



URBAN RENEWAL AGENCY - FINANCIAL STATEMENTS -

City of Klamath Falls, Oregon
*For Fiscal Year Ended
June 30, 2023*



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Klamath Falls Urban Renewal Agency

A component unit of the
City of Klamath Falls, Oregon

Financial Statements

For the Fiscal Year Ended
June 30, 2023

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Klamath Falls Urban Renewal Agency
Financial Statements
June 30, 2023
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Klamath Falls Urban Renewal Agency

Introductory Section

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City of Klamath Falls, Oregon
List of Principal Officials and Staff
As of June 30, 2023



Carol Westfall
Mayor



Phil Studenberg
Ward I



Mika Blain
Ward II



Terra Russo
Ward III



Abbie McClung
Ward IV



**Kelsey Mueller
Wendt**
Ward V



Jonathan Teichert
City Manager



Michael Swanson
City Attorney



Nathan Ratliff
Judge



Mark Willrett
Public Works Director



Rob Dentinger
Chief of Police



Iain Casey
Development Services Director



Jessica Lindsay
**Finance & Business
Services Director**

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Klamath Falls Urban Renewal Agency

Financial Section

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INDEPENDENT AUDITOR'S REPORT



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841 O'Hare Pkwy., Suite 200, Medford, OR 97504
Phone: (541) 773-6633 | Fax: (541) 773-1965

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INDEPENDENT AUDITOR'S REPORT

Agency Officials
Klamath Falls Urban Renewal Agency
Klamath Falls, Oregon

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of the Klamath Falls Urban renewal Agency (the Agency) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

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, 2023, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Agency and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Agency's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and budgetary comparison information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 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 budgetary comparison information, as listed in the Table of Contents, is 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 budgetary comparison information as listed in the Table of Contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the financial statements. The other information comprises the introductory section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Oregon State Regulations

In accordance with *Oregon State Regulations*, we have also issued our report dated January 31, 2024 on our consideration of the Agency's compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, including the provisions of Oregon Revised Statutes (ORS) as specified in Oregon Administrative Rules 162-10-0000 through 162-10-0320 of the *Minimum Standards for Audits of Oregon Municipal Corporations*. The purpose of that report is to describe the scope of our testing necessary to address the required provisions of ORS, and not to provide an opinion on compliance with such provisions.

A handwritten signature in black ink that reads "Donald F. Ewalt". The signature is written in a cursive, flowing style.

Donald F. Ewalt, CPA
KDP Certified Public Accountants, LLP
Medford, Oregon
January 31, 2024

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, 2023 and June 30, 2022. 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, Lakefront, Town Center, and Spring Street. 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 \$2,871,553 which created a negative net position. A decrease in the deficit of \$723,211 from the prior fiscal year resulted as additional debt was paid down. At the close of the current fiscal year, the Agency's three governmental funds reported combined fund balances of \$818,364, an increase of \$723,455 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 a biennial 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 \$2,871,553, 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, Town Center, and Spring Street 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.

At the end of the current fiscal year, the Agency reported negative net position as unrestricted net position. The Lakefront, Town Center, and Spring Street Urban Renewal Districts have outstanding debt of \$3,725,564, 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 \$723,211 from the prior fiscal year. Cash and investments increased due to loan funds. An interfund loan was taken out in June 2023 but the funds will not be paid to the developer until project milestone have been reached per the development agreement.

Statement of Net Position at June 30, 2023 and 2022

| | Governmental Activities | |
|------------------------|-------------------------|-----------------------|
| | 2023 | 2022 |
| Cash and investments | \$ 805,781 | \$ 87,644 |
| Other assets | 48,230 | 28,280 |
| Capital assets | - | - |
| Total assets | <u>854,011</u> | <u>115,924</u> |
| Other liabilities | 355,818 | 406,901 |
| Long-term liabilities | <u>3,369,746</u> | <u>3,303,787</u> |
| Total liabilities | <u>3,725,564</u> | <u>3,710,688</u> |
| Net position: | | |
| Unrestricted (deficit) | <u>(2,871,553)</u> | <u>(3,594,764)</u> |
| Total net position | <u>\$ (2,871,553)</u> | <u>\$ (3,594,764)</u> |

