IBNRs)	22,438	-
Claims paid	22,438	-
Unpaid claims, ending	<u>\$ -</u>	<u>\$ -</u>

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

	Year Ended June 30, 2018	Year Ended June 30, 2017
Unpaid claims, beginning	\$ -	\$ -
Incurred claims (including IBNRs)	3,516	5,919
Claims paid	(3,516)	(5,919)
Unpaid claims, ending	<u>\$ -</u>	<u>\$ -</u>

I. Lease obligations

1. Operating lease

The government has operating lease agreements for building space, land lease, three copier/printer leases, letter opener lease, and one postage machine lease. Lease payments of \$40,214 were made during the year ended June 30, 2018.

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

2019	\$ 31,596
2020	21,243
2021	21,283
2022	3,249
2023	<u>1,445</u>
Total	<u>\$ 78,816</u>

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

J. Long-Term Liabilities

Compensated Absences

Compensated absences are comprised of vacation leave and compensatory time earned by the government's employees for services already rendered and paid when taken or upon termination, and a portion of the employee's 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 government issues a variety of debt types for the purposes 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 government's tax-exempt debt remains in compliance with all Internal Revenue Service arbitrage regulations. Outstanding debt amounts are as of June 30, 2018.

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

In May 2008, government 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. Principal and interest paid in the current year was \$211,685. The \$3,960,000 principal balance was refunded in Fiscal Year 2018.

General Obligation Refunding Bond, Series 2017 – Police Department of the General Fund

The government has pledged general non-restricted revenues and other funds that are lawfully available to repay \$4,188,535 in General Obligation Refunding Bonds issued in September of 2017. Proceeds from the bonds provided funds to pay off the government's 2008 General Obligation Bonds in September 2017. 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. Principal and interest paid in the current year and taxes received were \$203,425 and \$182,929, 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 5% 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 \$292,645 and \$7,188,177 respectively.

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

Timbermill Shores – Lakefront Urban Renewal

The government 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 a 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.

Washington Federal – Town Center Urban Renewal

The government has pledged future tax increment revenues to repay a \$1,117,262 loan with Washington Federal as of May 20, 2015. This loan refinanced the outstanding long-term and short-term loans with Washington Federal which were for improvements to the Town Center Urban Renewal District. The loan is termed out over nine annual payments of \$138,912. The loan includes a variable interest of prime minus .800% (currently 2.75%) with a floor of 2.275% based on the lender's Prime Rate (the "Index") which will not change more than daily. Interest rate changes will not occur more often than each sixty months and the last rate change occurred in December 2015. 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 \$138,912 and \$183,005, respectively.

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

The government's Water Fund has pledged future customer revenues, net of specified operating expenses, to repay a \$976,000 Special Public Works Fund (SPWF) loan received in November 2004. The funds were used to install 6,500 feet of 12" pipe, increase 620 feet of 4" pipe to 6" pipe, and connect the Sturdicraft facility to the water system. Payments are due annually at 4.16% interest. The SPWF loan is payable solely from water customer net revenues and is payable through fiscal year 2030. Annual principal and interest payments on the loan are expected to require 2.0% of net revenues. Principal and interest paid in the current year and total customer net revenues were \$63,085 and \$3,535,062, respectively.

Wastewater Revenue Refunding Bonds, Series 2015

The government's Wastewater Fund has pledged future customer revenues, net of specific operating expenses, to repay \$7,171,770 in wastewater revenue refunding bonds issued in August 2015. Proceeds from the bonds provided funds to pay off the government's 2005 wastewater revenue bonds in September 2015. The 2015 refunding bonds are payable solely from wastewater customer net revenues which are payable through Fiscal Year 2025. The interest rate is 2.32%. Annual principal and interest payments on the loan are expected to require 26% of revenue. Principal and interest paid in the current year and total customer net revenues were \$805,637 and \$3,338,486, respectively.

Oregon Department of Environmental Quality – Wastewater Fund

In May of 2011, and amended July 2018, the government entered into a revenue secured loan with the Oregon Department of Environmental Quality for \$22,634,802 for wastewater treatment facility headworks improvements. The government 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 \$1,550,000 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 2.12% per annum. There is a loan reserve requirement of \$694,848. The government has yet to draw down funds.

Debt Refunding

As mentioned above, during Fiscal Year 2018 the government completed an advance refunding on the general obligation bonds. As a result of this refunding, the government reduced its total debt service payments over the next ten years by \$429,790 and obtained an economic gain (difference between the present values of the debt service payments of the old and new bonds) of \$865,235.

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

Long-term liability activity for the year ended June 30, 2018:

	Balance June 30, 2017	Restatement	Restated Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Amounts Due Within One Year
Governmental activities:							
Bonds payable:							
General Obligation Bonds, Series 2008	\$ 4,000,000	\$ -	\$ 4,000,000	\$ -	4,000,000	\$ -	\$ -
Plus: Bond issuance premium	22,043	-	22,043	-	22,043	-	-
General Obligation Bonds, Series 2017	-	-	-	4,188,535	122,848	4,065,687	94,574
Full Faith and Credit Bonds, Series 2008	2,680,000	-	2,680,000	-	175,000	2,505,000	185,000
Plus: Bond issuance premium	18,432	-	18,432	-	1,547	16,886	-
Long-term bonded debt obligations	<u>6,720,475</u>	<u>-</u>	<u>6,720,475</u>	<u>4,188,535</u>	<u>4,321,438</u>	<u>6,587,573</u>	<u>279,574</u>
Washington Federal	848,152	-	848,152	-	\$ 118,017	730,135	120,626
Timbermill Shores	2,248,564	-	2,248,564	-	-	2,248,564	-
Direct borrowings	<u>3,096,716</u>	<u>-</u>	<u>3,096,716</u>	<u>-</u>	<u>118,017</u>	<u>2,978,699</u>	<u>120,626</u>
Compensated Absences	902,215	-	902,215	1,265,742	1,299,184	868,773	434,386
Other Post Employment Benefits	376,464	190,836	567,300	-	79,154	488,146	-
Net Pension Liability	11,196,579	-	11,196,579	-	1,500,655	9,695,924	-
Total other liabilities	<u>12,475,258</u>	<u>190,836</u>	<u>12,666,094</u>	<u>1,265,742</u>	<u>2,878,993</u>	<u>11,052,843</u>	<u>434,386</u>
Total governmental activities	<u>\$ 22,292,449</u>	<u>\$ 190,836</u>	<u>\$ 22,483,285</u>	<u>\$ 5,454,277</u>	<u>\$ 7,318,448</u>	<u>\$ 20,619,115</u>	<u>\$ 834,586</u>
Business-type activities:							
Revenue Bonds:							
Wastewater Revenue Refunding Bonds, Series 2015	\$ 5,842,219	\$ -	\$ 5,842,219	\$ -	\$ 670,097	\$ 5,172,122	\$ 692,149
Direct borrowings:							
Special Public Works Fund (Water line extension)	621,002	-	621,002	-	36,310	584,692	36,563
Compensated Absences	223,847	-	223,847	328,559	337,393	215,013	107,507
Other Post Employment Benefits	179,103	46,926	226,029	-	23,566	202,463	-
Net Pension Liability	2,687,032	-	2,687,032	-	333,273	2,353,759	-
Total other liabilities	<u>3,089,982</u>	<u>46,926</u>	<u>3,136,908</u>	<u>328,559</u>	<u>694,232</u>	<u>2,771,235</u>	<u>107,507</u>
Total business-type activities	<u>\$ 9,553,203</u>	<u>\$ 46,926</u>	<u>\$ 9,600,129</u>	<u>\$ 328,559</u>	<u>\$ 1,400,639</u>	<u>\$ 8,528,049</u>	<u>\$ 836,219</u>
Total long-term debt obligations							
Bonds	\$ 12,522,219	\$ -	\$ 12,522,219	\$ 4,188,535	\$ 4,967,945	\$ 11,742,809	\$ 971,722
Bond issuance premiums	40,475	-	40,475	-	23,590	16,886	-
Direct borrowings	3,717,718	-	3,717,718	-	154,327	3,563,391	157,189
Compensated Absences	1,126,062	-	1,126,062	1,594,301	1,636,577	1,083,786	541,893
Other Post Employment Benefits	555,567	237,762	793,329	-	102,720	690,609	-
Net Pension Liability	13,883,611	-	13,883,611	-	1,833,928	12,049,683	-
Total long-term obligations	<u>\$ 31,845,652</u>	<u>\$ 237,762</u>	<u>\$ 32,083,414</u>	<u>\$ 5,782,836</u>	<u>\$ 8,719,087</u>	<u>\$ 29,147,163</u>	<u>\$ 1,670,804</u>

Note: Other liabilities listed above are generally liquidated within each operating fund.

This page intentionally left blank

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

Revenue Bonds

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

Revenue bond debt service requirements to maturity are as follows:

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Wastewater Refunding Bonds, Series 2015				
Principal	\$ 692,149	\$ 703,269	\$ 723,555	\$ 736,696
Interest	119,993	103,935	87,620	70,833
Total Revenue Bonds	<u>\$ 812,142</u>	<u>\$ 807,204</u>	<u>\$ 811,174</u>	<u>\$ 807,529</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 2017				
Principal	\$ 94,574	\$ 99,644	\$ 114,597	\$ 124,188
Interest	115,872	113,177	110,337	107,071
Total General Obligation Bonds	<u>\$ 210,446</u>	<u>\$ 212,821</u>	<u>\$ 224,933</u>	<u>\$ 231,258</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	\$ 185,000	\$ 190,000	\$ 200,000	\$ 205,000
Interest	110,645	103,245	95,145	86,145
Total Full Faith and Credit Bonds	<u>\$ 295,645</u>	<u>\$ 293,245</u>	<u>\$ 295,145</u>	<u>\$ 291,145</u>

Other Long-term Liabilities

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

SPWF - Water line service extension				
Principal	\$ 36,563	\$ 41,825	\$ 42,098	\$ 42,382
Interest	25,323	23,860	22,187	20,503
Timbermill Shores				
Principal	-	-	-	-
Washington Fed - Town Center Urban Renewal				
Principal	120,626	123,772	119,966	120,369
Interest	18,286	15,140	18,946	18,543
Total other long-term liabilities	<u>\$ 200,798</u>	<u>\$ 204,597</u>	<u>\$ 203,197</u>	<u>\$ 201,797</u>
Total Long-term Liabilities	<u>\$ 1,519,031</u>	<u>\$ 1,517,867</u>	<u>\$ 1,534,450</u>	<u>\$ 1,531,730</u>

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

2023	2024-2028	2029-2033	2034-2038	2039-2043	2044-2048	Total
\$ 754,138	\$ 1,562,316	\$ -	\$ -	\$ -	\$ -	\$ 5,172,122
53,742	54,493	-	-	-	-	490,616
<u>\$ 807,879</u>	<u>\$ 1,616,810</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,662,738</u>
\$ 133,527	\$ 875,951	\$ 1,262,791	\$ 1,360,416	\$ -	\$ -	\$ 4,065,687
103,532	452,716	306,964	99,918	-	-	1,409,586
<u>\$ 237,058</u>	<u>\$ 1,328,667</u>	<u>\$ 1,569,755</u>	<u>\$ 1,460,334</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,475,274</u>
\$ 215,000	\$ 1,230,000	\$ 280,000	\$ -	\$ -	\$ -	\$ 2,505,000
76,920	232,570	12,600	-	-	-	717,270
<u>\$ 291,920</u>	<u>\$ 1,462,570</u>	<u>\$ 292,600</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,222,270</u>
\$ 42,687	\$ 258,764	\$ 120,373	\$ -	\$ -	\$ -	\$ 584,692
18,755	62,682	8,135	-	-	-	181,445
-	600,600	575,000	575,000	497,964	-	2,248,564
126,471	118,931	-	-	-	-	730,135
12,441	6,029	-	-	-	-	89,385
<u>\$ 200,354</u>	<u>\$ 1,047,006</u>	<u>\$ 703,508</u>	<u>\$ 575,000</u>	<u>\$ 497,964</u>	<u>\$ -</u>	<u>\$ 3,834,221</u>
<u>\$ 1,537,212</u>	<u>\$ 5,455,053</u>	<u>\$ 2,565,863</u>	<u>\$ 2,035,334</u>	<u>\$ 497,964</u>	<u>\$ -</u>	<u>\$ 18,194,503</u>

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

Debt service requirements on long-term debt at June 30, 2018, are as follows:

Year Ending June 30,	Governmental Activities				Business-Type Activities			
	Bonds		Notes from Direct Borrowings and Direct Placements		Bonds		Notes from Direct Borrowings	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 279,574	\$ 226,517	\$ 120,626	\$ 18,286	\$ 692,149	\$ 119,993	\$ 36,563	\$ 25,323
2020	289,644	216,422	123,772	15,140	703,269	103,935	41,825	23,860
2021	314,597	205,482	119,966	18,946	723,555	87,620	42,098	22,187
2022	329,188	193,216	120,369	18,543	736,696	70,833	42,382	20,503
2023	348,527	180,452	126,471	12,441	754,138	53,742	42,687	18,755
2024-2028	2,105,951	685,286	719,531	6,029	1,562,316	54,493	258,764	62,682
2029-2033	1,542,791	319,564	575,000	-	-	-	120,373	8,135
2034-2038	1,360,416	99,918	575,000	-	-	-	-	-
2039-2043	-	-	497,964	-	-	-	-	-
	<u>\$ 6,570,687</u>	<u>\$ 2,126,856</u>	<u>\$ 2,978,699</u>	<u>\$ 89,385</u>	<u>\$ 5,172,122</u>	<u>\$ 490,616</u>	<u>\$ 584,692</u>	<u>\$ 181,445</u>

The government's outstanding notes from direct borrowings and direct placements related to governmental activities of \$2,978,699 contain a provision that in an event of default, outstanding amounts become immediately due if the government is unable to make payment.

The government's outstanding notes from direct borrowings related to business-type activities of \$584,692 contain a provision that in an event of default, outstanding amounts become immediately due if the government is unable to make payment.

Year Ending June 30,	Governmental Activities		Business-Type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 400,200	\$ 244,803	\$ 728,712	\$ 145,316	\$ 1,128,911	\$ 390,119
2020	413,416	231,562	745,094	127,795	1,158,510	359,357
2021	434,563	224,428	765,653	109,807	1,200,215	334,234
2022	449,557	211,759	779,078	91,336	1,228,635	303,095
2023	474,998	192,893	796,825	72,497	1,271,823	265,389
2024-2028	2,825,482	691,315	1,821,080	117,175	4,646,563	808,490
2029-2033	2,117,791	319,564	120,373	8,135	2,238,164	327,699
2034-2038	1,935,416	99,918	-	-	1,935,416	99,918
2039-2043	497,964	-	-	-	497,964	-
	<u>\$ 9,549,386</u>	<u>\$ 2,216,241</u>	<u>\$ 5,756,814</u>	<u>\$ 672,061</u>	<u>\$ 15,306,201</u>	<u>\$ 2,888,303</u>

The government also has an unused line of credit in the amount of \$22,634,802.

