

Klamath Falls

# Urban Renewal Agency

## Financial Statements

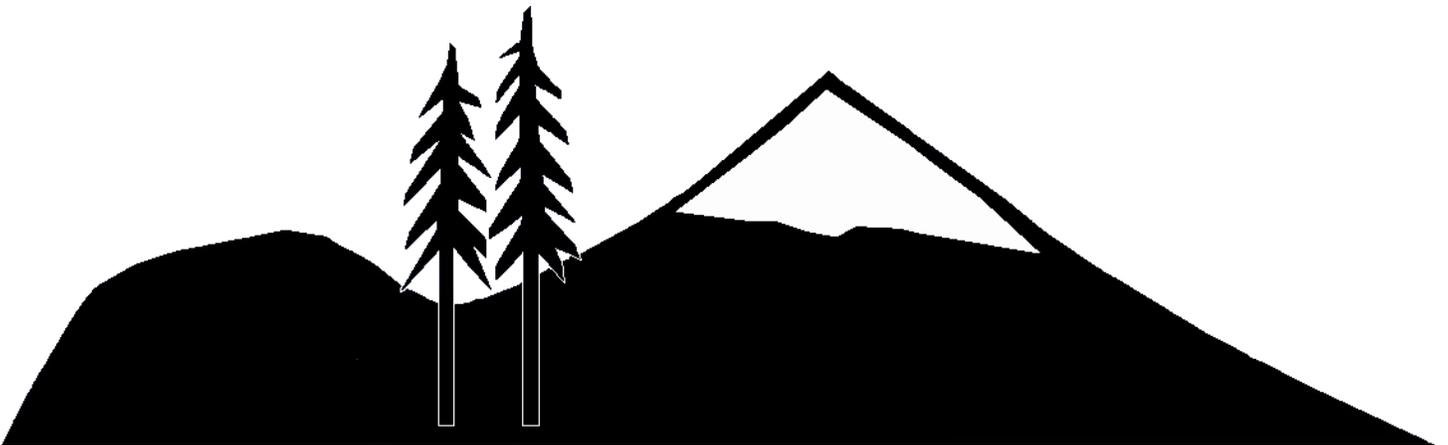
For the Fiscal Year Ended  
June 30th, 2018





## Financial Statements

For the Fiscal Year Ended  
June 30, 2018



Prepared by the Finance Department of the City of Klamath Falls

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*Klamath Falls*  
**Urban Renewal Agency**

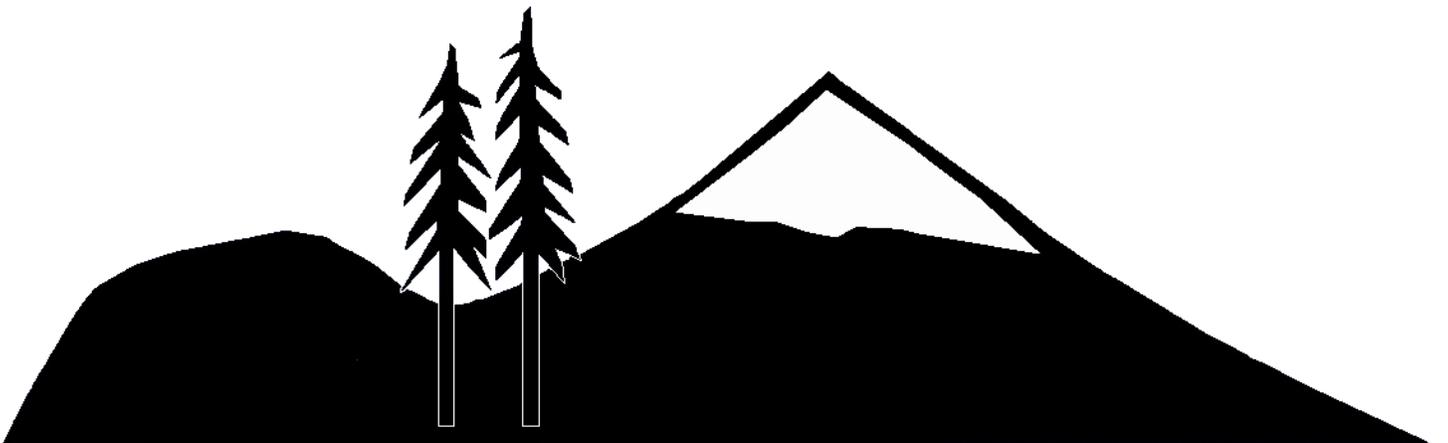
**Financial Statements**  
**June 30, 2018**  
**Table of Contents**