Statement of Activities for fiscal years ending June 30, 2023 and 2022

| | Governmental Activities | |
|----------------------------------|-------------------------|-----------------------|
| | 2023 | 2022 |
| General revenues | | |
| Property taxes | \$ 753,087 | \$ 360,747 |
| Interest | 17,891 | 4,781 |
| Total revenues | <u>770,978</u> | <u>365,528</u> |
| Expenses | | |
| General government | 157 | 6,653 |
| Interest on debt | <u>47,610</u> | <u>65,568</u> |
| Total expenses | <u>47,767</u> | <u>72,221</u> |
| Change in net position | 723,211 | 293,307 |
| Beginning net position (deficit) | <u>(3,594,764)</u> | <u>(3,888,071)</u> |
| Ending net position (deficit) | <u>\$ (2,871,553)</u> | <u>\$ (3,594,764)</u> |

Property tax revenues increased 108.8%, due primarily to development in the Lakefront Urban Renewal District. A Department of Human Services building was completed in fiscal year 2022.

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, 2023, the Agency's governmental funds reported combined fund balances of \$818,364, an increase of \$723,455 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 \$818,364.

Budgetary Highlights

Original budget compared to amended budget

Changes to the original budget in the Lakefront and Town Center Urban Renewal Funds were due to a change in net working capital once fiscal year 2022 was completed. Since the ending fund balance was already zero, debt service had to be adjusted.

In the Spring Street Urban Renewal Fund, funds were moved from operating expenditures to debt service due to a delay in development. The Spring Street Urban Renewal Fund is responsible for the system development charges once development resumes.

Amended budget compared to actual revenue and expenses

Lakefront Urban Renewal Fund: Taxes came in lower than budget due to the estimate of the tax increase for new development. Interest income was higher due to interest rate increases. The difference between operating expense and debt service is due to the reclassification of the payment to the developer.

Town Center Urban Renewal Fund: Taxes were less than budgeted due to a delay in development. Operating expenses were less than budgeted due to a delay in development. Debt service was less than budgeted as all debt was paid off except for the new loan. Debt Service on the new loan will occur in fiscal year 2024.

Spring Street Urban Renewal Fund: Operating expenses were less than budgeted due to a delay in development. Debt service expense was less than budgeted. All debt service was paid during the year and the excess will be used for debt service in the following year.

Long-term debt

At the end of the current fiscal year, the Agency had outstanding debt totaling \$3,725,564. The entire amount are loans from the City to be paid back over ten years.

The Agency's total long-term debt increased by \$16,439 during the current fiscal year.

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 Lakefront Urban Renewal District has a development agreement with Timbermill Shores who laid the infrastructure for development of several commercial lots. Due to the increase in tax increment, the district was able to take out a \$2,248,564 loan to pay off the developer for infrastructure that was completed. A Fairfield Inn, People's Bank, and Department of Human Services building have recently been completed in the District. An additional hotel is in the design phase and a restaurant has shown interest in this area. Based on tax estimates, the district will be able to pay the debt service on the new loan and have additional tax increment for other projects as authorized in the Urban Renewal Plan.

During 2016, the Town Center Urban Renewal District reached a development agreement with Argo Klamath Two, LLC. The developer \$300,000 has completed project milestones one of the development agreement which were to repair

and lease certain areas of the shopping center. All areas will be occupied with a new PetSmart coming soon. The third project milestone is to complete improvements on a vacant site within the shopping center. The developer does not currently have plans for the area but there have been discussions with the District.

The City formed the Spring Street Urban Renewal area in October 2017. The area has long suffered from a lack of investment in both the public and private side. A Disposition and Development Agreement was entered into in December of 2019. The vision is for a mixed-use urban for residential and commercial development. Construction began with the demolition of the existing building in April of 2020. The land has been prepared but due to rising construction costs, the project has stalled. In July 2023, the Agency approved an amendment to the Disposition and Development Agreement that has allowed for a time extension but add more milestones to keep the project moving forward. It is anticipated that construction will begin in the spring of 2024.