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

K. Fund balance

Fund Balance as of June 30, 2018 is detailed as follows:

	<u>General Fund</u>	<u>Airport Fund</u>	<u>Capital Projects Fund</u>	<u>Escrow Reserve Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balances:						
Nonspendable:						
Inventory	\$ 46,849	\$ -	\$ -	\$ -	\$ -	46,849
Restricted for:						
Capital projects	68,160	39,312	-	-	-	107,472
Forfeiture Money	82,581	-	-	-	-	82,581
DOJ Equitable Sharing	3,974	-	-	-	45,091	49,065
Parks Master Plan	94,763	-	-	-	-	94,763
Traffic signals	28,848	-	-	-	-	28,848
Environmental	-	-	4,055,485	-	-	4,055,485
Urban Renewal	-	-	-	-	2,320	2,320
Assigned for:						
Capital projects	-	-	10,911,565	8,185,573	-	19,097,138
Community programs	94,897	-	-	-	-	94,897
Public Access Televisior	55,182	-	-	-	-	55,182
Operations	2,566,422	526,860	-	-	203,817	3,297,099
Unassigned:						
Unassigned	8,295,803	-	-	-	(641,563)	7,654,240
Total Fund Balances	<u>\$ 11,337,479</u>	<u>\$ 566,172</u>	<u>\$ 14,967,050</u>	<u>\$ 8,185,573</u>	<u>\$ (390,335)</u>	<u>\$ 34,665,939</u>

Interfund receivables and payables

The composition of interfund balances as of June 30, 2018, is as follows:

Advances from / to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Escrow Reserve Fund	Lakefront Urban Renewal Fund	\$595,605
Escrow Reserve Fund	Town Center Urban Renewal Fund	\$129,520
General Fund	Debt Service Fund	\$70,000

An interfund capital loan in an amount not to exceed \$1,500,000, from the Escrow Reserve Fund to the Airport Fund was authorized by the government’s council in March 2010. The loan amortization was amended and approved by council in August 2011, and again in May 2015. The loan was to provide cash flow for the quarterly payments on the wetlands mitigation settlement agreement while awaiting reimbursement from the Federal Aviation Administration. The total amount loaned from the escrow reserve fund was \$900,000, at 4.625% interest. Principal of \$127,813 and interest of \$5,911 were paid in fiscal year 2018, paying off the remaining balance.

An interfund capital 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 \$42,665 and interest of \$23,935 were paid in Fiscal Year 2018.

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

An interfund capital loan in the amount of \$140,000 from the Escrow Reserve Fund to the Town Center Urban Renewal Fund was authorized by the government’s council in April 2017. The loan was used to reimburse costs for Project Milestone 2 of the developer agreement. The loan accrues interest at 4% and matures in 2027. Principal of \$10,479 and interest of \$6,940 were paid in fiscal year 2018.

An interfund operating loan in the amount of \$70,000 from the General Fund to the Debt Service Fund was authorized by the government’s council in February 2018. The government was notified by the state that the county had used the previous levy amount which couldn’t be corrected until the next tax year. Since it is an operating loan, there is no interest and the amount will be paid back once enough taxes are collected in the following fiscal year.

L. Interfund transfers

The composition of interfund transfers for the year ended June 30, 2018 is as follows:

Interfund transfers:

Transfer out	Transfer in	Amount
General Fund	Nonmajor Governmental Funds	\$ 294,125
Water Fund	Airport Fund	444,625
Water Fund	General Fund	513,850
Nonmajor Governmental Funds	General Fund	83,256
Capital Projects Fund	Wastewater Fund	3,000,000
Capital Projects Fund	General Fund	60,000
Total		<u>\$ 4,395,856</u>

In the year ended June 30, 2018, the government made the following transfers:

The General Fund transferred \$49,375 to the Downtown Maintenance District, \$234,750 to Economic Development and \$10,000 to BINET for operational expenditures.

The Water Fund transferred \$444,625 to the Airport Fund and \$5ff13,850 to the General Fund to support operations and capital improvements for the airport, parks, and streets.

The Footpaths/Bicycle Trails Fund transferred \$83,256 to the General Fund to close out the fund and consolidate it into the General Fund.

The Capital Projects Fund transferred \$60,000 to the General Fund for property purchase, and \$3,000,000 to the Wastewater Fund to provide funding for the wastewater treatment plant upgrade.

NOTE 4 – CONTINGENCIES

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

NOTE 4 – CONTINGENCIES (continued)

On February 10, 2010, the Oregon Department of Environmental Quality (DEQ) released the draft document on the Klamath River TMDL's (Total Maximum Daily Load) for public comment. The government hired Perkins, Coie, LLP, to prepare comments to the draft. The government'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 DEQ and submitted to the Environmental Protection Agency (EPA) for review and final approval. In February of 2011, government staff received approval from Council to submit a Petition for Reconsideration, which was submitted to DEQ in February 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 2011. The government requested that DEQ hold off on adopting the TMDL's until after the government and DEQ met in January 2012. The government 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 government pursued additional modeling work to show that this was feasible. While this modeling work was taking place, the government received notice from the EPA that they were going to adopt the TMDL's as submitted by Oregon DEQ, and on May 30, 2012, EPA approved the upper Klamath TMDL. Since EPA's adoption of the TMDL, a legal challenge was filed by Northwest Environmental Advocates which disagreed with how the temperature standard was administered throughout the state. In addition, they also challenged the Klamath River TMDL for similar issues. In April of 2017, DEQ reissued the Upper Klamath and Lost River TMDL for public comment with the primary changes being the seasonal allocations discussed earlier and the removal of the temperature TMDL. The government submitted comments on June 21, 2017 and then waited for DEQ to compile comments. DEQ submitted the revised TMDL to the EPA in December of 2017. Assuming no further challenge, approval of this document will set in motion the establishment of a new discharge permit. Throughout 2018 staff has worked with our consultants and DEQ to look not only at TMDL related permit items but also running Reasonable Potential Analysis (RPA) on other potential contaminants that may be on our new permit. DEQ is indicating the City's permit should be ready in 2019.

NOTE 5- CHANGE IN ACCOUNTING PRINCIPAL

Based on implementation of GASB Statement No. 75, the government restated the beginning net position for the Governmental Activities and Business-Type Activities. Net Position has been restated as follows:

	Governmental Activities	Business-Type Activities	Total
Net position - beginning (as originally reported)	\$ 137,727,467	\$ 67,613,481	\$ 205,340,948
Cumulative effect of change in accounting principle	(111,100)	(20,630)	(131,730)
Net position - beginning (as restated)	<u>\$ 137,616,367</u>	<u>\$ 67,592,851</u>	<u>\$ 205,209,218</u>

NOTE 6- ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* was issued June 2015. This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. This statement is currently in effect.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, required for reporting periods beginning after June 15, 2018 with earlier application encouraged. Issued March 2018, this Statement amends Statement No. 34, *Basic Financial Statements— and Management’s Discussion and Analysis—for State and Local Governments*, paragraph 119; Statement No. 38, *Certain Financial Statement Note Disclosures*, paragraphs 10 and 12; Interpretation No. 1, *Demand Bonds Issued by State and Local Governmental Entities*, paragraph 11; NCGA Interpretation 6, *Notes to the Financial Statements Disclosure*, paragraphs 4 and 5; and *Implementation Guide No. 2015-1, Question 7.85.7*. The government has amended Note 3, Section J to include additional information.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, required for fiscal years beginning after December 15, 2019 with earlier application encouraged. Issued June 2018, this Statement supersedes Statement No. 37, *Basic Financial Statements— and Management’s Discussion and Analysis—for State and Local Governments: Omnibus*, paragraph 6; Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, paragraphs 5–22 and footnotes 1–7 and 226; and *Implementation Guide No. 2015-1*, Questions 7.10.3–7.10.7 and Z.51.11. This Statement amends Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, paragraph 18, and Statement 62, paragraphs 3 and 485. The government has amended Note 1, Section F.6 – Summary of Significant Accounting Policies, Capital Assets to reflect this update.

**REQUIRED SUPPLEMENTARY
INFORMATION**

This page intentionally left blank.

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.

This page intentionally left blank.

CITY OF KLAMATH FALLS, OREGON
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended June 30, 2018

Schedule A-1

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 6,280,850	\$ 6,280,850	\$ 6,693,760	\$ 412,910
Special assessments	-	-	15,456	15,456
Intergovernmental	5,822,675	5,828,450	3,106,229	(2,722,221)
Licenses, fees and permits	109,800	109,800	138,347	28,547
Franchise fees	2,514,400	2,514,400	2,473,145	(41,255)
Charges for services	458,050	458,050	450,216	(7,834)
Internal charges for services	2,630,600	2,630,600	2,602,322	(28,278)
Fines and forfeits	204,775	204,775	365,934	161,159
Investment income	162,175	162,175	178,679	16,504
Miscellaneous revenue	305,075	272,075	459,036	186,961
Total revenues	<u>18,488,400</u>	<u>18,461,175</u>	<u>16,483,124</u>	<u>(1,978,051)</u>
EXPENDITURES				
Municipal Court	229,450	229,450	206,946	22,504
City Manager	685,300	735,300	688,208	47,092
Finance	707,375	707,375	667,135	40,240
Support Services	422,700	436,650	344,559	92,091
Technology Services	436,325	436,325	377,873	58,452
Public Works Administration	402,250	402,250	382,709	19,541
Public Works Development Services	884,675	925,875	804,100	121,775
Police	6,176,975	6,182,750	5,907,192	275,558
Code Enforcement	201,550	201,550	188,658	12,892
Legislative	198,400	198,400	182,560	15,840
Maintenance	980,225	995,575	899,039	96,536
Facilities Maintenance	113,925	178,925	157,048	21,877
Parks and Recreation	2,618,200	2,669,175	1,531,501	1,137,674
Parks Ella Redkey pool	554,775	591,025	549,352	41,673
Street Maintenance	4,401,750	4,460,975	3,456,076	1,004,899
Street Vehicle Maintenance	245,900	245,900	221,384	24,516
Street Lighting	296,525	296,525	227,154	69,371
Debt Service	292,650	292,650	292,645	5
Total expenditures	<u>19,848,950</u>	<u>20,186,675</u>	<u>17,084,139</u>	<u>3,102,536</u>
Excess (deficiency) of revenues over expenditures	(1,360,550)	(1,725,500)	(601,015)	1,124,485
OTHER FINANCING SOURCES (USES)				
Transfers out	(259,375)	(294,125)	(294,125)	-
Transfers in	599,850	688,550	657,106	(31,444)
Interfund loan	-	(70,000)	(70,000)	-
Proceeds from the sale of capital assets	-	-	4,000	4,000
Insurance recoveries	-	-	11,599	11,599
Total other financing source (uses)	<u>340,475</u>	<u>324,425</u>	<u>308,580</u>	<u>(15,845)</u>
Net change in fund balances	(1,020,075)	(1,401,075)	(292,435)	1,108,640
Fund balances - beginning	10,864,150	11,559,925	11,559,914	(11)
Fund balances - ending	<u>\$ 9,844,075</u>	<u>\$ 10,158,850</u>	<u>\$ 11,267,479</u>	<u>\$ 1,108,629</u>
Reconciliation: Interfund loan			<u>70,000</u>	
Fund balances - ending (GAAP)			<u>\$ 11,337,479</u>	

CITY OF KLAMATH FALLS, OREGON
AIRPORT FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended June 30, 2018

Schedule A-2

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 278,775	\$ 278,775	\$ 303,910	\$ 25,135
Intergovernmental	10,637,925	10,637,925	5,357,595	(5,280,330)
Charges for services	644,750	644,750	547,982	(96,768)
Investment income	16,650	16,650	24,644	7,994
Miscellaneous revenue	1,000	1,000	13,244	12,244
Total revenues	<u>11,579,100</u>	<u>11,579,100</u>	<u>6,247,375</u>	<u>(5,331,725)</u>
EXPENDITURES				
Airport operations	5,921,325	6,671,325	1,719,002	4,952,323
FAA grants	7,730,000	7,730,000	5,828,798	1,901,202
Debt service	133,750	133,750	133,724	26
Total expenditures	<u>13,785,075</u>	<u>14,535,075</u>	<u>7,681,524</u>	<u>6,853,551</u>
Excess (deficiency) of revenues over expenditures	(2,205,975)	(2,955,975)	(1,434,149)	1,521,826
OTHER FINANCING SOURCES (USES)				
Transfers in	444,625	844,625	444,625	(400,000)
Proceeds from sale of asset	-	-	26,000	26,000
Issuance of debt - interfund loan	800,000	1,150,000	-	(1,150,000)
Total other financing source (uses)	<u>1,244,625</u>	<u>1,994,625</u>	<u>470,625</u>	<u>(1,524,000)</u>
Net change in fund balances	(961,350)	(961,350)	(963,524)	(2,174)
Fund balances - beginning	1,845,450	1,529,700	1,529,696	(4)
Fund balances - ending	<u>\$ 884,100</u>	<u>\$ 568,350</u>	<u>\$ 566,172</u>	<u>\$ (2,178)</u>

City of Klamath Falls, Oregon
 Schedule of Changes in Total OPEB Liability and Related Ratios
 Current Fiscal Year

Schedule A-3

	Fiscal Year Ending June 30									
	2018	2017	2016	2015	2014	2013	2012	2010	2009	
Total OPEB Liability (in 1,000s)										
Service cost	\$ 37	N/A	N/A							
Interest on total OPEB liability	22	N/A	N/A							
Effect of changes to benefit terms	-	N/A	N/A							
Effect of economic/demographic gains or (losses)	-	N/A	N/A							
Effect of assumption changes or inputs	(37)	N/A	N/A							
Benefit payments	(60)	N/A	N/A							
Net change in total OPEB liability	(38)	N/A	N/A							
Total OPEB liability, beginning	767	N/A	N/A							
Total OPEB liability, ending	729	767	N/A	N/A						
Covered payroll	7,146	N/A	N/A							
Total OPEB liability as a % of covered payroll	10.20%	N/A	N/A							

The amounts presented for each fiscal year were actuarially determined at July 1 and rolled forward to the measurement date.