<b>Introductory Section</b> .....	1
List of Principal Officials and Staff .....	3
<b>Financial Section</b> .....	5
Independent Auditor’s Report.....	7
Management’s Discussion and Analysis .....	11
Basic Financial Statements .....	19
Statement of Net Position .....	21
Statement of Activities.....	22
Balance Sheet.....	23
Statement of Revenues, Expenditures, and Changes in Fund Balances .....	24
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities .....	25
Notes to the Financial Statements.....	27
<b>Required Supplementary Information</b> .....	39
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual	
Lakefront Urban Renewal Fund (A-1).....	41
Town Center Urban Renewal Fund (A-2) .....	42
<b>Audit Comments and Disclosures Section</b> .....	43
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 .....	45

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*Klamath Falls*  
Urban Renewal Agency

**Introductory  
Section**



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# *Klamath Falls* Urban Renewal Agency

## List of Principal District Officials and Staff June 30<sup>th</sup>, 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 Officials/ Directors

#### *Time in Position*



Nathan Cherpeski  
**City Manager**  
5 yrs. 5 mos.



**City Attorney**  
*Open Position*



Mark Willrett  
**Public Works  
Director**  
12 yrs. 3 mos.

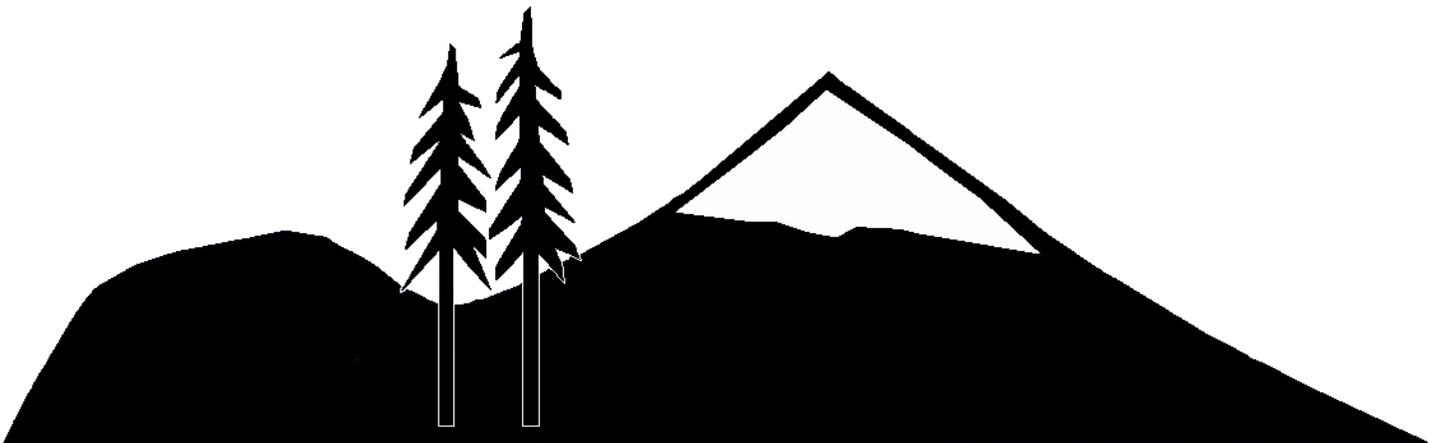


Brooke Marshall  
**Support Services  
Director**  
1 yrs. 1 mos.

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*Klamath Falls*  
Urban Renewal Agency

**Financial Section**



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Independent  
Auditor's Report

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## **INDEPENDENT AUDITOR'S REPORT**

Agency Officials  
Klamath Falls Urban Renewal Agency  
City of Klamath Falls, Oregon

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund, of Klamath Falls Urban Renewal Agency, a component unit of the City of Klamath Falls, Oregon (the Agency), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

The Agency's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency, as of June 30, 2018, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis and schedules of revenues, expenditures, and changes in fund balances – 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, 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 the Agency's basic financial statements. The introductory section is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory section has 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 it.

## **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 the Agency's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance.



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

## Management's Discussion and Analysis

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## Management's Discussion and Analysis

As management of the Klamath Falls Urban Renewal Agency (the Agency), a component unit of the City of Klamath Falls (City), we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the Fiscal Years ended June 30, 2018 and June 30, 2017. The analysis focuses on significant financial issues, major financial activities, resulting changes in financial position, budget changes and variances from the budget and specific issues related to funds and the economic factors affecting the Agency. The Agency is composed of three urban renewal districts, Downtown, Lakefront and Town Center. The organization as a whole is referred to as the Agency. Individual districts are referred to as "the District" or the Fund.