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 Director, 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, 2023

| | Governmental Activities |
|--|----------------------------|
| ASSETS | |
| Current assets: | |
| Taxes receivable | \$ 47,757 |
| Interest receivable | 473 |
| Restricted assets: | |
| Cash and cash equivalents | 805,781 |
| Total assets | \$ 854,011 |
| LIABILITIES | |
| Current liabilities (<i>payable from restricted assets</i>): | |
| Notes / loans payable | \$ 355,818 |
| Noncurrent liabilities: | |
| Notes / loans payable | 3,369,746 |
| Total liabilities | 3,725,564 |
| NET POSITION | |
| Unrestricted | (2,871,553) |
| Total net position | \$ (2,871,553) |

Klamath Falls Urban Renewal Agency
Statement of Activities
For the Year Ended June 30, 2023

| Functions/Programs | Expenses | Net (expense) revenue and change in net position |
|----------------------------|-----------|--|
| Governmental activities: | | |
| General government | \$ 157 | \$ (157) |
| Interest on long-term debt | 47,610 | (47,610) |
| | \$ 47,767 | (47,767) |
| General revenues: | | |
| Property taxes | | 753,087 |
| Investment income (loss) | | 17,891 |
| | | 770,978 |
| Total general revenues | | 770,978 |
| Change in net position | | 723,211 |
| Net position - beginning | | (3,594,764) |
| Net position - ending | | \$ (2,871,553) |

Klamath Falls Urban Renewal Agency
Balance Sheet
Governmental Funds
June 30, 2023

| | Lakefront Urban Renewal Fund | Town Center Urban Renewal Fund | Spring Street Urban Renewal Fund | Total Governmental Funds |
|---|------------------------------------|--------------------------------------|--|--------------------------------|
| ASSETS | | | | |
| Receivables: | | | | |
| Taxes | \$ 26,961 | \$ 15,691 | \$ 5,105 | \$ 47,757 |
| Interest | 217 | 211 | 45 | 473 |
| Restricted assets: | | | | |
| Cash and cash equivalents | 6,551 | 730,541 | 68,689 | 805,781 |
| Total assets | \$ 33,729 | \$ 746,443 | \$ 73,839 | \$ 854,011 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | | | |
| Deferred inflows of resources: | | | | |
| Unavailable revenue - property taxes | \$ 19,636 | \$ 12,143 | \$ 3,868 | \$ 35,647 |
| Fund Balances: | | | | |
| Restricted | 14,093 | 734,300 | 69,971 | 818,364 |
| Total liabilities, deferred inflows of resources, and fund balances | \$ 33,729 | \$ 746,443 | \$ 73,839 | |

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. | 35,647 |
| Long-term liabilities, including notes payable, are not due and payable in the current period and, therefore, are not reported in the funds. | (3,725,564) |
| Net position of governmental activities | \$ (2,871,553) |

Klamath Falls Urban Renewal Agency
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2023

| | Lakefront Urban Renewal Fund | Town Center Urban Renewal Fund | Spring Street Urban Renwal Fund | Total Governmental Funds |
|---|------------------------------------|--------------------------------------|---------------------------------------|--------------------------------|
| REVENUES | | | | |
| Taxes | \$ 476,348 | \$ 186,589 | \$ 75,518 | \$ 738,455 |
| Investment income | 11,317 | 4,973 | 1,601 | 17,891 |
| Total revenues | <u>487,665</u> | <u>191,562</u> | <u>77,119</u> | <u>756,346</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | - | - | 157 | 157 |
| Debt service: | | | | |
| Principal | 2,722,945 | 137,179 | - | 2,860,124 |
| Interest | 20,923 | 5,589 | 22,662 | 49,174 |
| Total expenditures | <u>2,743,868</u> | <u>142,768</u> | <u>22,819</u> | <u>2,909,455</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(2,256,203)</u> | <u>48,794</u> | <u>54,300</u> | <u>(2,153,109)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Issuance of debt | <u>2,248,564</u> | <u>628,000</u> | <u>-</u> | <u>2,876,564</u> |
| Total other financing sources and uses | <u>2,248,564</u> | <u>628,000</u> | <u>-</u> | <u>2,876,564</u> |
| Net change in fund balances | (7,639) | 676,794 | 54,300 | 723,455 |
| Fund balances - beginning | <u>21,732</u> | <u>57,506</u> | <u>15,671</u> | <u>94,909</u> |
| Fund balances - ending | <u>\$ 14,093</u> | <u>\$ 734,300</u> | <u>\$ 69,971</u> | <u>\$ 818,364</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, 2023