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

City of Klamath Falls, Oregon
 Schedule of Proportionate Share of Net OPEB Liability
 Last Fiscal Year

Schedule A-4

Measurement Date June 30,	Proportion of the net OPEB liability (asset) (a)	Proportionate share of the net OPEB liability (asset) (b)	Covered payroll (c)	Proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll (b/c)	Plan fiduciary net position as a percentage of the total OPEB liability
2017	0.09196963%	\$ (38,383)	\$ 9,905,073	-0.39%	34.30%

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

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

City of Klamath Falls, Oregon
Schedule of OPEB Contributions - Retirement Health Insurance Account
Last Two Fiscal Years

Schedule A-5

Year Ended June 30,	Contractually determined contribution (a)	Contributions in relation to the actuarially required contribution (b)	Contribution deficiency (excess) (a-b)	City's covered payroll (c)	Contributions as a percent of covered payroll (b/c)
2018	\$ 43,931	\$ 43,931	\$ -	\$ 10,020,468	0.44%
2017	45,788	45,788	-	9,905,073	0.46%

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

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

NOTES TO SCHEDULE

Actuarial Assumptions and Methods Used to Set the Actuarially Determined Contributions

Actuarial Valuation	December 31, 2015
Effective	July 2017 - June 2019
Actuarial cost method:	Entry Age Normal
Actuarial valuation method:	Market Value
Actuarial assumption:	
Inflation rate	2.50 percent
Projected salary increases	3.50 percent
Investment rate of return	7.50 percent
Healthcare cost inflation	Ranging from 6.3% in 2016 to 4.4% in 2094

City of Klamath Falls, Oregon
Schedule of OPEB Contributions - Implicit Rate Subsidy Plan
Last Two Fiscal Years

Schedule A-6

Year Ended June 30,	Actuarially determined contribution (a)	Contributions in relation to the actuarially required contribution (b)	Contribution deficiency (excess) (a-b)	City's covered payroll (c)	Contributions as a percent of covered payroll (b/c)
2018	\$ 66,022	\$ 66,022	\$ -	\$ 10,020,468	0.66%
2017	60,244	60,244	-	9,905,073	0.61%

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

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

NOTES TO SCHEDULE

Actuarial Assumptions and Methods Used to Set the Actuarially Determined Contributions

Actuarial valuation:	July 1, 2016
Effective:	July 2016 - June 2018
Actuarial cost method:	Entry Age Normal
Amortization method:	Level percentage of payroll, closed
Amortization period:	8.9 years
Asset valuation method:	Market value
Remaining amortization periods:	20 years
Actuarial assumptions	
Inflation rate	2.50 percent
Projected salary increases	3.50 percent
Investment rate of return	7.85 percent

City of Klamath Falls, Oregon
Schedule of Proportionate Share of Net Pension (Asset)/Liability
Last Five Fiscal Years

Schedule A-7

Measurement Date June 30,	Proportion of the net pension liability (asset) (a)	Proportionate share of the net pension liability (asset) (b)	Covered payroll (c)	Proportionate share of the net pension liability (asset) as a percentage of its covered payroll (b/c)	Plan fiduciary net position as a percentage of the total pension liability
2017	0.08938908%	\$ 12,049,683	\$ 9,905,073	121.65%	83.12%
2016	0.09248144%	13,883,611	9,507,830	146.02%	80.53%
2015	0.09065128%	5,204,708	9,314,418	55.88%	91.90%
2014	0.07740436%	(1,754,536)	9,389,238	-18.69%	103.60%
2013	0.09065128%	673,613	9,063,997	7.43%	91.97%

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

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

City of Klamath Falls, Oregon
Schedule of Pension Contributions
Last Five Fiscal Years

Year Ended June 30,	Statutorily required contribution (a)	Contributions in relation to the statutorily required contribution (b)	Contribution deficiency (excess) (a-b)	City's covered payroll (c)	Schedule A-8 Contributions as a percent of covered payroll (b/c)
2018	\$ 1,080,324	\$ 1,080,324	\$ -	\$ 10,020,468	10.78%
2017	762,604	762,604	-	9,905,073	7.70%
2016	756,647	756,647	-	9,507,830	7.96%
2015	733,439	733,439	-	9,314,418	7.87%
2014	764,158	764,158	-	9,389,238	8.14%

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

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

NOTES TO SCHEDULE

Actuarial Assumptions and Methods Used to Set the Actuarially Determined Contributions

Actuarial Valuation	December 31, 2015
Effective	July 2017 - June 2019
Actuarial cost method:	Entry Age Normal
Actuarial valuation method:	Market Value
Actuarial assumption:	
Inflation rate	2.50 percent
Projected salary increases	3.50 percent
Investment rate of return	7.50 percent

CITY OF KLAMATH FALLS, OREGON
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018

Stewardship, Compliance, and Accountability

On or before June 30 of each year, the City enacts a resolution adopting the budget, appropriating the expenditures, and levying the property taxes. The City is required to prepare a budget for each fund that is balanced in accordance with ORS 294 – Local Budget Law. The City’s budget is presented on the modified accrual basis of accounting which is not the same basis as GAAP.

The Budget Committee, which consists of the City Council and an equal number of citizens of the City, conducts public hearings for obtaining citizens’ comments, and then approves a budget and submits it to the City Council for final adoption. The approved expenditures for each fund may not be increased by more than 10 percent by Council without returning to the Budget Committee for a second approval.

The resolution authorizing appropriations for each fund sets the legal level of control by which expenditures cannot legally exceed appropriations. Total expenditures by department as established by the resolution are the legal level of control for the funds. Non-departmental expenditures within the funds are categorized by materials and services, capital outlay, debt service, transfers and contingency and are the legal level of control for non-departmental expenditures. The detail budget document, however, is required to contain more specific information for the above-mentioned expenditure categories.

The City Council may modify the budget by transferring appropriations between levels of control and by adopting supplemental budgets. 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. Original and supplemental budgets may be modified by the use of appropriation transfers between the levels of control. Such transfers require approval by the City Council. The City had supplemental budgets during the year-ended June 30, 2018. Appropriations lapse as of year-end.

Pension Plan

Changes in Benefit Terms

Senate Bill 822 was enacted during the 2013 Oregon regular legislative session to lower the cap on the cost-of-living adjustment (COLA) from 2 percent to 1.5 percent for 2013, and eliminated the tax remedy benefit for recipients who do not pay Oregon state income taxes because they do not reside in Oregon. Senate Bill 861 was enacted during the 2013 Oregon special legislative session, further lowering the post-retirement COLA for years beyond 2013 to 1.25% on the first \$60,000 of annual benefit and 0.15% on annual benefits above \$60,000. The combined impact of these Senate Bills are reflected in the June 30, 2014 total pension liability, resulting in a net pension asset reported by the City for fiscal year 2015.

The Oregon Supreme Court (Court) ruled in *Moro v. State of Oregon* on April 30, 2015 that certain provisions of Senate Bill 822 and Senate Bill 861 were unconstitutional. The Court ruled that benefits could be modified prospectively, but not retrospectively. As a result, those who retired before the bills were passed will continue to receive a COLA tied to the Consumer Price Index that normally results in a 2% increase annually. OPERS members who have accrued benefits before and after the effective dates of the 2013 legislation will have a blended COLA rate when they retire. The impact of the Court’s decision is reflected in the June 30, 2015 total pension liability, which contributes to the net pension liability reported by the City for fiscal year 2016.

CITY OF KLAMATH FALLS, OREGON
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018

Changes of Assumptions

The PERS Board adopted assumption changes that were used to measure the June 30, 2016 total pension liability, which contributes to the net pension liability reported by the City for fiscal year 2017. The changes include the lowering of the long-term expected rate of return to 7.50 percent and lowering the assumed inflation to 2.50 percent. In addition, the health mortality assumption was changed to reflect an updated mortality improvement scale for all groups, and assumptions were updated for merit increases, unused sick leave, and vacation pay.

**OTHER SUPPLEMENTARY
INFORMATION**

This page intentionally left blank.

NONMAJOR
GOVERNMENTAL FUNDS
COMBINING SCHEDULES

CITY OF KLAMATH FALLS, OREGON
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2018

Schedule B-1

	Special Revenue Funds	Footpaths/ Bicycle Trails Fund	Debt Service Fund	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 276,880	\$ -	\$ 15,831	\$ 292,711
Accounts receivable	17,913	-	-	17,913
Taxes receivable	26,148	-	18,795	44,943
Interest receivable	24,820	-	349	25,169
Restricted assets				
Cash and cash equivalents	131,830	-	-	131,830
Total Assets	\$ 477,591	\$ -	\$ 34,975	\$ 512,566
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 37,251	\$ -	\$ -	\$ 37,251
Unearned revenue	26,777	-	-	26,777
Advances from other funds	725,125	-	70,000	795,125
Total Liabilities	789,153	-	70,000	859,153
Deferred inflows of resources:				
Unavailable revenue - property taxes	21,860	-	15,671	37,531
Unavailable revenue - municipal court fines	6,217	-	-	6,217
Total Deferred Inflows of Resources	28,077	-	15,671	43,748
Total Liabilities and Deferred Inflows of Resources	817,230	-	85,671	902,901
Fund Balances:				
Restricted	47,411	-	-	47,411
Assigned	203,817	-	-	203,817
Unassigned	(590,867)	-	(50,696)	(641,563)
Total Fund Balances	(339,639)	-	(50,696)	(390,335)
Total Liabilities and Fund Balances	\$ 477,591	\$ -	\$ 34,975	\$ 512,566

CITY OF KLAMATH FALLS, OREGON
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2018

Schedule B-2

	Special Revenue Funds	Footpaths/ Bicycle Trails Fund	Debt Service Fund	Total Nonmajor Governmental Funds
REVENUES				
Taxes	\$ 248,508	\$ -	\$ 182,929	\$ 431,437
Intergovernmental	217,311	-	-	217,311
Licenses, fees and permits	41,287	-	-	41,287
Charges for services	104,253	-	-	104,253
Fines and forfeits	51,226	-	-	51,226
Investment income	9,378	-	2,939	12,317
Miscellaneous revenues	213	-	-	213
	<u>672,176</u>	<u>-</u>	<u>185,868</u>	<u>858,044</u>
EXPENDITURES				
Current:				
General government	525,236	-	58,400	583,636
Public safety	13,857	-	-	13,857
Highways and streets	91,682	-	-	91,682
Debt service:				
Principal	118,018	-	162,848	280,866
Interest	51,771	-	82,677	134,448
	<u>800,564</u>	<u>-</u>	<u>303,925</u>	<u>1,104,489</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(128,388)</u>	<u>-</u>	<u>(118,057)</u>	<u>(246,445)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of asset	51,414	-	-	51,414
Transfers in	294,125	-	-	294,125
Transfers out	-	(83,256)	-	(83,256)
Issuance of refunding bonds	-	-	4,188,535	4,188,535
Payment to refunded bond escrow agent	-	-	(4,129,585)	(4,129,585)
	<u>345,539</u>	<u>(83,256)</u>	<u>58,950</u>	<u>321,233</u>
Net Change in Fund Balances	217,151	(83,256)	(59,107)	74,788
Fund Balance - Beginning	<u>(556,790)</u>	<u>83,256</u>	<u>8,411</u>	<u>(465,123)</u>
Fund Balances - Ending	<u>\$ (339,639)</u>	<u>\$ -</u>	<u>\$ (50,696)</u>	<u>\$ (390,335)</u>

This page intentionally left blank.

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 Lakefront 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 Parking Fund accounts for expenditures to provide parking for customers of downtown businesses. Revenues consist of parking fees and parking fines.

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 Basin Interagency Narcotics Enforcement Team (BINET) Fund accounts for the intergovernmental revenue of various agencies that make up the team. The funds are used to enforce state and federal drug laws.

CITY OF KLAMATH FALLS, OREGON
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 June 30, 2018

Schedule C-1

	Lakefront Urban Renewal Fund	Town Center Urban Renewal Fund	Parking Fund
ASSETS			
Cash and cash equivalents	\$ -	\$ -	\$ 59,166
Receivables			
Accounts	-	-	10,256
Taxes	7,421	18,727	-
Interest	153	307	-
Restricted assets			
Cash and cash equivalents	3,339	128,491	-
Total Assets	\$ 10,913	\$ 147,525	\$ 69,422
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ 3,141
Unearned revenue	-	-	16,778
Advances from other funds	595,605	129,520	-
Total Liabilities	595,605	129,520	19,919
Deferred inflows of resources:			
Unavailable revenue - property taxes	6,175	15,685	-
Unavailable revenue - municipal court fines	-	-	6,217
Total Deferred Inflows of Resources	6,175	15,685	6,217
Total Liabilities and Deferred Inflows of Resources	601,780	145,205	26,136
Fund Balances:			
Restricted	-	2,320	-
Assigned	-	-	43,286
Unassigned	(590,867)	-	-
Total Fund Balances	(590,867)	2,320	43,286
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 10,913	\$ 147,525	\$ 69,422

Continued on next page

Schedule C-1 *continued*

Downtown Maintenance District Fund	Economic Development/ Property Fund	BINET Fund	Total
\$ 48,501	\$ 122,522	\$ 46,691	\$ 276,880
4,532	3,125	-	17,913
-	-	-	26,148
-	24,360	-	24,820
-	-	-	131,830
<u>\$ 53,033</u>	<u>\$ 150,007</u>	<u>\$ 46,691</u>	<u>\$ 477,591</u>
\$ 8,057	\$ 24,453	\$ 1,600	\$ 37,251
9,999	-	-	26,777
-	-	-	725,125
<u>18,056</u>	<u>24,453</u>	<u>1,600</u>	<u>789,153</u>
-	-	-	21,860
-	-	-	6,217
-	-	-	28,077
<u>18,056</u>	<u>24,453</u>	<u>1,600</u>	<u>817,230</u>
-	-	46,442	48,762
34,977	125,554	-	203,817
-	-	(1,351)	(592,218)
<u>34,977</u>	<u>125,554</u>	<u>45,091</u>	<u>(339,639)</u>
<u>\$ 53,033</u>	<u>\$ 150,007</u>	<u>\$ 46,691</u>	<u>\$ 477,591</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, 2018

Schedule C-2

	<u>Lakefront Urban Renewal Fund</u>	<u>Town Center Urban Renewal Fund</u>	<u>Parking Fund</u>
Revenues			
Taxes	\$ 65,503	\$ 183,005	\$ -
Intergovernmental	-	-	-
Licenses, fees and permits	-	-	41,287
Charges for services	-	-	-
Fines and forfeits	-	-	51,226
Investment income	1,402	3,712	990
Miscellaneous revenues	-	-	213
	<u>66,905</u>	<u>186,717</u>	<u>93,716</u>
Expenditures			
Current:			
General government	-	1	-
Public safety	-	-	-
Highways and streets	-	-	91,682
Debt service:			
Principal	-	118,018	-
Interest	23,936	27,835	-
	<u>23,936</u>	<u>145,854</u>	<u>91,682</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures			
	<u>42,969</u>	<u>40,863</u>	<u>2,034</u>
Other Financing Sources (Uses)			
Proceeds from sale of asset	-	-	-
Transfers in	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances			
	42,969	40,863	2,034
Fund Balance - Beginning			
	<u>(633,836)</u>	<u>(38,543)</u>	<u>41,252</u>
Fund Balances - Ending			
	<u>\$ (590,867)</u>	<u>\$ 2,320</u>	<u>\$ 43,286</u>

Schedule C-2 *continued*

Downtown Maintenance District Fund	Economic Development/ Property Fund	BINET Fund	Total
\$ -	\$ -	\$ -	\$ 248,508
-	168,364	48,947	217,311
-	-	-	41,287
92,535	11,718	-	104,253
-	-	-	51,226
829	2,445	-	9,378
-	-	-	213
<u>93,364</u>	<u>182,527</u>	<u>48,947</u>	<u>672,176</u>
115,825	409,410	-	525,236
-	-	13,857	13,857
-	-	-	91,682
-	-	-	118,019
-	-	-	51,771
<u>115,825</u>	<u>409,410</u>	<u>13,857</u>	<u>800,565</u>
<u>(22,461)</u>	<u>(226,883)</u>	<u>35,090</u>	<u>(128,389)</u>
-	51,414	-	51,414
49,375	234,750	10,000	294,125
<u>49,375</u>	<u>286,164</u>	<u>10,000</u>	<u>345,539</u>
26,914	59,281	45,090	217,150
8,063	66,273	1	(556,790)
<u>\$ 34,977</u>	<u>\$ 125,554</u>	<u>\$ 45,091</u>	<u>\$ (339,640)</u>