### Financial Highlights

- The liabilities of the Agency exceeded its assets at the close of the most recent fiscal year by \$3,553,783 which created a negative net position. This is an increase of \$201,440 from the prior fiscal year as property tax revenues allowed for debt repayment.
- At the close of the current fiscal year, the Agency's two governmental funds reported combined fund balances of \$136,579, an increase of \$30,689 in comparison with the prior year. This amount is restricted for urban renewal capital projects and debt service.

### Overview of the Financial Statements

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

### Government-wide Financial Statements

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

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

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

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

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

The government-wide financial statements can be found on the pages immediately following this Management 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 Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Agency are governmental funds.

## **Governmental Funds**

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

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

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

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

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

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

## **Government-wide Overall Financial Analysis**

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the Agency, liabilities exceeded assets by \$3,553,783, at the close of the most recent fiscal year.

## **Klamath Falls Urban Renewal Agency's Net Position**

The capital assets built or acquired in the Lakefront and Town Center Urban Renewal Districts are either contributed to the City or remain property of the developer when projects are complete, and any debt related to those assets is not included in net investment in capital assets. The City has formed the Spring Street Urban Renewal Area, but it will not have any increment until Fiscal Year ending 2019.

At the end of the current fiscal year, the Agency reported negative net position as unrestricted net position. The Lakefront and Town Center Urban Renewal Districts have outstanding debt of \$3,703,823, which exceeds or is unrelated to any assets the districts own (primarily due to contributing assets to the primary government and developer). This causes a deficit that will continue unless debt is paid off. The same held true for the prior fiscal year.

The Agency's overall net position increased \$201,440 from the prior fiscal year, which as noted above, is due to property tax revenue exceeding debt service.

## Statement of Net Position at June 30, 2018 and 2017

	<b>Governmental Activities</b>	
	<b>2018</b>	<b>2017</b>
Cash and investments	\$ 131,830	\$ 99,672
Other assets	26,608	29,672
Total assets	<u>158,438</u>	<u>129,344</u>
Other liabilities	228,592	180,649
Long-term liabilities	<u>3,483,629</u>	<u>3,703,918</u>
Total liabilities	<u>3,712,221</u>	<u>3,884,567</u>
Net position:		
Unrestricted (deficit)	<u>(3,553,783)</u>	<u>(3,755,223)</u>
Total net position	<u>\$ (3,553,783)</u>	<u>\$ (3,755,223)</u>

## Statement of Activities for fiscal years ending June 30, 2018 and 2017

	<b>Governmental Activities</b>	
	<b>2018</b>	<b>2017</b>
General revenues		
Property taxes	\$ 246,913	\$ 258,566
Interest	5,114	3,773
Total revenues	<u>252,027</u>	<u>262,339</u>
Expenses		
General government	1	185,319
Interest on debt	<u>50,586</u>	<u>48,097</u>
Total expenses	<u>50,587</u>	<u>233,416</u>
Revenues over expenses	201,440	28,923
Transfer of capital assets		
to primary government	<u>-</u>	<u>(2,421,010)</u>
Change in net position	201,440	(2,392,087)
Beginning net position (deficit)	<u>(3,755,223)</u>	<u>(1,363,136)</u>
Ending net position (deficit)	<u>\$ (3,553,783)</u>	<u>\$ (3,755,223)</u>

Property tax revenues decreased 4.5% due to reassessment of commercial property tax values. Expenses decreased due to decreased developer activity. The City completed the process to form the Spring Street Urban Renewal Area. Increment won't be collected until Fiscal Year ending 2019.

### Financial Analysis of the Government's Funds

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

## **Governmental funds**

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

At June 30, 2018, the Agency's governmental funds reported combined fund balances of \$136,579, an increase of \$30,689 in comparison with the prior year. Because the Agency is comprised of urban renewal districts, there are legal restrictions on how the funds are spent. Unlike other local governments that have *unassigned fund balance*, which is available for spending at the government's discretion, the most important aspect of the Agency is how much is restricted for capital projects and debt service within the districts. Restricted fund balance for the Agency for the current year was \$136,579.

## **Budgetary Highlights**

### *Original budget compared to final budget*

There were no changes in the original budget.

### *Final budget compared to actual results*

Lakefront Urban Renewal Fund: There were no significant variances with the final budget.

Town Center Urban Renewal Fund: Property tax decreased due to a decrease in property values. Debt service decreased as excess funds were held for a developer payment instead of an additional principal payment. The developer is working on the next phase of the project: getting the old Skippers building back into productive use. The URA will reimburse up to \$50,000 for the completion of that phase. The final phase is to redevelop the old Sherm's Thunderbird site.