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

| | |
|--|--------------------------|
| Net changes in fund balances | \$ 723,455 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | 14,632 |
| 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. | (16,439) |
| 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>1,563</u> |
| Changes in net position | <u><u>\$ 723,211</u></u> |

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Klamath Falls Urban Renewal Agency

Notes to the Financial Statements

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Klamath Falls Urban Renewal Agency
Notes to the Financial Statements
June 30, 2023

Note I – 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 (GAAP) 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 Director, 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, 2023

Note I – 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. As of June 30, 2023, 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 *Spring Street Urban Renewal Fund* accounts for public improvement projects in a district encompassing the older industrial part of the greater downtown area and the northeastern part of the downtown.

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 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, 2023

Note I – 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 and its fair value approximates its amortized cost basis. 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. 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.

5. 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.

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.

Klamath Falls Urban Renewal Agency
Notes to the Financial Statements
June 30, 2023

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

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 |

6. *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 assets 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 assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

7. *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.

8. *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.

9. *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, 2023

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

10. 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.
- 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 three percent is allowed if full payment is made by November 15; a two 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 (GAAP), 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 II – Stewardship, compliance, and accountability

A. Budgetary information

1. Budgetary basis of accounting

On or before June 30 of every other 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.

**Klamath Falls Urban Renewal Agency
Notes to the Financial Statements
June 30, 2023**

Note II – Stewardship, compliance, and accountability (continued)

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 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 had one supplemental budget during the year-ended June 30, 2023 in the Lakefront Urban Renewal Fund and Town Center Urban Renewal Fund and one transfer of appropriations in the Spring Street Urban Renewal Fund.

2. Excess of expenditures over appropriations+

For the fiscal year ended June 30, 2023, debt service in the Lakefront Urban Renewal Fund exceeded the appropriated amount by \$2,125,403. The payment to the developer for expenses incurred was budgeted as capital outlay, however, these expenses were previously recorded as an asset and debt in the government-wide financial statements. Due to this, the payment had to be reclassified as debt service instead of capital outlay.

Note III – Detailed notes on all activities and funds

A. Cash, cash equivalents and investments

At June 30, 2023, the Agency’s cash, cash equivalents and investments were comprised of the following:

| | |
|--|------------|
| Investments: | |
| Oregon State Treasurer’s Local Investment Pool | \$ 792,919 |
| Escrow | 12,862 |
| | \$ 805,781 |

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, 2023, the Agency’s deposits were fully insured.

Klamath Falls Urban Renewal Agency
Notes to the Financial Statements
June 30, 2023

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

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 eighteen 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 (LGIP), certain high grade commercial paper, and various interest-bearing bonds of Oregon municipalities, among others.

The Agency's investment portfolio as of June 30, 2023 is representative of the types of investments made throughout the year. The Agency's investments in the State of Oregon Local Government Investment Pool (LGIP) are unrated. Investments in the LGIP are included in the Oregon Short-Term Fund, which is an external investment pool that is not a 2a-7 like external investment pool and is not registered with the U.S. Securities and Exchange Commission as an investment company. The fair value of the LGIP is the same amount as the value of the pool shares. Investments in the Short-Term Fund are governed by ORS 294.135, Oregon Investment Council, and portfolio guidelines issued by the Oregon Short-Term Fund Board.

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

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

B. 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. The Town Center Urban Renewal District has an active development agreement with Argo Klamath Two, LLC. The Spring Street Urban Renewal Fund has a development agreement with Confluence Klamath Falls, LLC. As of June 30, 2023, there are no amounts owing on these agreements.