CITY OF KLAMATH FALLS, OREGON
 LAKEFRONT URBAN RENEWAL FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
 For the Year Ended June 30, 2018

Schedule C-3

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 65,725	\$ 65,725	\$ 65,503	\$ (222)
Investment income	1,000	1,000	1,402	402
Total revenues	<u>66,725</u>	<u>66,725</u>	<u>66,905</u>	<u>180</u>
EXPENDITURES				
Lakefront urban renewal	125	125	-	125
Debt service	66,600	66,600	66,600	-
Total expenditures	<u>66,725</u>	<u>66,725</u>	<u>66,600</u>	<u>125</u>
Net change in fund balances	-	-	305	305
Fund balances - beginning	100	4,450	4,433	(17)
Fund balances - ending	<u>\$ 100</u>	<u>\$ 4,450</u>	<u>4,738</u>	<u>\$ 288</u>
Reconciliation: Interfund loan			<u>(595,605)</u>	
Fund balances - ending (GAAP)			<u>\$ (590,867)</u>	

CITY OF KLAMATH FALLS, OREGON
TOWN CENTER URBAN RENEWAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended June 30, 2018

Schedule C-4

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 195,250	\$ 195,250	\$ 183,005	\$ (12,245)
Investment income	2,475	2,475	3,712	1,237
Total revenues	<u>197,725</u>	<u>197,725</u>	<u>186,717</u>	<u>(11,008)</u>
EXPENDITURES				
Town center urban renewal	50,150	50,150	1	50,149
Debt service	245,725	245,725	156,333	89,392
Total expenditures	<u>295,875</u>	<u>295,875</u>	<u>156,334</u>	<u>139,541</u>
Net change in fund balances	(98,150)	(98,150)	30,383	128,533
Fund balances - beginning	98,275	101,475	101,457	(18)
Fund balances - ending	<u>\$ 125</u>	<u>\$ 3,325</u>	<u>\$ 131,840</u>	<u>\$ 128,515</u>
Reconciliation: Interfund loan			<u>(129,520)</u>	
Fund balances - ending (GAAP)			<u>\$ 2,320</u>	

CITY OF KLAMATH FALLS, OREGON
PARKING FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended June 30, 2018

Schedule C-5

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Licenses, fees and permits	\$ 42,625	\$ 42,625	\$ 41,287	\$ (1,338)
Fines and forfeits	42,000	42,000	51,226	9,226
Investment income	550	550	990	440
Miscellaneous revenue	150	150	213	63
Total revenues	<u>85,325</u>	<u>85,325</u>	<u>93,716</u>	<u>8,391</u>
EXPENDITURES				
Parking	100,100	100,100	91,682	8,418
Contingency	5,000	5,000	-	5,000
Total expenditures	<u>105,100</u>	<u>105,100</u>	<u>91,682</u>	<u>13,418</u>
Net change in fund balances	(19,775)	(19,775)	2,034	21,809
Fund balances - beginning	35,625	41,275	41,252	(23)
Fund balances - ending	<u>\$ 15,850</u>	<u>\$ 21,500</u>	<u>\$ 43,286</u>	<u>\$ 21,786</u>

CITY OF KLAMATH FALLS, OREGON
DOWNTOWN MAINTENANCE DISTRICT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended June 30, 2018

Schedule C-6

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Charges for services	\$ 90,075	\$ 90,075	\$ 92,535	\$ 2,460
Investment income	75	75	829	754
Total revenues	<u>90,150</u>	<u>90,150</u>	<u>93,364</u>	<u>3,214</u>
EXPENDITURES				
Downtown Maintenance District	<u>156,475</u>	<u>147,600</u>	<u>115,825</u>	<u>31,775</u>
Excess (deficiency) of revenues over expenditures	(66,325)	(57,450)	(22,461)	34,989
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>49,375</u>	<u>49,375</u>	<u>49,375</u>	<u>-</u>
Net change in fund balances	(16,950)	(8,075)	26,914	34,989
Fund balances - beginning	16,950	8,075	8,063	(12)
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,977</u>	<u>\$ 34,977</u>

CITY OF KLAMATH FALLS, OREGON
ECONOMIC DEVELOPMENT/PROPERTY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended June 30, 2018

Schedule C-7

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Charges for services	\$ 12,500	\$ 12,500	\$ 11,718	\$ (782)
Intergovernmental	156,000	156,000	168,364	12,364
Investment income	1,200	1,200	2,445	1,245
Total revenues	<u>169,700</u>	<u>169,700</u>	<u>182,527</u>	<u>12,827</u>
EXPENDITURES				
Economic development/property	234,800	419,350	409,410	9,940
Contingency	156,700	51,375	-	51,375
Total expenditures	<u>391,500</u>	<u>470,725</u>	<u>409,410</u>	<u>61,315</u>
Excess (deficiency) of revenues over expenditures	(221,800)	(301,025)	(226,883)	74,142
OTHER FINANCING SOURCES (USES)				
Transfers in	200,000	234,750	234,750	-
Proceeds from sale of asset	-	-	51,414	51,414
Total other financing source (uses)	<u>200,000</u>	<u>234,750</u>	<u>286,164</u>	<u>51,414</u>
Net change in fund balances	(21,800)	(66,275)	59,281	125,556
Fund balances - beginning	21,800	66,275	66,273	(2)
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 125,554</u>	<u>\$ 125,554</u>

CITY OF KLAMATH FALLS, OREGON
BINET FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended June 30, 2018

Schedule C-8

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 48,947	\$ 48,947
Miscellaneous revenue	5,000	5,000	-	(5,000)
Total revenues	<u>5,000</u>	<u>5,000</u>	<u>48,947</u>	<u>43,947</u>
EXPENDITURES				
BINET	<u>15,000</u>	<u>15,000</u>	<u>13,857</u>	<u>1,143</u>
Excess (deficiency) of revenues over expenditures	(10,000)	(10,000)	35,090	45,090
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>-</u>
Net change in fund balances	-	-	45,090	45,090
Fund balances - beginning	-	-	1	1
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 45,091</u>	<u>\$ 45,091</u>

This page intentionally left blank.

CITY OF KLAMATH FALLS, OREGON
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 Capital Projects Fund is a major fund that accounts for funds received for major projects and acquisitions. Revenue consists of lease payments for the finance/utility billing building and investment income. Projects may be completed in this fund or the funds may be transferred back to the originating fund once the project begins.

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.

CITY OF KLAMATH FALLS, OREGON
 FOOTPATHS/BICYCLE TRAILS FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
 For the Year Ended June 30, 2018

Schedule D-1

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ (86,000)	\$ (83,275)	\$ (83,256)	\$ 19
Net change in fund balances	(86,000)	(83,275)	(83,256)	19
Fund balances - beginning	86,000	83,275	83,256	(19)
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF KLAMATH FALLS, OREGON
 CAPITAL PROJECTS FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
 For the Year Ended June 30, 2018

Schedule D-2

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Charges for services	\$ 54,000	\$ 54,000	\$ 54,000	\$ -
Investment income	88,250	88,250	47,523	(40,727)
Total revenues	<u>142,250</u>	<u>142,250</u>	<u>101,523</u>	<u>(40,727)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(3,000,000)</u>	<u>(3,060,000)</u>	<u>(3,060,000)</u>	<u>-</u>
Net change in fund balances	(2,857,750)	(2,917,750)	(2,958,477)	(40,727)
Fund balances - beginning	17,913,750	17,925,550	17,925,527	(23)
Fund balances - ending	<u>\$ 15,056,000</u>	<u>\$ 15,007,800</u>	<u>\$ 14,967,050</u>	<u>\$ (40,750)</u>

CITY OF KLAMATH FALLS, OREGON
 ESCROW RESERVE FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
 For the Year Ended June 30, 2018

Schedule D-3

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Investment income	\$ 87,675	\$ 87,675	\$ 80,983	\$ (6,692)
OTHER FINANCING SOURCES (USES)				
Interfund loan	(800,000)	(1,578,700)	-	1,578,700
Interfund loan repayment	181,150	181,150	180,957	(193)
Total other financing source (uses)	<u>(618,850)</u>	<u>(1,397,550)</u>	<u>180,957</u>	<u>1,578,507</u>
Net change in fund balances	(531,175)	(1,309,875)	261,940	1,571,815
Fund balances - beginning	7,325,875	7,198,525	7,198,508	(17)
Fund balances - ending	<u>\$ 6,794,700</u>	<u>\$ 5,888,650</u>	<u>7,460,448</u>	<u>\$ 1,571,798</u>
Reconciliation: Interfund loan			<u>725,125</u>	
Fund balances - ending (GAAP)			<u>\$ 8,185,573</u>	

CITY OF KLAMATH FALLS, OREGON
NONMAJOR GOVERNMENTAL FUNDS

Debt Service Fund

The Debt Service Fund is 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
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended June 30, 2018

Schedule E-1

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 240,175	\$ 170,175	\$ 182,929	\$ 12,754
Investment income	1,550	1,550	2,939	1,389
Total revenues	<u>241,725</u>	<u>171,725</u>	<u>185,868</u>	<u>14,143</u>
EXPENDITURES				
Debt service fund	-	-	58,400	(58,400) *
Debt service	245,525	245,525	245,525	-
Total expenditures	<u>245,525</u>	<u>245,525</u>	<u>303,925</u>	<u>(58,400)</u>
Excess (deficiency) of revenues over expenditures	(3,800)	(73,800)	(118,057)	(44,257)
OTHER FINANCING SOURCES (USES)				
Interfund loan	-	70,000	70,000	-
Issuance of refunding bonds	-	-	4,188,535	4,188,535
Payment to refunded bond escrow agent	-	-	(4,129,585)	(4,129,585)
Total other financing source (uses)	<u>-</u>	<u>70,000</u>	<u>128,950</u>	<u>58,950</u>
Net change in fund balances	(3,800)	(3,800)	10,893	14,693
Fund balances - beginning	3,800	8,425	8,411	(14)
Fund balances - ending	<u>\$ -</u>	<u>\$ 4,625</u>	<u>\$ 19,304</u>	<u>\$ 14,679</u>
Reconciliation: Interfund loan			<u>(70,000)</u>	
Fund balances - ending (GAAP)			<u>\$ (50,696)</u>	

* Exception to Oregon Budget Law

CITY OF KLAMATH FALLS, OREGON
VETERAN'S MEMORIAL AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
For the Year Ended June 30, 2018

Schedule F-1

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
ASSETS				
Cash and cash equivalents	\$ 54,124	\$ 2,688	\$ 4,498	\$ 52,314
Interest Receivable	109	399	488	20
Investments	100,835	4,035	1,116	103,754
	\$ 155,068	\$ 7,122	\$ 6,102	\$ 156,088
LIABILITIES				
Due to Veterans Associations	\$ 155,068	\$ 3,348	\$ 2,328	\$ 156,088
	\$ 155,068	\$ 3,348	\$ 2,328	\$ 156,088

This page intentionally left blank.

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 consist of the following:

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

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

CITY OF KLAMATH FALLS, OREGON
WASTEWATER FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended June 30, 2018

Schedule G-1

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Charges for services	\$ 7,741,900	\$ 7,741,900	\$ 7,738,796	\$ (3,104)
Investment income	102,950	102,950	96,444	(6,506)
System development charges	100,000	100,000	425,552	325,552
Miscellaneous revenue	5,000	5,000	13,465	8,465
Total revenues	<u>7,949,850</u>	<u>7,949,850</u>	<u>8,274,257</u>	<u>324,407</u>
EXPENDITURES				
Collections	2,864,975	2,864,975	2,601,269	263,706
Treatment	8,969,625	8,969,625	3,640,739	5,328,886
Debt service	805,650	805,650	805,383	267
Total expenditures	<u>12,640,250</u>	<u>12,640,250</u>	<u>7,047,391</u>	<u>5,592,859</u>
Excess (deficiency) of revenues over expenditures	(4,690,400)	(4,690,400)	1,226,866	5,917,266
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>3,000,000</u>	<u>3,000,000</u>	<u>3,000,000</u>	<u>-</u>
Net change in fund balances	(1,690,400)	(1,690,400)	4,226,866	5,917,266
Fund balances - beginning	<u>6,219,500</u>	<u>5,740,525</u>	<u>5,740,518</u>	<u>(7)</u>
Fund balances - ending	<u>\$ 4,529,100</u>	<u>\$ 4,050,125</u>	<u>9,967,384</u>	<u>\$ 5,917,259</u>
Reconciliation				
Prepaid items			19,487	
Notes & Accounts Receivable			1,690	
Capital assets, net of accumulated depreciation			30,399,378	
Net OPEB liability			(96,151)	
OPEB deferred inflows of resources			(5,999)	
OPEB deferred outflows of resources			12,753	
Compensated absences			(80,109)	
Bond refunding deferred charge			138,721	
Accrued interest payable			(9,999)	
Bonds payable			(5,172,122)	
Deferred outflows of resources - pensions			356,969	
Deferred inflows of resources - pensions			(50,732)	
Net pension liability			<u>(1,028,223)</u>	
Net position - ending (GAAP)			<u>\$ 34,453,048</u>	

CITY OF KLAMATH FALLS, OREGON
WATER FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
For the Year Ended June 30, 2018

Schedule G-2

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Charges for services	\$ 7,843,925	\$ 7,843,925	\$ 7,788,843	\$ (55,082)
Investment income	111,175	111,175	105,021	(6,154)
Internal service charges	563,400	563,400	571,212	7,812
System development charges	119,250	119,250	179,195	59,945
Miscellaneous revenue	15,000	15,000	9,267	(5,733)
Total revenues	<u>8,652,750</u>	<u>8,652,750</u>	<u>8,653,538</u>	<u>788</u>
EXPENDITURES				
Operations	7,052,275	7,052,275	5,555,222	1,497,053
Utility billing	1,196,375	1,204,375	1,154,426	49,949
Geothermal	152,450	152,450	133,106	19,344
Debt service	63,100	63,100	63,085	15
Total expenditures	<u>8,464,200</u>	<u>8,472,200</u>	<u>6,905,839</u>	<u>1,566,361</u>
Excess (deficiency) of revenues over expenditures	188,550	180,550	1,747,699	1,567,149
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(958,475)</u>	<u>(958,475)</u>	<u>(958,475)</u>	<u>-</u>
Net change in fund balances	(769,925)	(777,925)	789,224	1,567,149
Fund balances - beginning	5,119,875	5,060,850	5,060,828	(22)
Fund balances - ending	<u>\$ 4,349,950</u>	<u>\$ 4,282,925</u>	<u>5,850,052</u>	<u>\$ 1,567,127</u>
Reconciliation				
Prepaid items			37,821	
Notes & Accounts Receivable			16,734	
Capital assets, net of accumulated depreciation			35,607,965	
Net OPEB liability			(106,312)	
OPEB deferred inflows of resources			(6,956)	
OPEB deferred outflows of resources			14,843	
Compensated absences			(134,907)	
Accrued interest payable			(14,772)	
Loans payable			(584,692)	
Deferred outflows of resources - pensions			460,188	
Deferred inflows of resources - pensions			(65,401)	
Net pension liability			(1,325,536)	
Net position - ending (GAAP)			<u>\$ 39,749,027</u>	

This page intentionally left blank.