## **Capital Assets**

The Agency has no investment in capital assets as of June 30, 2018.

## **Capital Assets (net of depreciation)**

The Agency had no capital assets for Fiscal Years ended June 30, 2017 or 2018 and had no capital asset events for fiscal year 2018.

## **Long-term debt**

At the end of the current fiscal year, the Agency had outstanding debt totaling \$3,703,823. Of this amount, \$730,135 is a loan with Washington Federal to be paid back over ten years; \$725,124 are loans from the City to be paid back over ten years; and \$2,248,564 is a contract payable to Timbermill Shores after the loan from the City is paid off.

The Agency's total debt decreased by \$171,162 during the current fiscal year. The Agency had no additional debt and repaid \$171,162.

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

## **Economic Factors**

The following economic factors currently affect the Klamath Falls Urban Renewal Agency:

The Klamath County Assessor recently completed a reassessment of commercial land. This has negatively impacted tax increment specifically in the Lakefront Urban Renewal District.

The City is still slowly recovering from the recession which has caused stagnant development in the Lakefront Urban Renewal District. In 2018, the State announced that the Timber Mill Shores area would be the new location for a privately owned and state-leased Department of Human Services (DHS) building. The proposed 92,000 sq. ft building would be subject to property tax and could stimulate future growth in the area.

**Requests for Information**

This financial report is designed to provide a general overview of Agency finances for all those with an interest. 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. The City's financial statements are also available upon request.

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## Basic Financial Statements

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Klamath Falls Urban Renewal Agency  
Statement of Net Position  
June 30, 2018

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Current assets:	
Taxes receivable	\$ 26,149
Interest receivable	459
Temporarily restricted assets:	
Cash and cash equivalents	131,830
Total assets	\$ 158,438
 <b>LIABILITIES</b>	
Current liabilities:	
Accrued interest payable	\$ 8,398
Current liabilities (payable from restricted assets):	
Leases / loans payable	220,194
Total current liabilities	228,592
Noncurrent liabilities:	
Leases / loans / contracts payable	3,483,629
Total noncurrent liabilities	3,483,629
Total liabilities	3,712,221
 <b>NET POSITION</b>	
Unrestricted	(3,553,783)
Total net position	\$ (3,553,783)

Klamath Falls Urban Renewal Agency  
Statement of Activities  
For the Year Ended June 30, 2018

Functions/Programs	Expenses	Net (expense) revenue and change in net position
<b>Governmental Activities:</b>		
General government	\$ 1	\$ (1)
Interest on long-term debt	<u>50,586</u>	<u>(50,586)</u>
Total government activities	<u><u>\$ 50,587</u></u>	<u><u>(50,587)</u></u>
<b>General revenues:</b>		
Property taxes		246,913
Unrestricted investment earnings		<u>5,114</u>
Total general revenues		<u>252,027</u>
Change in net position		201,440
Net position - beginning		<u>(3,755,223)</u>
Net position - ending		<u><u>\$ (3,553,783)</u></u>

Klamath Falls Urban Renewal Agency  
Balance Sheet  
Governmental Funds  
June 30, 2018

	<u>Lakefront Urban Renewal Fund</u>	<u>Town Center Urban Renewal Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Receivables:			
Taxes	\$ 7,421	\$ 18,728	\$ 26,149
Interest	153	306	459
Restricted assets:			
Cash and cash equivalents	<u>3,339</u>	<u>128,491</u>	<u>131,830</u>
Total assets	<u><u>\$ 10,913</u></u>	<u><u>\$ 147,525</u></u>	<u><u>\$ 158,438</u></u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
Deferred inflows of resources:			
Unavailable revenue - property taxes	<u>\$ 6,175</u>	<u>\$ 15,684</u>	<u>\$ 21,859</u>
Total liabilities and deferred inflows of resources	<u>6,175</u>	<u>15,684</u>	<u>21,859</u>
Fund Balances:			
Restricted	<u>4,738</u>	<u>131,841</u>	<u>136,579</u>
Total fund balances	<u>4,738</u>	<u>131,841</u>	<u>136,579</u>
Total liabilities, deferred inflows of resources, and fund balances	<u><u>\$ 10,913</u></u>	<u><u>\$ 147,525</u></u>	

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

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	21,859
Long-term liabilities, including notes payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(3,712,221)</u>
Net position of governmental activities	<u><u>\$ (3,553,783)</u></u>

Klamath Falls Urban Renewal Agency  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2018

	Lakefront Urban Renewal Fund	Town Center Urban Renewal Fund	Total Governmental Funds
<b>REVENUES</b>			
Taxes	\$ 65,503	\$ 183,005	\$ 248,508
Investment income	1,402	3,712	5,114
Total revenues	<u>66,905</u>	<u>186,717</u>	<u>253,622</u>
<b>EXPENDITURES</b>			
Current:			
General government	-	1	1
Debt service:			
Principal	42,665	128,497	171,162
Interest	<u>23,935</u>	<u>27,835</u>	<u>51,770</u>
Total expenditures	<u>66,600</u>	<u>156,333</u>	<u>222,933</u>
Net change in fund balances	305	30,384	30,689
Fund balances - beginning	<u>4,433</u>	<u>101,457</u>	<u>105,890</u>
Fund balances - ending	<u><u>\$ 4,738</u></u>	<u><u>\$ 131,841</u></u>	<u><u>\$ 136,579</u></u>

Klamath Falls Urban Renewal Agency  
 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds  
 to the Statement of Activities  
 For the Year Ended June 30, 2018

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

Net change in fund balances	\$	30,689
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(1,595)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		171,162
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		<u>1,184</u>
Changes in net position	\$	<u><u>201,440</u></u>

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## Notes to the Financial Statements

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**Klamath Falls Urban Renewal Agency**  
**Notes to the Financial Statements**  
**June 30, 2018**

**Note 1 – Summary of significant accounting policies**

**A. Description of government-wide financial statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary Agency and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

**B. Reporting entity**

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

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

The Agency has been determined under accounting standards generally accepted in the United States of America to be a blended component unit of the City, as the Agency is governed by a board comprised of the members of the City Council and the 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. As a result, the Agency’s financial statements are blended with those of the City by including them in the appropriate statements and schedules of the City’s Comprehensive Annual Financial Report. Copies of which may be obtained from the City’s Finance Manager, City of Klamath Falls, 500 Klamath Avenue, Klamath Falls, OR 97601.

**C. Basis of presentation – government-wide financial statements**

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

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

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

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

There is no interfund activity within the Agency.

**Klamath Falls Urban Renewal Agency**  
**Notes to the Financial Statements**  
**June 30, 2018**

**Note 1 – Summary of significant accounting policies (continued)**

**D. Basis of presentation – fund financial statements**

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

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

The Agency reports the following major governmental funds:

The *Lakefront Urban Renewal Fund* accounts for public improvement projects in a district encompassing the old Modoc Mill site and future Timber Mill Shores development.

The *Town Center Urban Renewal Fund* accounts for public improvement projects in a district encompassing the old Klamath Mall site and future Town Center development.

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

**E. Measurement focus and basis of accounting**

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

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

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

**Klamath Falls Urban Renewal Agency**  
**Notes to the Financial Statements**  
**June 30, 2018**

**Note 1 – Summary of significant accounting policies (continued)**

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

***1. Cash and cash equivalents***

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

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

***2. Investments***

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

***3. Receivables***

All trade and property tax receivables are shown at full value as there is no need for an allowance for uncollectibles.

***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. 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 land, construction in progress, buildings and system, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), and are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Agency as assets with an initial, individual cost of more than \$5,000 and an estimated useful life extending beyond a single reporting period. The Agency reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

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

**Klamath Falls Urban Renewal Agency**  
**Notes to the Financial Statements**  
**June 30, 2018**

**Note 1 – Summary of significant accounting policies (continued)**

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

Land and construction in progress are not depreciated. Buildings and their improvements and infrastructure of the Agency are depreciated using the straight-line method over the following estimated useful lives:

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

**7. *Deferred outflows/inflows of resources***

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

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

**8. *Long-term obligations***

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position.

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

**9. *Net position flow assumption***

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

**10. *Fund balance flow assumptions***

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

**Klamath Falls Urban Renewal Agency**  
**Notes to the Financial Statements**  
**June 30, 2018**

**Note 1 – Summary of significant accounting policies (continued)**

***11. Fund balance policies***

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Agency classifies governmental fund balances as follows:

- Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the Agency through formal action of the highest level of decision making authority (ordinance) and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the 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 which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

**G. Revenues and expenditures/expenses**

***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.

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

**Note 2 – Stewardship, compliance, and accountability**

**A. Budgetary information**

On or before June 30 of each year, the Agency enacts a resolution adopting the budget, appropriating the expenditures, and levying the property taxes. The Agency is required to prepare a budget for each fund that is balanced in accordance with ORS 294 – Local Budget Law. The Agency’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 the purpose of obtaining citizens’ comments, and then approves a budget and submits it to the

**Klamath Falls Urban Renewal Agency**  
**Notes to the Financial Statements**  
**June 30, 2018**

**Note 2 – Stewardship, compliance, and accountability (continued)**

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 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 Agency did not have any appropriation transfers or supplemental budgets during the year-ended June 30, 2018. Appropriations lapse as of year-end.