OTHER SUPPLEMENTARY
SCHEDULES

This page intentionally left blank.

City of Klamath Falls, Oregon
Capital Assets Used in the Operation of Governmental Funds
Schedule By Function and Activity
June 30, 2018

Schedule H-1

Function and Activity	Land	Buildings	Machinery and Equipment	Infrastructure	Construction in Progress	Total
General Government:						
Manager	\$ 1,471,246	\$ 3,638,182	\$ 317,372	\$ 1,159,703	\$ -	\$ 6,586,503
Information Systems	-	-	1,491,210	-	-	1,491,210
Engineering	-	-	309,952	-	-	309,952
Maintenance	-	79,087	118,882	-	-	197,969
Economic Development	544,243	-	-	-	-	544,243
Total General Government	<u>2,015,489</u>	<u>3,717,269</u>	<u>2,237,416</u>	<u>1,159,703</u>	<u>-</u>	<u>9,129,877</u>
Airport	<u>9,193,403</u>	<u>4,065,962</u>	<u>2,848,178</u>	<u>58,568,480</u>	<u>7,729,154</u>	<u>82,405,177</u>
Culture and Recreation	<u>442,448</u>	<u>1,398,885</u>	<u>1,785,585</u>	<u>3,879,447</u>	<u>880,605</u>	<u>8,386,970</u>
Public safety:						
Police	399,111	8,152,307	2,250,713	-	-	10,802,131
Code enforcement	-	-	76,625	-	-	76,625
Total Public Safety	<u>399,111</u>	<u>8,152,307</u>	<u>2,327,338</u>	<u>-</u>	<u>-</u>	<u>10,878,756</u>
Highways and Streets:						
Maintenance	1,500	315,002	3,846,158	-	-	4,162,661
Street System	2,100,947	-	735,277	133,877,000	1,852,895	138,566,120
Total Highways and Streets	<u>2,102,447</u>	<u>315,002</u>	<u>4,581,435</u>	<u>133,877,000</u>	<u>1,852,895</u>	<u>142,728,781</u>
Total Governmental Funds						
Capital Assets	<u>\$ 14,152,898</u>	<u>\$ 17,649,425</u>	<u>\$ 13,779,952</u>	<u>\$ 197,484,631</u>	<u>\$ 10,462,654</u>	<u>\$ 253,529,560</u>

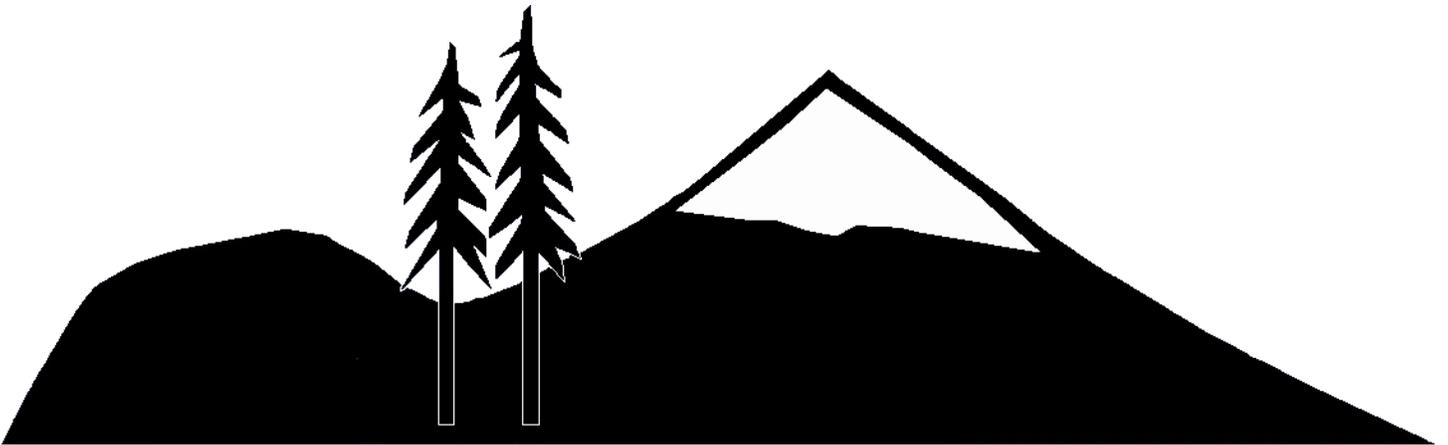
City of Klamath Falls, Oregon
Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes By Function and Activity
For the fiscal year ended June 30, 2018

Schedule H-2

Function and Activity	Governmental Funds Capital Assets July 1, 2017	Additions	Deductions, Transfers in & (Transfers out)	Governmental Funds Capital Assets June 30, 2018
General Government:				
Manager	\$ 6,526,186	\$ 60,317	\$ -	\$ 6,586,503
Information Systems	1,470,430	20,780	-	1,491,210
Engineering	309,952	-	-	309,952
Maintenance	197,969	-	-	197,969
Economic Development	544,243	-	-	544,243
Total General Government	<u>9,048,780</u>	<u>81,097</u>	<u>-</u>	<u>9,129,877</u>
Airport	<u>76,194,067</u>	<u>6,234,882</u>	<u>(23,772)</u>	<u>82,405,177</u>
Culture and Recreation	<u>7,600,831</u>	<u>786,139</u>	<u>-</u>	<u>8,386,970</u>
Public safety:				
Police	10,601,968	400,969	(200,807)	10,802,131
Code enforcement	76,625	-	-	76,625
Total Public Safety	<u>10,678,593</u>	<u>400,969</u>	<u>(200,807)</u>	<u>10,878,756</u>
Highways and streets:				
Maintenance	3,412,670	749,991	-	4,162,661
Street system	137,131,230	1,434,890	-	138,566,120
Total Highways and Streets	<u>140,543,900</u>	<u>2,184,881</u>	<u>-</u>	<u>142,728,781</u>
Total Governmental Funds Capital Assets	<u>\$ 244,066,171</u>	<u>\$ 9,687,968</u>	<u>\$ (224,579)</u>	<u>\$ 253,529,560</u>



Statistical Section



This page intentionally left blank.

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 says about the government's overall financial health.

Contents

Financial Trends – Schedules I-1, I-2, I-3, and I-4	147
<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 – Schedules I-5, I-6, I-7, and I-8	155
<i>These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.</i>	
Debt Capacity – Schedules I-9, I-10, I-11, I-12 and I-13	161
<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 – Schedules I-14, and I-15	169
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which government's financial activities take place.</i>	
Operating Information – Schedules I-16, I-17, I-18, and I-19	173
<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.

This page intentionally left blank.

Financial Trends

This page intentionally left blank.

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	Schedule I-1 2009
Governmental activities										
Net investment in capital assets	\$111,784,474	\$106,175,191	\$105,999,139	\$107,962,108	\$113,684,484	\$115,096,825	\$119,231,089	\$120,623,415	\$117,426,374	\$ 92,499,417
Restricted	4,420,534	3,971,607	2,582,763	1,832,112	2,324,012	2,851,180	3,800,188	5,705,016	12,853,050	10,439,805
Unrestricted	22,997,162	27,580,669	29,390,584	18,256,806	16,908,446	17,186,214	14,361,606	11,814,580	7,948,267	9,927,193
Total governmental activities net position	\$139,202,170	\$137,727,467	\$137,972,486	\$128,051,026	\$132,916,942	\$135,134,219	\$137,392,883	\$138,143,011	\$138,227,691	\$112,866,415
Business-type activities										
Net investment in capital assets	\$ 60,389,249	\$ 58,324,352	\$ 56,282,189	\$ 55,458,635	\$ 51,934,040	\$ 51,447,145	\$ 49,262,631	\$ 49,086,527	\$ 47,325,073	\$ 36,340,357
Restricted	1,104,956	1,092,164	4,633,944	5,041,272	5,402,198	9,062,712	7,691,035	5,823,352	4,055,414	20,547,492
Unrestricted	12,707,870	8,196,965	3,246,712	14,989,228	14,149,001	7,435,547	7,086,144	6,789,017	7,971,682	7,817,326
Total business-type activities net position	\$ 74,202,075	\$ 67,613,481	\$ 64,162,845	\$ 75,489,135	\$ 71,485,239	\$ 67,945,404	\$ 64,039,810	\$ 61,698,896	\$ 59,352,169	\$ 64,705,175
Primary government										
Net investment in capital assets	\$172,173,723	\$164,499,543	\$162,281,328	\$163,420,743	\$165,618,524	\$166,543,970	\$168,493,720	\$169,709,942	\$164,751,447	\$128,839,774
Restricted	5,525,490	5,063,771	7,216,707	6,873,384	7,726,210	11,913,892	11,491,223	11,528,368	16,908,464	30,987,297
Unrestricted	35,705,032	35,777,634	32,637,296	33,246,034	31,057,447	24,621,761	21,447,750	18,603,597	15,919,949	17,744,519
Total primary government net position	\$213,404,245	\$205,340,948	\$202,135,331	\$203,540,161	\$204,402,181	\$203,079,623	\$201,432,693	\$199,841,907	\$197,579,860	\$177,571,590

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	Schedule I-2a 2009
Expenses										
Governmental activities:										
General government	\$ 5,923,080	\$ 5,727,651	\$ 5,802,794	\$ 4,750,011	\$ 1,117,501	\$ 998,328	\$ 916,736	\$ 1,858,704	\$ 965,249	\$ 1,166,541
Airport	2,833,505	3,128,916	2,865,179	2,483,308	2,979,505	2,738,308	3,056,676	2,711,318	2,416,914	2,955,132
Culture and recreation	1,525,628	1,315,260	1,346,156	1,198,095	1,429,718	1,393,933	1,315,332	1,170,962	1,126,984	1,104,576
Public safety	6,769,496	6,678,984	7,827,924	4,551,499	6,392,398	6,643,034	6,592,397	6,728,610	6,245,613	6,211,412
Highways and streets	3,694,992	3,795,646	4,266,110	6,920,863	5,376,296	5,443,451	6,069,358	5,548,199	6,980,014	6,998,760
Interest on long-term debt	252,843	386,404	426,013	450,287	409,176	435,161	468,537	514,306	549,840	470,765
Total governmental activities	20,999,544	21,032,861	22,534,176	20,354,063	17,704,594	17,652,215	18,419,036	18,532,099	18,284,614	18,907,186
Business-type activity -										
Wastewater	5,862,851	5,396,231	5,474,517	4,893,634	5,045,680	4,992,855	4,914,640	5,021,711	5,784,920	5,788,994
Water	6,483,466	5,959,718	6,156,074	5,536,655	5,682,323	5,566,016	5,588,110	5,479,594	5,557,164	5,652,839
Electric	-	-	-	-	-	-	-	-	-	-
Total business-type activities	12,346,317	11,355,949	11,630,591	10,430,289	10,728,003	10,558,871	10,502,750	10,501,305	11,342,084	11,441,833
Total Expenses	\$ 33,345,861	\$ 32,388,810	\$ 34,164,767	\$ 30,784,352	\$ 28,432,597	\$ 28,211,086	\$ 28,921,786	\$ 29,033,404	\$ 29,626,698	\$ 30,349,019
Program Revenues										
Governmental activities:										
Charges for services										
General government	\$ 5,273,262	\$ 2,776,556	\$ 2,855,961	\$ 2,837,399	\$ 286,623	\$ 484,091	\$ 375,711	\$ 297,346	\$ 307,620	\$ 444,397
Airport	571,764	685,469	470,645	524,083	714,909	709,978	690,670	752,472	714,295	792,410
Culture and recreation	222,568	208,900	208,900	184,357	152,142	139,322	32,895	26,465	62,635	36,938
Public safety	61,438	33,462	33,462	404,376	446,467	421,800	511,539	486,579	477,764	627,543
Highways and streets	354,625	332,301	347,832	151,678	355,562	302,871	310,576	298,671	293,013	290,611
Operating grants and contributions	247,859	353,709	247,032	108,891	117,860	278,724	408,138	1,228,734	500,695	770,859
Capital grants and contributions	4,904,680	3,010,978	916,336	831,469	2,236,523	986,649	1,824,829	3,123,541	21,676,883	11,419,781
Total governmental activities	11,636,196	7,401,375	5,080,168	5,042,253	4,310,086	3,323,435	4,154,358	6,213,808	24,032,905	14,382,539
Business-type activity -										
Charges for services										
Wastewater	8,174,984	7,678,873	7,354,469	7,018,141	6,714,855	6,791,552	6,223,467	6,181,257	6,190,377	4,874,626
Water	8,530,367	7,936,322	7,665,939	7,703,108	7,244,563	7,434,803	6,732,455	6,767,730	7,128,762	6,955,464
Electric	-	-	-	-	-	-	-	-	-	-
Operating grants and contributions	-	-	-	-	-	-	1,989	45,623	104,527	-
Capital grants and contributions	7,200	48,030	275,677	339,176	864,767	428,094	43,543	172,287	307,195	527,998
Total business-type activity	16,712,551	15,663,225	15,296,085	15,060,425	14,824,185	14,654,449	13,001,454	13,166,897	13,730,861	12,358,088
Total program revenues	\$ 28,348,747	\$ 23,064,600	\$ 20,376,253	\$ 20,102,678	\$ 19,134,271	\$ 17,977,884	\$ 17,155,812	\$ 19,380,705	\$ 37,763,766	\$ 26,740,627

Continued on next page

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

<i>Continued</i>	2018	2017	2016	2015	2014	2013	2012	2011	2010	Schedule I-2b 2009
Program Revenues										
Net (expense)/revenue										
Governmental activities	\$ (9,363,348)	\$ (13,631,486)	\$ (17,454,008)	\$ (15,311,810)	\$ (13,394,508)	\$ (14,328,780)	\$ (14,264,678)	\$ (12,318,291)	\$ 5,748,291	\$ (4,524,647)
Business-type activity	4,366,234	4,307,276	3,665,494	4,630,136	4,096,182	4,095,578	2,498,704	2,665,592	2,388,777	916,255
Total net expense (revenue)	\$ (4,997,114)	\$ (9,324,210)	\$ (13,788,514)	\$ (10,681,674)	\$ (9,298,326)	\$ (10,233,202)	\$ (11,765,974)	\$ (9,652,699)	\$ 8,137,068	\$ (3,608,392)
General Revenues										
Governmental activities:										
Property taxes	\$ 7,430,283	\$ 7,009,508	\$ 6,901,748	\$ 6,999,271	\$ 6,801,445	\$ 7,205,147	\$ 7,443,904	\$ 7,519,701	\$ 7,455,530	\$ 6,951,966
Franchise taxes	2,490,622	2,542,802	2,444,433	2,400,513	2,338,179	2,285,109	2,112,940	2,032,875	1,897,175	1,884,227
911 excise tax	-	-	-	-	-	51,006	102,784	105,920	-	-
Motor fuel taxes	1,386,632	1,293,021	1,274,616	1,229,155	1,227,480	1,165,774	1,145,033	1,044,517	887,985	815,573
Alcoholic beverage taxes	346,268	331,238	309,573	309,693	300,889	284,182	268,841	250,378	241,280	255,551
Cigarette taxes	26,782	27,459	28,420	28,698	28,905	30,238	30,699	32,418	31,174	33,304
Transient room taxes	681,281	560,037	505,000	507,012	448,867	400,655	470,879	494,922	375,233	381,837
State revenue sharing	284,662	214,081	193,598	199,962	202,054	183,829	177,232	163,365	159,682	165,415
Federal forest receipts	-	114,654	110,195	1,103,867	-	-	-	-	-	-
Unrestricted investment earnings	344,146	386,276	344,046	247,792	199,778	178,996	227,402	222,930	482,757	504,718
Gain on sale of capital assets	-	(41,129)	12,351	2,199	111,709	-	750	30,435	-	350,266
Special and extraordinary items	-	-	-	-	-	-	1,133,000	-	(397,783)	-
Insurance recoveries	-	-	9,865	15,123	-	-	-	-	-	-
Transfer of capital asset	-	-	30,463	(1,293,837)	-	-	-	-	-	-
Transfers in / (out)	(2,041,525)	948,520	15,241,622	1,569,912	385,189	285,180	238,653	379,138	8,236,517	2,536,530
Total general revenues, transfers,	10,949,151	13,386,467	27,405,930	13,319,360	12,044,495	12,070,116	13,352,117	12,276,599	19,369,550	13,879,387
Business-type activity -										
Unrestricted investment earnings	201,465	91,880	280,301	142,631	104,507	95,196	80,863	60,273	494,734	1,220,586
Special and extraordinary items	-	-	-	-	-	-	-	-	-	-
Transfer of capital asset	-	-	(30,463)	1,293,837	-	-	-	-	-	-
Transfers in / (out)	2,041,525	(948,520)	(15,241,622)	(1,569,912)	(385,189)	(285,180)	(238,653)	(379,138)	(8,236,517)	(2,536,530)
Total business-type activities	2,242,990	(856,640)	(14,991,784)	(133,444)	(280,682)	(189,984)	(157,790)	(318,865)	(7,741,783)	(1,315,944)
Total primary government	\$ 13,192,141	\$ 12,529,827	\$ 12,414,146	\$ 13,185,916	\$ 11,763,813	\$ 11,880,132	\$ 13,194,327	\$ 11,957,734	\$ 11,627,767	\$ 12,563,443
Change in Net Position										
Governmental activities	\$ 1,585,803	\$ (245,019)	\$ 9,951,922	\$ (1,992,450)	\$ (1,350,013)	\$ (2,258,664)	\$ (912,561)	\$ (41,692)	\$ 25,117,841	\$ 9,354,740
Business-type activity	6,609,224	3,450,636	(11,326,290)	4,496,692	3,815,500	3,905,594	2,340,914	2,346,727	(5,353,006)	(399,689)
Total Change in Net Position	\$ 8,195,027	\$ 3,205,617	\$ (1,374,368)	\$ 2,504,242	\$ 2,465,487	\$ 1,646,930	\$ 1,428,353	\$ 2,305,035	\$ 19,764,835	\$ 8,955,051

City of Klamath Falls, Oregon
Fund Balances of Government Funds

Last Ten Fiscal Years

(modified accrual basis of accounting)

	2018	2017	2016 ³	2015 ²	2014	2013	2012	2011 ¹	2010	Schedule I-3 2009
General Fund										
Nonspendable	\$ 46,849	\$ 45,496	\$ 38,971	\$ 130,701	\$ 243,735	\$ 96,586	\$ 94,654	\$ 123,265		
Restricted	278,326	144,847	133,776	80,454	65,278	56,596	-	-		
Assigned	2,716,501	4,188,842	5,751,645	103,791	39,638	49,638	521,743	954,280		
Unassigned	8,295,803	7,180,729	5,280,154	3,246,947	4,453,307	4,150,530	3,887,663	3,005,764		
Reserved									\$ 213,091	\$ 314,051
Unreserved									3,266,208	3,091,150
Total general fund	\$ 11,337,479	\$ 11,559,914	\$ 11,204,546	\$ 3,561,893	\$ 4,801,958	\$ 4,353,350	\$ 4,504,060	\$ 4,083,309	\$ 3,479,299	\$ 3,405,201
All other governmental funds										
Nonspendable	\$ -	\$ -	\$ 8,544	\$ 125,307	\$ 149,572	\$ 91,110	\$ 75,919	\$ 104,942		
Restricted	4,142,208	3,826,760	2,448,987	1,696,307	2,166,019	2,201,094	3,432,013	5,325,961		
Assigned	19,827,815	23,812,496	24,951,010	18,242,788	14,354,112	13,904,795	10,915,284	8,605,567		
Unassigned	(641,563)	(672,379)	(902,008)	(901,147)	(796,705)	-	-	(206,459)		
Reserved for:										
Prepays and inventory									\$ 177,656	\$ 107,973
Advances to other funds									500,000	500,000
System development charges									64,759	59,695
Community programs									-	57,300
Capital outlay									1,152,821	9,489,776
Debt service									145,025	288,207
Outside Third Party Claims									5,873,283	-
Perpetual care-Nonexpendable									-	436,100
Unreserved, reported in:										
Special revenue funds									3,540,839	3,963,066
Capital project funds									4,701,679	1,340,445
Debt service fund									448,480	363,854
Perpetual care-Expendable									-	2,014
Total all other governmental funds	\$ 23,328,460	\$ 26,966,877	\$ 26,506,533	\$ 19,163,255	\$ 15,872,998	\$ 16,196,999	\$ 14,423,216	\$ 13,830,011	\$ 16,604,542	\$ 16,608,430

¹ Governmental Accounting Standards Board (GASB) Statement No. 54 (Fund Balance Reporting and Governmental Fund Type Definitions - issued 02/09) changed fund balance categories from reserved and unreserved to the categories presented starting in fiscal year 2011.

² In fiscal year 2015 the General Fund transferred \$2 million to the Capital Projects Fund (formerly Building Reserve Fund)

³ In fiscal year 2016 the General Fund fund balance increased significantly because the fund balances of three former special revenue funds (Parks, Streets and Street Lighting) were transferred into the General Fund. These three funds are not departments in the General Fund. In fiscal year 2016 the Capital Projects Fund received a \$10 million transfer from teh Wastewater Fund and a \$4.5 million transfer from the Water Fund.

City of Klamath Falls, Oregon
Changes in Fund Balances of Government Funds

Last Ten Fiscal Years
(modified accrual basis of accounting)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	Schedule I-4a 2009
Revenues										
Property taxes	\$ 7,429,107	\$ 7,034,171	\$ 6,892,417	\$ 7,032,490	\$ 6,956,668	\$ 7,211,003	\$ 7,507,727	\$ 7,387,533	\$ 7,340,106	\$ 6,819,648
Special assessments	15,456	17,215	48,688	-	800	97,227	2,479	6,387	10,350	7,942
Intergovernmental	8,681,135	5,792,146	3,477,796	3,743,238	3,797,578	3,158,117	4,984,594	6,886,229	22,573,756	13,577,485
Licenses, fees and permits	179,634	153,232	163,011	178,499	183,764	194,230	224,155	216,805	231,027	257,485
Franchise fees	2,473,145	2,534,513	2,444,433	2,400,513	2,338,178	2,293,767	2,120,371	2,040,041	1,905,227	1,896,824
Charges for services	1,156,451	1,186,754	1,081,035	1,083,053	4,863,660	4,933,476	5,134,894	5,260,072	5,114,039	5,349,311
Internal charges for services	2,602,322	2,509,271	2,422,161	2,936,762	-	-	-	-	-	-
Fines and forfeitures	417,160	341,693	344,653	460,151	452,676	432,056	471,487	441,085	464,037	573,498
Investment earnings	344,146	386,276	344,046	247,792	285,013	195,184	251,546	246,054	531,217	511,791
Miscellaneous	472,493	316,809	138,949	146,519	330,967	337,110	860,705	139,516	263,425	288,023
System development charges	-	-	-	2,722	-	-	-	4,549	-	-
Total Revenues	\$ 23,771,049	\$ 20,272,080	\$ 17,357,189	\$ 18,231,739	\$ 19,209,304	\$ 18,852,170	\$ 21,557,958	\$ 22,628,271	\$ 38,433,184	\$ 29,282,007
Expenditures										
Current:										
General government	\$ 5,212,716	\$ 5,083,443	\$ 4,866,004	\$ 4,906,651	\$ 4,726,157	\$ 4,479,363	\$ 4,566,723	\$ 5,597,129	\$ 4,674,825	\$ 5,061,948
Airport	1,312,918	1,595,817	1,159,526	1,055,989	1,189,143	1,102,636	1,483,526	1,272,520	1,387,107	1,929,477
Culture and recreation	1,309,108	1,190,045	1,054,101	1,167,304	1,258,030	1,224,762	1,158,806	1,024,348	964,693	965,616
Public safety	5,694,881	5,486,413	5,442,424	5,243,094	5,686,252	6,202,304	6,270,405	6,523,042	6,072,095	6,069,531
Highways and streets	1,811,415	1,785,710	1,794,377	1,985,704	2,258,666	2,348,697	3,003,832	2,341,674	2,314,837	2,523,206
Debt service:										
Principal	455,866	284,923	429,187	1,545,504	878,156	1,078,192	1,246,208	1,679,938	1,097,091	1,063,693
Interest	258,004	390,994	418,248	472,719	429,641	454,509	482,696	542,702	603,483	451,763
Capital outlay:										
General government	81,097	50,727	691,549	666,569	1,268,137	98,237	1,243,738	427,806	609,577	1,461,962
Airport	6,234,882	2,714,340	670,989	294,464	1,071,748	487,536	204,245	1,772,448	19,655,722	12,165,551
Culture and recreation	785,602	179,520	190,611	152,894	105,539	224,123	343,890	401,250	192,133	528,296
Public safety	400,969	247,584	259,835	203,127	175,045	153,902	90,723	1,342,951	5,650,413	1,513,308
Highways and streets	2,184,881	1,396,463	658,245	1,511,680	1,103,562	283,734	1,537,863	2,325,970	3,932,092	566,050
Total Expenditures	\$ 25,742,339	\$ 20,405,979	\$ 17,635,096	\$ 19,205,699	\$ 20,150,076	\$ 18,137,995	\$ 21,632,655	\$ 25,251,778	\$ 47,154,068	\$ 34,300,401
Excess (Deficiency) of Revenues over Expenditures	(1,971,290)	(133,899)	(277,907)	(973,960)	(940,772)	714,175	(74,697)	(2,623,507)	(8,720,884)	(5,018,394)

City of Klamath Falls, Oregon
Changes in Fund Balances of Government Funds

Last Ten Fiscal Years
(modified accrual basis of accounting)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	Schedule I-4b 2009
Other financing sources (uses)										
Transfers in	\$ 1,395,856	\$ 1,847,312	\$ 22,172,729	\$ 3,777,366	\$ 1,504,581	\$ 2,814,408	\$ 2,836,477	\$ 2,195,503	\$ 3,450,095	\$ 3,962,622
Transfers out	(3,437,381)	(898,792)	(6,931,107)	(2,207,454)	(1,041,629)	(2,529,228)	(2,597,824)	(1,805,028)	(3,089,424)	(695,379)
General long-term debt issued	58,950	-	-	1,417,262	414,721	600,000	350,000	105,500	1,022,228	9,135,000
Premium on general long-term debt issued	-	-	-	-	-	-	-	-	-	63,427
Special assessment bonds issued										
Discount on special assessment bonds	11,599	91	9,865	15,123	-	-	-	-	-	-
Insurance recoveries	81,414	1,000	12,351	70,771	187,706	23,718	-	-	-	403,548
Sale of general capital assets										
Total Other Financing Sources (Uses)	<u>\$ (1,889,562)</u>	<u>\$ 949,611</u>	<u>\$ 15,263,838</u>	<u>\$ 3,073,068</u>	<u>\$ 1,065,379</u>	<u>\$ 908,898</u>	<u>\$ 588,653</u>	<u>\$ 495,975</u>	<u>\$ 1,382,899</u>	<u>\$ 12,869,218</u>
Net change in fund balances before extraordinary item	(3,860,852)	815,712	14,985,931	2,099,108	124,607	1,623,073	513,956	(2,127,532)	(7,337,985)	7,850,824
Extraordinary item	-	-	-	-	-	-	\$ 500,000	-	(408,837)	-
Net change in fund balances	<u>\$ (3,860,852)</u>	<u>\$ 815,712</u>	<u>\$ 14,985,931</u>	<u>\$ 2,099,108</u>	<u>\$ 124,607</u>	<u>\$ 1,623,073</u>	<u>\$ 1,013,956</u>	<u>\$ (2,127,532)</u>	<u>\$ (7,746,822)</u>	<u>\$ 7,850,824</u>
Debt service as a percentage of noncapital expenditures	4.45%	4.27%	5.59%	12.32%	7.96%	9.07%	9.49%	11.71%	9.94%	8.39%

Revenue Capacity

This page intentionally left blank.