**Note 3 – Detailed notes on all activities and funds**

**A. Cash, cash equivalents and investments**

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

Investments:

Oregon State Treasurer’s Local Investment Pool	\$ 131,830
--	------------

***Custodial credit risk-deposits.*** In the case of deposits, this is the risk that in the event of a bank failure, the Agency’s deposits may not be returned to it. The Agency’s deposit policy is in accordance with ORS 295. All deposits are collateralized with eligible securities in amounts determined by the Office of the State Treasurer (OST). The Agency’s deposit policy requires that all deposits are covered by the Federal Deposit Insurance Corporation (FDIC), and/or are collateralized as required by compliance with ORS 295. As of June 30, 2018, the Agency’s deposits were fully insured.

***Interest Rate Risk.*** In accordance with its investment policy, the Agency manages its exposure to declines in fair values by limiting the duration of its investments for operating purposes to eighteen months. 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 Agency has adopted the policies as described in Oregon Revised Statutes, Chapter 294, as it pertains to credit risk. Oregon Revised Statutes, Chapter 294, authorizes the Agency to invest in obligations of the U.S. Treasury, U.S. Government agencies and instrumentalities, bankers’ acceptances guaranteed by an Oregon financial institution, repurchase agreements, State of Oregon Local Government Investment Pool, certain high grade commercial paper, and various interest-bearing bonds of Oregon municipalities, among others.

The Agency’s investment portfolio as of June 30, 2018 is representative of the types of investments made throughout the year. The Agency’s investments in the state treasurer’s investment pool are unrated. Investments in the LGIP are included in the Oregon Short-Term Fund, which is not registered with the U.S. Securities and Exchange Commission

**Klamath Falls Urban Renewal Agency**  
**Notes to the Financial Statements**  
**June 30, 2018**

**Note 3 – Detailed notes on all activities and funds (continued)**

as an investment company. The fair value of the LGIP is the same amount as the value of the pool shares. Investments in the Short-Term Fund are governed by ORS 294.135, Oregon Investment Council, and portfolio guidelines issued by the Oregon Short-Term Fund Board.

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

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

**B. Construction and other significant commitments**

The Lakefront Urban Renewal District has an active development agreement with Timbermill Shores for development of the lakefront of Lake Ewauna. \$2,248,564 remains payable to Timbermill Shores for work done in prior years. The Town Center Urban Renewal District has an active development agreement with Argo Klamath Two, LLC.

**C. Risk management**

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

**D. Long-Term Liabilities**

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

**Washington Federal – 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 \$180,174, respectively.

**City of Klamath Falls, Escrow Reserve Fund – Town Center Urban Renewal**

The Agency has pledged future tax increment revenues to repay a \$140,000 loan with the City of Klamath Falls, Escrow Reserve Fund. The loan originated in fiscal year 2017 and was used to reimburse costs for Project Milestone 2 of the developer agreement. The interest rate is 4.00%. Payments will be made over ten years. For the current year, principal and interest paid and total incremental property tax revenues were \$10,479 and \$6,940, respectively. Total principal remaining on the loan at June 30, 2018 is \$129,521.

**Klamath Falls Urban Renewal Agency**  
**Notes to the Financial Statements**  
**June 30, 2018**

**Note 3 – Detailed notes on all activities and funds (continued)**

**City of Klamath Falls, Escrow Reserve Fund – Lakefront Urban Renewal**

The Agency has pledged future tax increment revenues to repay a \$900,000 loan with the City of Klamath Falls, Escrow Reserve Fund. The loan originated in fiscal year 2014 and was used to reimburse Timbermill Shores for work done on the lakefront of Lake Ewauna. The interest rate is 3.75%. Payments will be made over ten years. For the current year, principal and interest paid and total incremental property tax revenues were \$66,679 and \$64,525, respectively. Total principal remaining on the loan at June 30, 2018 is \$595,605.

**Timbermill Shores – Lakefront Urban Renewal**

The Agency has pledged future tax increment revenues to repay \$2,248,564 for reimbursement of infrastructure constructed by Timbermill Shores on the lakefront of Lake Ewauna. There is no interest associated with this liability as it is strictly reimbursement to the developer. The district will begin making payments once the \$900,000 loan with the City of Klamath Falls is paid in full.