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 ¹			Actual Value ¹	Estimated Actual Value ¹	
2018	\$1,363,797	\$ 2,116,041	\$ 52,366	\$ 52,366	1,416,163	\$ 5.22	2,168,407	0.7	
2017	1,309,448	1,777,953	51,454	51,454	1,360,902	5.25	1,829,407	0.7	
2016	1,305,308	1,900,989	50,033	50,033	1,355,341	5.24	1,951,022	69.5	
2015	1,287,767	1,828,863	49,080	49,080	1,336,847	5.43	1,877,943	71.2	
2014	1,240,897	1,769,715	52,113	52,113	1,293,010	5.67	1,821,828	71.0	
2013	1,240,906	1,806,891	52,113	52,113	1,293,019	5.74	1,859,004	69.6	
2012	1,239,596	1,941,724	52,576	52,576	1,292,172	5.93	1,994,300	64.8	
2011	1,220,364	2,199,827	57,007	57,007	1,277,371	6.01	2,256,834	56.6	
2010	1,183,111	2,289,058	58,260	58,260	1,241,371	6.12	2,347,318	52.9	
2009	1,148,385	2,363,872	51,686	51,686	1,200,071	6.02	2,415,558	49.7	

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	
	Operating Millage	Debt Service Millage	Total City Millage	Operating Millage	Debt Service Millage	Total County Millage	Operating Millage	Other	Total	
2018	\$ 5.10	\$ 0.12	5.22	\$ 1.71	\$ 1.57	3.28	\$ 4.11	3.66	16.27	
2017	5.11	0.14	5.25	1.71	1.57	3.28	4.10	3.66	16.29	
2016	5.11	0.13	5.24	1.62	1.02	2.64	4.10	3.99	15.97	
2015	5.28	0.15	5.43	1.68	0.61	2.29	4.08	4.13	15.93	
2014	5.51	0.16	5.67	1.73	-	1.73	4.73	3.59	15.72	
2013	5.57	0.17	5.74	1.56	-	1.56	4.12	3.37	14.79	
2012	5.75	0.18	5.93	1.66	-	1.66	4.10	2.98	14.67	
2011	5.83	0.18	6.01	1.66	0.35	2.01	4.06	3.01	15.09	
2010	5.94	0.18	6.12	1.27	0.48	1.75	3.99	3.94	15.80	
2009	5.87	0.15	6.02	1.52	0.42	1.94	4.14	2.71	14.81	

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, 2018

(amounts expressed in thousands)

	2018			2009			Schedule I-7
	Assessed Value	Rank	% of Total Assessed Valuation	Assessed Value	Rank	% of Total Assessed Valuation	
Jeld Wen, Inc. - Wood products manufacturing	\$ 50,382	1	3.65%	\$ 85,623	1	7.13%	
Avista Corporation - Natural Gas Utility	20,315	2	1.47	9,638	10	0.80	
Wal Mart - Retail Department store	18,071	3	1.31	13,386	4	1.12	
Charter Communications - Telecommunications	17,937	4	1.30				
Fred Meyer Stores, Inc. - Retail Department Store	15,210	5	1.10	11,918	7	0.99	
CenturyLink - Telecommunications	9,199	6	0.67	13,876	3	1.16	
Pacificorp - Electric utility	9,157	7	0.66	9,928	9	0.83	
Klamath - Jefferson LLC - Shopping Center	8,101	8	0.59				
Klamath Publishing, LLC	7,709	9	0.56	13,139	5	1.09	
Glenridge Place LLC	7,498	10	0.54				
Running Y Resort, Inc.				19,252	2	1.60	
Aqua Glass Western, Inc.				12,172	6	1.01	
Klamath Falls One, LLC- Shopping Center				10,151	8	0.85	
	<u>\$ 163,579</u>		<u>11.84%</u>	<u>\$ 199,083</u>		<u>16.59%</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	Discounts, Adjustments, and Collections within the fiscal Year of the Levy			Subsequent Years			Total Collections to Date	
	Total Tax Levy	Discounts and Adjustments	Collections	Percentage of Levy	Adjustments	Collections	Amount	Percentage of Levy
2018	\$ 7,540	(222)	\$ 6,953	95.01	\$ -	-	6,953	95.01
2017	7,216	(493)	6,355	94.53	-	-	6,355	94.53
2016	7,128	(200)	6,548	94.52	(2)	205	6,753	97.50
2015	7,160	(197)	6,590	94.64	(24)	238	6,828	98.40
2014	7,157	(272)	6,522	94.73	10	319	6,841	99.22
2013	7,405	(192)	6,788	94.11	(22)	390	7,178	99.82
2012	7,658	(177)	6,955	92.97	(20)	458	7,413	99.36
2011	7,671	(197)	6,930	92.72	(29)	501	7,431	99.81
2010	7,599	(207)	6,869	92.92	(14)	505	7,374	99.95
2009	7,226	(348)	6,444	93.69	(19)	414	6,858	99.99

Debt Capacity

This page intentionally left blank.

City of Klamath Falls, Oregon
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

(amounts expressed in thousands, except per capita amount)

Schedule I-9

Governmental Activities							
Fiscal Year	General Obligation Bonds	Full Faith & Credit Bonds	SPWF & Other Loans	Revenue Bonds	Line of Credit Loans	Total	
2018	\$ 4,066	\$ 2,522	\$ 2,249	\$ -	\$ 730	9,567	
2017	4,022	2,698	2,249	-	848	9,817	
2016	4,023	2,870	2,249	-	963	10,105	
2015	4,024	3,037	2,249	140	1,087	10,537	
2014	4,025	3,188	2,262	270	922	10,667	
2013	4,026	3,340	20	395	1,104	8,885	
2012	4,027	3,486	34	515	1,304	9,366	
2011	4,028	3,633	47	625	1,925	10,258	
2010	4,029	3,774	507	730	2,795	11,835	
2009	4,030	3,911	211	830	2,930	11,912	

Business-Type Activities						
Fiscal Year	Water SPWF Loans	Water Revenue Bonds	Sewer Revenue Bonds	Sewer SPWF Loans	Sewer Capital Leases	Total
2018	\$ 585	\$ -	\$ 5,172	\$ -	\$ -	5,757
2017	621	-	5,842	-	-	6,463
2016	657	-	6,499	-	-	7,156
2015	693	455	7,181	-	-	8,329
2014	1,463	1,600	7,548	-	-	10,611
2013	1,498	1,613	8,109	-	-	11,220
2012	1,574	2,281	8,650	50	-	12,555
2011	1,649	2,918	9,171	98	-	13,836
2010	1,722	3,526	9,667	142	-	15,057
2009	956	4,114	9,902	185	-	15,157

Fiscal Year	Total Primary Government	% of Personal Income ¹	Per Capita ¹
2018	15,324	3.60%	700
2017	16,280	3.82%	748
2016	17,261	4.05%	798
2015	18,866	4.43%	874
2014	21,278	5.00%	990
2013	20,105	4.72%	935
2012	21,921	5.35%	1,021
2011	24,094	6.17%	1,141
2010	26,892	6.44%	1,285
2009	27,069	6.46%	1,271

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.

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 Value ¹ of Property	Per Capita ²
2018	\$ 4,066	\$ (51)	4,117	0.29%	188
2017	4,022	8	4,014	0.29%	184
2016	4,023	30	3,993	0.29%	185
2015	4,024	57	3,967	0.30%	184
2014	4,025	53	3,972	0.31%	185
2013	4,026	52	3,974	0.31%	185
2012	4,027	40	3,987	0.31%	186
2011	4,028	22	4,006	0.31%	190
2010	4,029	372	3,657	0.29%	175
2009	4,030	368	3,662	0.31%	172

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, 2018
(amounts expressed in thousands)

Schedule I-11

Governmental Unit	Debt Outstanding	Estimated % Applicable	Estimated Share of Overlapping Debt
Klamath Community College	\$ 6,745	23.62%	\$ 1,593
Klamath County Fire District 1	8,650	38.17%	3,302
Klamath County School Distirct	42,343	6.03%	2,553
Klamath City School District	34,994	60.34%	21,115
Klamath Falls Urban Renewal Area ¹	3,575	100.00%	3,575
Subtotal, overlapping debt			32,139
City of Klamath Falls direct debt ²			6,588
Total direct and overlapping debt			<u>\$ 38,727</u>

Sources: Outstanding debt and applicable percentages provided by each governmental unit as reported by Oregon State Treasury Debt Management Division.

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 Urban Renewal Area debt includes \$2,979 owed for outside lines of credit, \$596 for an inter-fund loan.

² City of Klamath Falls direct debt includes \$4,066 general obligation, \$2,522 full faith and credit

City of Klamath Falls, Oregon
Legal Debt Margin Information
June 30, 2018
(amounts expressed in thousands)

Schedule I-12

Fiscal Year	Total Taxable Assessed Value	Taxable Assessed Value as a % of Estimated Actual Value	Estimated Actual Taxable Value
2018	\$ 1,416,163	65.31%	\$ 2,168,407
2017	1,360,902	74.39%	1,829,407
2016	1,355,341	69.47%	1,951,022
2015	1,336,847	71.19%	1,877,943
2014	1,293,010	70.97%	1,821,828
Total Five Years Valuation			\$ 9,648,607
Five Year Average Full Valuation of Taxable Real Property			\$ 1,929,721
Constitutional Debt Limit (3% of total assessed value)			\$ 42,485
Outstanding General Obligation Indebtedness as of June 30, 2018			
Governmental Activities - General Obligation Debt			\$ 9,567
Governmental Activities - Short-term Debt - Current Portion of Lines of Credit			121
Net Indebtedness subject to debt limit			9,688
Net debt contracting margin			\$ 32,797
Percentage of net debt contracting margin available			77.20%
Percentage of net debt contracting power exhausted			22.80%

Last Ten Fiscal Years

Fiscal Year	Constitutional Debt Limit	Outstanding Indebtedness June 30	% of Net Debt Contracting Margin Available
2018	42,485	9,688	77.20%
2017	40,827	9,935	75.67%
2016	40,660	10,220	74.86%
2015	40,105	10,661	73.42%
2014	38,790	10,667	72.50%
2013	38,791	8,865	77.15%
2012	38,765	9,332	75.93%
2011	38,321	10,211	73.35%
2010	37,241	11,328	69.58%
2009	36,002	11,701	67.50%

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

Schedule I-13a

Fiscal Year	Sewer Revenue Bonds						Coverage
	Sewer Charges and Other	Less: Operating Expenses	Net Available Revenue	Debt Service			
				Principal	Interest		
2018	\$ 7,849	\$ 4,014	3,835	\$ 670	\$ 135	4.76	
2017	7,655	4,085	3,570	657	151	4.42	
2016	7,372	4,249	3,123	673	136	3.86	
2015	7,022	3,506	3,516	590	300	3.95	
2014	6,686	3,661	3,025	570	323	3.39	
2013	6,691	3,586	3,105	550	338	3.50	
2012	6,223	3,445	2,778	530	359	3.12	
2011	6,177	3,510	2,667	505	387	2.99	
2010	6,013	3,551	2,462	385	387	3.19	
2009	4,883	3,531	1,352	390	427	1.65	

Fiscal Year	Water Revenue Bonds ¹						Coverage
	Water Charges and Other	Less: Operating Expenses	Net Available Revenue	Debt Service			
				Principal	Interest		
2018	\$ -	\$ -	\$ -	\$ -	\$ -	-	
2017	-	-	-	-	-	-	
2016	7,449	4,578	2,871	455	25	5.98	
2015	7,422	4,020	3,402	1,120	54	2.90	
2014	7,025	4,110	2,915	685	87	3.78	
2013	7,225	3,979	3,246	655	115	4.22	
2012	6,463	3,992	2,471	625	147	3.20	
2011	6,439	3,830	2,609	595	164	3.44	
2010	6,983	3,722	3,261	575	188	4.27	
2009	6,848	3,987	2,861	555	212	3.73	

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, depreciation and inter-fund transfers.

¹ Water Revenue Bonds were paid-off in FY 2015-2016.

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

Schedule I-13b

Fiscal Year	Airport Revenue Bonds ¹						Coverage
	Airport Charges and Other	Less: Operating Expenses	Net Available Revenue	Debt Service			
				Principal	Interest		
2018	\$ -	\$ -	\$ -	\$ -	\$ -	-	
2017	-	-	-	-	-	-	
2016	1,127	1,152	(25)	165	20	(0.13)	
2015	1,273	1,056	217	155	29	1.18	
2014	1,379	1,075	304	150	37	1.63	
2013	1,482	1,080	402	145	45	2.12	
2012	1,379	1,132	247	135	51	1.33	
2011	1,658	1,236	422	249	63	1.35	
2010	1,527	1,198	329	100	90	1.73	
2009	2,039	1,898	141	95	53	0.95	

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, depreciation and inter-fund transfers.

¹ Airport Revenue Bonds were paid-off in FY 2015-2016.

Demographic and Economic Information

This page intentionally left blank.

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

Schedule I-14

Fiscal Year	City Population ¹	City Median Age ²	City Per Capita Personal Income ³	City Aggregate Income ³ <i>(amounts expressed in thousands)</i>	City Education Level in Years of Formal Schooling ³	City Public School Enrollment ⁴	County Unemployment Rate ⁵
2018	21,890	Unavailable	Unavailable	Unavailable	Unavailable	3,034	6.1%
2017	21,770	Unavailable	Unavailable	Unavailable	Unavailable	2,986	5.1%
2016	21,640	35.0	Unavailable	Unavailable	Unavailable	3,225	6.8%
2015	21,580	34.9	20,685	Unavailable	12.7	3,257	7.6%
2014	21,500	35.9	20,495	Unavailable	12.7	3,198	9.7%
2013	21,495	35.6	19,947	425,718	12.8	3,302	10.8%
2012	21,465	35.0	19,557	409,642	12.8	3,271	12.1%
2011	21,120	34.4	18,743	390,699	12.8	3,341	12.6%
2010	20,925	34.6	19,992	417,521	12.7	3,397	13.4%
2009	21,305	34.2	20,710	419,208	12.7	3,942	14.5%

Data Sources:

¹ Portland State University, Population Research Center (Estimates released November 15th)

² U.S. Census Bureau

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

⁴ Oregon Department of Education

⁵ Oregon State Employment Department, Quality Information, Economic Data

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

Schedule I-15

	2018			2009 ²		
	Employees ¹	Rank	Percentage of Total City Employment ³	Employees ¹	Rank	Percentage of Total County Employment ³
Sky Lakes Medical Center	1,452	1	13.75%	1,051	2	3.90%
Klamath County School District	1,100	2	10.42%	791	4	2.94%
Kingsley Field Oregon Air National Guard	956	3	9.06%	883	3	3.28%
Jeld-Wen Inc. Wood Products	840	4	7.96%	1,200	1	4.46%
iQor (Assurion)			0.00%	528	6	1.96%
Klamath County	483		4.58%	614	5	2.28%
Oregon Institute of Technology			0.00%			
Klamath Falls City Schools	550		5.21%	441	7	1.64%
Wal-Mart	320		3.03%	440	8	1.63%
Fred Meyer			0.00%			
Columbia Forest Products ²	305			329	9	1.22%
Collins Company ²	251			255	10	0.95%
	<u>2,749</u>		<u>20.77%</u>	<u>3,807</u>		<u>14.13%</u>
Total Employment ³			10,557			26,936

¹ Numbers of employees furnished by employer.

² 2009 data represents County statistics. These employers are not within City limits.

³ Total employment source: US Census Bureau

Operating Information

City of Klamath Falls, Oregon
Full-time Equivalent Employees by Function June 30th
Last Ten Fiscal Years

Function	Schedule I-16									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
General Government										
City Manager	4.00	4.70	5.00	5.00	3.75	3.75	4.50	4.50	4.50	4.50
Legal	-	1.00	1.70	1.70	1.75	1.75	2.00	2.00	2.00	2.00
Municipal Court	2.40	2.40	2.40	3.30	3.25	3.25	3.00	3.25	3.25	3.50
Developmental Services	8.50	8.00	8.50	-	-	-	-	-	-	-
Public Works Engineering	-	-	-	5.50	6.50	6.50	7.50	7.50	7.50	9.50
Public Works Administration	3.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Planning	-	-	-	2.00	4.50	4.67	4.92	6.17	6.17	6.17
Legislative	0.70									
Maintenance	9.00	9.00	10.00	10.00	10.50	10.00	10.00	10.00	10.00	11.00
Support Services										
Finance	6.00	6.00	6.00	6.50	6.00	7.00	7.00	8.00	8.00	7.00
Human Resources/Risk	2.50	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Information Systems	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	2.00
Culture and Recreation	5.00	6.00	6.00	6.30	6.75	8.25	8.25	8.00	6.00	5.65
Ella Redkey Pool ¹	6.25	6.60	4.25	3.20	5.00					
Cemetery ²	-	-	-	-	-	-	-	-	2.00	3.35
Airport	6.00	6.00	6.00	5.00	6.00	6.00	6.00	6.00	6.00	6.00
Public Safety										
Police	36.00	40.00	41.00	39.00	40.00	41.00	42.00	45.00	45.00	43.00
Code enforcement	2.00	2.00	2.00	2.00	2.00	2.33	2.33	3.33	3.33	3.33
Off-street Parking	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Highways and streets										
Streets	10.00	9.00	10.00	10.00	10.00	10.00	10.00	11.00	11.00	11.00
Vehicle Maintenance	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Water ³	23.00	19.50	19.28	19.25	21.10	21.10	22.10	22.85	22.85	24.85
Geothermal	-	-	0.25	0.25	0.75	0.75	0.75	0.50	0.50	
Wastewater ³	14.00	17.00	14.97	15.00	16.65	16.65	16.65	17.90	17.90	18.15
Total	144.35	147.20	147.35	144.00	154.50	153.00	157.00	166.00	166.00	168.00

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

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

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

³ Utility Billing is now counted under Water and no longer split for reporting

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

Function	Schedule I-17									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Police										
Police department personnel	36	40	41	39	40	41	42	45	45	43
Physical arrests	2,101	2,157	2,318	2,319	2,489	2,423	2,362	1,687	2,184	2,323
Parking violations	2,198	2,039	2,445	2,323	2,275	2,632	2,222	2,506	2,572	2,888
Traffic violations	1,955	1,529	2,082	2,403	2,882	2,691	2,999	2,146	2,432	2,999
Airport										
Takeoffs and landings	43,358	47,564	53,246	51,732	44,194	38,095	41,617	36,270	25,796	31,363
Passengers enplaned ¹	-	7,827	-	-	11,972	14,254	17,376	20,486	21,893	23,588
Total passengers	-	15,606	-	-	23,648	27,950	35,409	41,284	43,693	47,059
Highways and streets										
Street resurfacing (feet)	93,729	73,361	26,826	17,262	12,157	4,135	8,200	8,151	40,400	7,920
Potholes (tons of asphalt)	55	75	138	36	34	27	42	38	27	85
Culture and recreation										
Park reservations	112	122	113	116	153	94	87	64	57	143
Municipal pool admissions ²	23,495	21,522	20,986	20,001	19,282	12,881				
Water										
New connections	39	40	47	43	36	36	24	26	32	20
Total connections	15,852	16,128	16,009	16,346	15,732	16,020	16,240	16,216	16,190	16,158
Average daily production (thousands of gallons)	6,734	6,859	6,817	7,180	6,899	6,790	6,700	6,400	7,800	8,500
Wastewater										
New connections	36	17	10	7	17	25	18	9	15	14
Total connections	8,273	7,520	8,133	7,443	7,680	7,668	7,411	7,393	7,384	7,369
Average daily sewage treatment (thousands of gallons)	2,247	3,448	2,840	2,760	2,650	2,963	3,080	2,820	2,970	3,267
Average daily reclaimed water produced (thousands of gallons)	2,276	2,166	2,640	2,370	2,350	2,280	2,340	3,120	2,825	2,542

Source: Various city departments.

¹ Commercial air service was discontinued in June of 2014, reestablished in October 2016 and discontinued again in August of 2017.

² Municipal pool operations were taken over in full by City Parks on 4/1/13.

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

Function	2018	2017	2016	2015	2014	2013	2012	2011	2010	Schedule I-18a 2009
Public Safety										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol Units	31	33	32	36	40	37	33	32	37	32
Airport										
Miles of runways & taxiways	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25
Highways and streets										
Streets (<i>lane miles</i>)	302	302	302	302	302	302	302	302	301	245
Streetlights ¹	2,966	2,966	2,636	3,116	3,114	3,104	3,080	3,052	3,047	3,003
Traffic signals	36	36	36	36	34	31	31	31	31	30
Culture and recreation										
Park acreage										
Developed	119	119	119	119	119	119	119	119	119	119
Natural areas	514	514	514	514	514	514	514	514	514	514
Undeveloped	50	50	50	50	50	50	50	50	50	20
Parks	25	25	24	23	23	23	23	23	23	23
Tennis courts	3	3	3	3	3	3	3	3	3	3
Playground equipment areas	8	8	8	8	8	8	8	8	8	8
Cemetery										
Developed acres ²	18	18	18	18	18	18	18	18	18	32
Undeveloped acres ²	0	0	0	0	0	0	0	0	0	20
Water										
Water mains (<i>miles</i>)	266	266	265	263	240	240	240	239	239	237
Fire hydrants	1,176	1,175	1,166	1,157	1,186	1,176	1,093	1,089	1,084	1,080
Maximum daily capacity (<i>thousands of gallons</i>)	14,739	13,952	13,669	13,918	15,107	13,204	13,700	13,800	16,135	18,184

continued on next page

¹ Source: Various city departments.

¹ A new maintenance work order program went live 2016 and a more accurate count of the street lights was completed.

² In November 2009 Klamath Memorial Park Cemetery was sold

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

<i>continued</i>	2018	2017	2016	2015	2014	2013	2012	2011	2010	Schedule I-18b 2009
Function	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Wastewater										
Sanitary sewer (miles)	156	156	156	156	156	155	156	156	155	140
Storm sewers (miles)	40	40	40	40	40	40	40	40	40	40
Manholes	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,380
Maximum daily treatment capacity (thousands of gallons)	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000
Maximum daily reclaimed water capacity (thousands of gallons)	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500

Source: Various city departments.

City of Klamath Falls, Oregon
Top Ten Water & Wastewater Customers
Fiscal Year Ended June 30, 2018

Schedule I-19

Water Customers	Billed	Percent of Total Charges	Wastewater Customers	Billed	Percent of Total Charges
City of Klamath Falls	\$ 437,106	6.00 %	OIT (Oregon Institute of Technology)	\$ 415,513	5.79 %
Jeld-Wen	98,795	1.36	Running Y Ranch Resort Inc.	259,125	3.61
Klamath County School District	74,012	1.02	Sky Lakes Medical Center	233,241	3.25
Sky Lakes Medical Center	73,263	1.00	Klamath County	216,681	3.02
Kingsley Field	64,197	0.88	Klamath Co-Gen	119,519	1.67
Klamath Co-Gen	63,211	0.87	Falcon Heights Condo	115,683	1.61
Klamath Falls City Schools	44,315	0.61	Kingsley Field	73,846	1.03
Aspen Limited Partnership	39,255	0.54	Shilo	72,730	1.01
Emerald Estates	37,560	0.52	Southern Pacific	70,221	0.98
Klamath County	11,788	0.16	Klamath Falls City Schools	65,115	0.91
Total Top Ten	\$ 943,502	12.94 %	Total Top Ten	\$ 1,641,671	10.23 %

Total Billed Fiscal Year 17/18 \$ 7,290,714

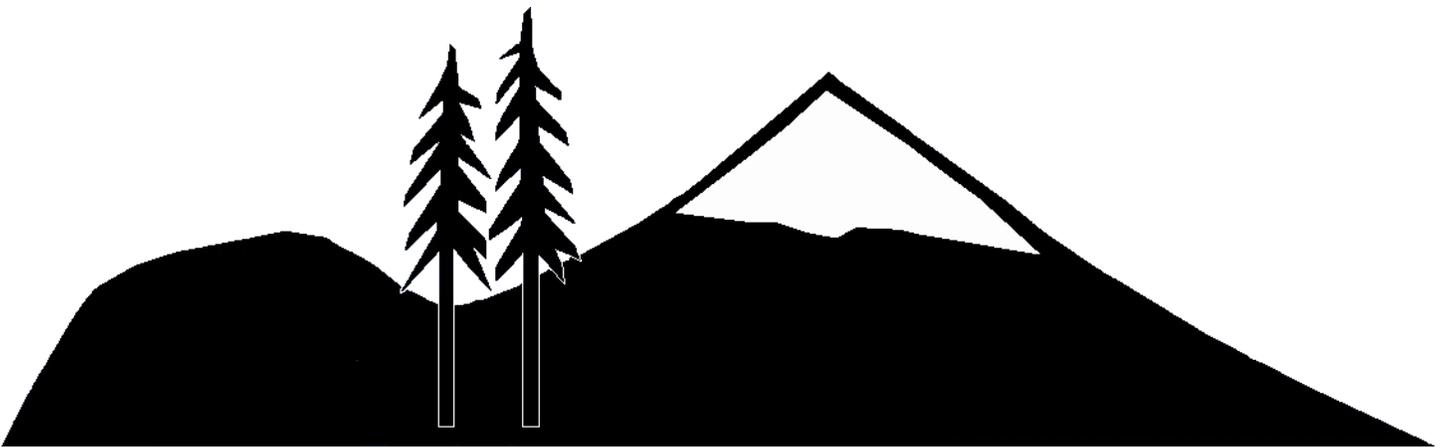
Total Billed Fiscal Year 17/18 \$ 7,175,355

Total Water Service Connections 15,852

Total Wastewater Service Connections 8,273



Compliance Section



This page intentionally left blank.

PASSENGER FACILITY
CHARGES AUDIT

This page intentionally left blank.

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

Honorable Mayor and City Council
City of Klamath Falls, Oregon

Report on Compliance for the Passenger Facility Charge Program

We have audited the City of Klamath Falls, Oregon’s (the City) compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration, applicable to the City’s Passenger Facility Charge program for the year ended June 30, 2018.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws and regulations applicable to its passenger facility program.

Auditor’s Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for the Passenger Facility Charge program. However, our audit does not provide a legal determination of the City’s compliance.

Opinion on the Passenger Facility Charge Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Passenger Facility Charge program for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the City 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 the City's internal control over compliance with the types of requirements that could have a direct and material effect on the Passenger Facility Charge program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the Passenger Facility Charge program and to test and report on internal control over compliance in accordance with the Passenger Facility Charge Audit Guide for Public Agencies, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

Purpose of this Report

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



For Merina & Company, LLP
Tualatin, Oregon
January 29, 2019

**CITY OF KLAMATH FALLS, OREGON
PASSENGER FACILITY CHARGE
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2018**

Section I – Summary of Auditor’s Results

Passenger Facility Charge

Internal Control over the Passenger Facility Charge Program:

Material weakness(es) identified? Yes No

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

Type of auditor’s report issued on compliance for Passenger Facility Charge programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Passenger Facility Charge Program? Yes No

Section II – Passenger Facility Charge Findings and Responses

None

Section III – Schedule of Prior Passenger Facility Charge Findings and Responses for the Years Ended June 30, 2017

Finding 2017-1:

Criteria: The City is required to provide quarterly reports to carriers collecting Passenger Facility Charge (PFC) revenues for the City, with a copy to the appropriate Federal Aviation Administration Airports office.

Cause/Condition: The December 31, 2016 quarterly report was not prepared accurately.

Effect: PFC amounts totaling \$1,343 were properly recorded in the City’s accounting records but were not properly included in the December 31, 2016 quarterly report. This caused the December 31, 2016 quarterly report amounts for PFC receipts and disbursements to be under-reported by \$1,343.

Recommendation: We recommend all reports be reviewed for accuracy prior to submission.

Questioned Costs: None

Response: We will put an internal control in place that requires the Finance Department to review the report prior to the report being submitted by Airport.

CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF PASSENGER FACILITY CHARGES
COLLECTED, HELD AND USED
For the Year Ended June 30, 2018

12-03-C-00-LMT 03-001 Terminal Enhancements				
Quarter ending:	September 30, 2017	December 31, 2017	March 31, 2018	June 30, 2018
Unexpended PFC's and Interest, Beginning of Period	-	-	-	-
Add:				
PFC Receipts	8,478	-	-	-
Interest Earned				
Total	8,478	-	-	-
Expenses/Expenditures	8,478	-	-	-
Unexpended PFC and Interest	-	-	-	-

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

STATE OF OREGON
COMPLIANCE

This page intentionally left blank.

INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *OREGON STATE REGULATION*

Honorable Mayor and City Council
City of Klamath Falls, Oregon

We have audited the basic financial statements of City of Klamath Falls, Oregon, as of and for the year ended June 30, 2018 and have issued our report thereon dated January 29, 2019. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minimum Standards of Audits of Oregon Municipal Corporations*, prescribed by the Secretary of State 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 City of Klamath Falls' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the provisions of Oregon Revised Statutes as specified in the Oregon Administrative Rules 162 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:

- 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.

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. In connection with our testing, nothing came to our attention that caused us to believe City of Klamath Falls 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 162-10-330 of the *Minimum Standards for Audits of Oregon Municipal Corporations*.

OAR 162-10-0230 Internal Control

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control 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 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 *Minimum Standards of Audits of Oregon Municipal Corporations*, prescribed by the Secretary of State, in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



For Merina & Company, LLP
Tualatin, Oregon
January 29, 2019

BOND COMPLIANCE

This page intentionally left blank.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
SCHEDULE OF COMPLIANCE WITH THE RATE AND REVENUE COVENANTS OF
THE WASTEWATER REVENUE REFUNDING BONDS, SERIES 2015**

Honorable Mayor and City Council
City of Klamath Falls, Oregon

Report on Compliance

We have examined the City of Klamath Falls, Oregon's (the City) compliance with the rate and revenue covenants described in the Wastewater Revenue Refunding Bonds, Series 2015 during the year ended June 30, 2018. Management of the City is responsible for the City's compliance with the specified requirements. Our responsibility is to express an opinion on the City's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the City complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the City complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the City compliance with specified requirements.

In our opinion, the City complied, in all material respects, with the aforementioned requirements during the year ended June 30, 2018.



For Merina & Company, LLP
Tualatin, Oregon
January 29, 2019

CITY OF KLAMATH FALLS, OREGON
SCHEDULE OF COMPLIANCE WITH THE RATE COVENANTS OF THE
WASTEWATER REVENUE REFUNDING BONDS, SERIES 2015
For the Year Ended June 30, 2018

Gross Revenues		
Operating revenues		\$ 7,752,261
Other revenues		
Interest earned on investments	\$ 96,444	
Miscellaneous revenue	422,723	
Less: SDC Improvement fee	<u>(422,723)</u>	<u>96,444</u>
Total Gross Revenues		7,848,705
Total operating expense	5,708,824	
Less: depreciation and amortization expense	<u>(1,213,165)</u>	<u>4,495,659</u>
Net Revenues		3,353,046

Sewer Fund debt service for the fiscal year ended June 30, 2018:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2015 Wastewater Revenue Refunding	<u>\$ 670,097</u>	<u>\$ 135,539</u>	<u>\$ 805,637</u>	
Total	<u><u>\$ 670,097</u></u>	<u><u>\$ 135,539</u></u>	<u><u>\$ 805,637</u></u>	<u>805,637</u>
1.25 Compliance			4.16	
Net Revenue after senior debt				<u><u>\$ 2,547,409</u></u>