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

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Due Within One Year
<b>Lakefront Urban Renewal</b>					
Timbermill Shores	\$ 2,248,564	\$ -	\$ -	\$ 2,248,564	\$ -
City of Klamath Falls	638,269	-	42,665	595,604	87,329
<b>Town Center Urban Renewal</b>					
Washington Federal	848,152	-	118,017	730,135	120,626
City of Klamath Falls	140,000	-	10,480	129,520	12,239
<b>Governmental activities total</b>	<b>\$ 3,874,985</b>	<b>\$ -</b>	<b>\$ 171,162</b>	<b>\$ 3,703,823</b>	<b>\$ 220,194</b>

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

	2019	2020	2021	2022	2023	2024-2028	2029-2033	2034-2038	2039-2043	2044-2048	Total
<b>Lakefront Urban Renewal</b>											
Timbermill Shores											
Principal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 600,600	575,000	575,000	497,964	\$ -	2,248,564
City of Klamath Falls											
Principal	87,329	90,473	93,918	97,440	226,445	-	-	-	-	-	595,604
Interest	22,332	19,112	15,667	12,146	8,492	-	-	-	-	-	77,749
<b>Town Center Urban Renewal</b>											
Washington Federal											
Principal	120,626	123,772	119,966	120,369	126,471	118,931	-	-	-	-	730,135
Interest	18,286	15,140	18,946	18,543	12,441	6,029	-	-	-	-	89,385
City of Klamath Falls											
Principal	12,239	12,728	13,237	13,767	14,318	63,231	-	-	-	-	129,520
Interest	5,181	4,691	4,182	3,653	3,102	6,291	-	-	-	-	27,100
<b>Total other long-term liabilities</b>	<b>\$ 248,573</b>	<b>\$ 248,497</b>	<b>\$ 248,497</b>	<b>\$ 248,497</b>	<b>\$ 373,849</b>	<b>\$ 725,560</b>	<b>\$ 575,000</b>	<b>\$ 575,000</b>	<b>\$ 497,964</b>	<b>\$ -</b>	<b>\$ 3,741,437</b>

**E. Related party transactions**

Transactions with the Agency and the City of Klamath Falls for the year ended June 30, 2018 are as follows:

Expenses:

Debt service	\$ 84,020
Total Expenses	<u>\$ 84,020</u>

**Klamath Falls Urban Renewal Agency**  
**Notes to the Financial Statements**  
**June 30, 2018**

**Note 3 – Detailed notes on all activities and funds (continued)**

**F. Net Position**

Unrestricted net position is negative due to outstanding long-term debt.

**Note 4 – Contingent liabilities**

The Agency does not have any contingent liabilities.

**Note 5 – New pronouncements**

GASB Statement No. 87, *Leases* was issued in June 2017. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This statement is effective for fiscal years beginning after December 15, 2019. Earlier application is encouraged.

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 City has amended Note 3, Section J to include additional information.

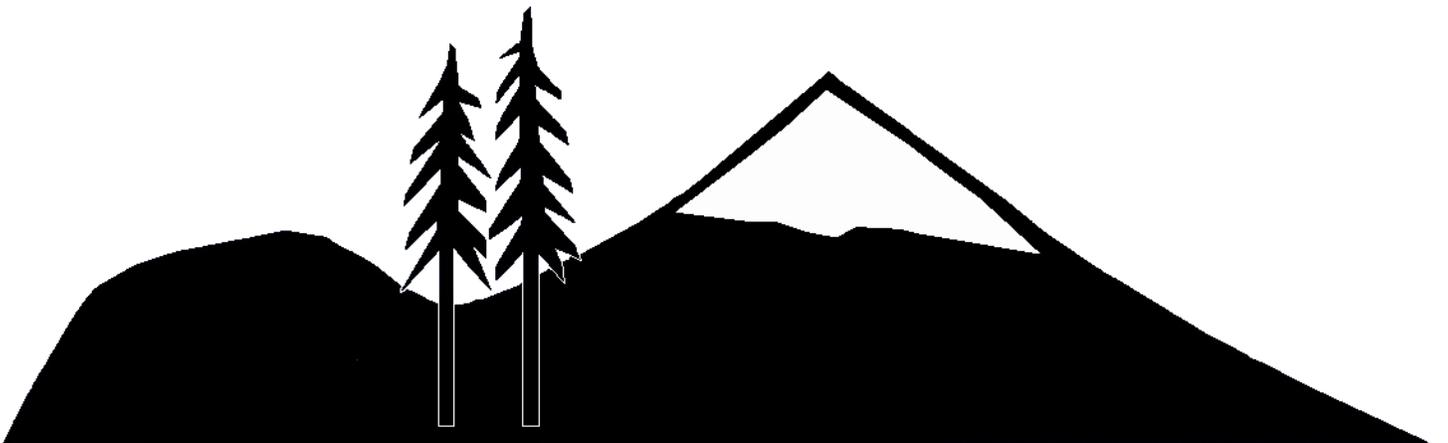
GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, required for fiscal years beginning after December 15, 2019 with earlier application encouraged. Issued June 2018, this Statement supersedes Statement No. 37, *Basic Financial Statements— and Management's 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 City has amended Note 1, Section F.6 – Summary of Significant Accounting Policies, Capital Assets to reflect this update.

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

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*Klamath Falls*  
Urban Renewal Agency

**Required Supplementary  
Information**



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LAKEFRONT URBAN RENEWAL 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		
<b>REVENUES</b>				
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>
<b>EXPENDITURES</b>				
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 changes in fund balances	-	-	305	305
Fund balances - beginning	<u>100</u>	<u>100</u>	<u>4,433</u>	<u>4,333</u>
Fund balances - ending	<u>\$ 100</u>	<u>\$ 100</u>	<u>\$ 4,738</u>	<u>\$ 4,638</u>

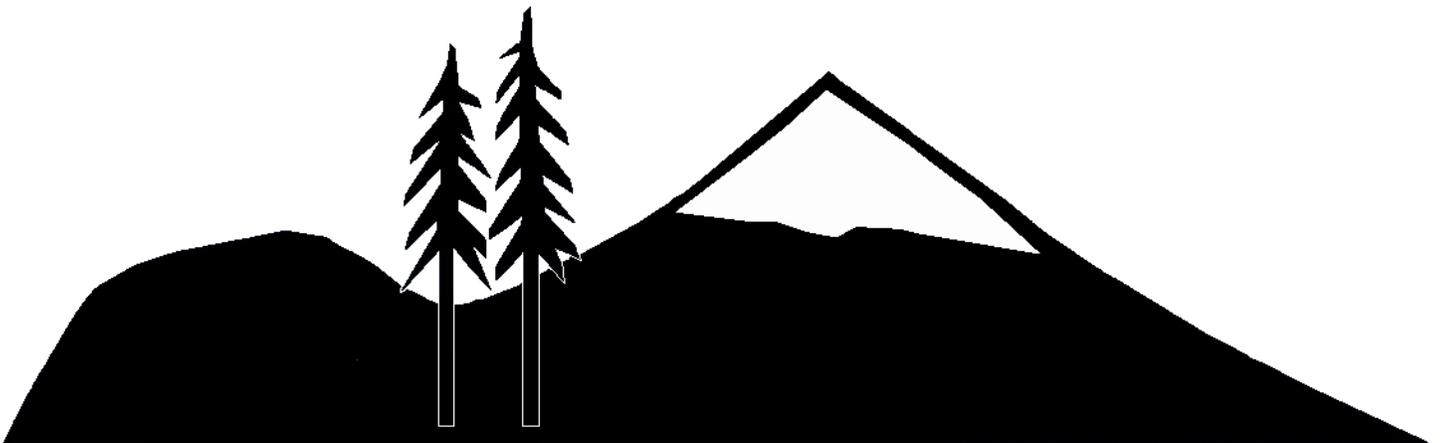
TOWN CENTER URBAN RENEWAL FUND  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL  
 For the Year Ended June 30, 2018

Schedule A-2

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
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>
<b>EXPENDITURES</b>				
Town Center Urban Renewal	50,150	50,150	1	50,149
Debt service	245,725	245,725	156,332	89,393
Total expenditures	<u>295,875</u>	<u>295,875</u>	<u>156,333</u>	<u>139,542</u>
Net changes in fund balances	(98,150)	(98,150)	30,384	128,534
Fund balances - beginning	<u>98,275</u>	<u>98,275</u>	<u>101,457</u>	<u>3,182</u>
Fund balances - ending	<u>\$ 125</u>	<u>\$ 125</u>	<u>\$ 131,841</u>	<u>\$ 131,716</u>

*Klamath Falls*  
Urban Renewal Agency

**Audit Comments and  
Disclosures Section**



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**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**

Agency Officials  
Klamath Falls Urban Renewal Agency  
City of Klamath Falls, Oregon

We have audited the basic financial statements of Klamath Falls Urban Renewal Agency, a component unit of the City of Klamath Falls, Oregon (the Agency), 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.

**Compliance**

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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. The Agency does not receive highway revenues.
- 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 Agency 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 the Agency 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 the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our

opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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