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:

Klamath Falls Urban Renewal Agency
Notes to the Financial Statements
June 30, 2023

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

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 took out an interfund loan with the City’s Escrow Reserve Fund in fiscal year 2023 to pay off the debt.

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

The Agency has pledged future tax increment revenues to repay a \$2,248,564 loan with the City of Klamath Falls, Escrow Reserve Fund. The loan was authorized in June 2023 and was used to reimburse Timbermill Shores for work done on the lakefront of Lake Ewauna. The interest rate is 8.25% and matures in 2033. There were no debt service payments in fiscal year 2023.

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 \$326,171 and \$476,348, respectively. The loan was paid off in fiscal year 2023.

An interfund capital loan in the amount of \$160,000 from the Escrow Reserve Fund to the Lakefront Urban Renewal Fund was authorized by the government’s council in November 2020. The loan was used for a grant to support the development of a hotel within the district. The loan accrues interest at 2.14% and matures in fiscal year 2030. For the current year, principal and interest paid and total incremental property tax revenues were \$169,133 and \$476,348, respectively. The loan was paid off in fiscal year 2023.

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% (3.95% as of June 30, 2022) 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 February 2020. 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 \$83,812 and \$186,589, respectively. The loan was paid of in fiscal year 2023.

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

The Agency has pledged future tax increment revenues to repay a \$628,000 loan with the City of Klamath Falls, Escrow Reserve Fund. The loan was authorized in June 2023 and will be used to reimburse costs for Project Milestone 3 of the developer agreement. The interest rate is 8.25%. Payments will be made over ten years. There were no debt service payments in fiscal year 2023.

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 \$58,956 and \$186,589, respectively. The loan was paid off in fiscal year 2023.

Klamath Falls Urban Renewal Agency
Notes to the Financial Statements
June 30, 2023

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

City of Klamath Falls, Escrow Reserve Fund – Spring Street Urban Renewal

An interfund capital loan in the amount of \$729,000 from the Escrow Reserve Fund to the Spring Street Urban Renewal Fund was authorized by the government’s council in December 2019. The loan was used for development. The loan accrues interest at 2.73% and matures in fiscal year 2029. The loan will be repaid using tax increment financing. For the current year an interest only payment and total incremental property tax revenues were \$19,902 and \$75,518, respectively. Total principal remaining on the loan at June 30, 2023 is \$729,000.

An interfund capital loan in the amount of \$560,000 from the Escrow Reserve Fund to the Spring Street Urban Renewal Fund was authorized by the government’s council in February 2021. The loan was used for permitting and system development charges. The loan accrues interest at 2.30% and matures in fiscal year 2031. The loan will be repaid using tax increment financing. For the current year an interest only payment and total tax revenues were \$2,760 and \$75,518 respectively. Total principal remaining on the loan at June 30, 2023 is \$120,000.

Long-term debt activity for the year ended June 30, 2023 was as follows:

| | Balance | | | Balance | Due Within |
|--------------------------------------|---------------------|---------------------|---------------------|---------------------|-------------------|
| | June 30, 2022 | Additions | Reductions | June 30, 2023 | One Year |
| Lakefront Urban Renewal | | | | | |
| Timbermill Shores | \$ 2,248,564 | \$ - | \$ 2,248,564 | \$ - | \$ - |
| City of Klamath Falls | 314,381 | - | 314,381 | - | - |
| City of Klamath Falls | 160,000 | - | 160,000 | - | - |
| City of Klamath Falls | - | 2,248,564 | - | 2,248,564 | 153,384 |
| Town Center Urban Renewal | | | | | |
| Washington Federal | 80,491 | - | 80,491 | - | - |
| City of Klamath Falls | 56,688 | - | 56,688 | - | - |
| City of Klamath Falls | - | 628,000 | - | 628,000 | 106,514 |
| Spring Street Urban Renewal | | | | | |
| City of Klamath Falls | 729,000 | - | - | 729,000 | 95,920 |
| City of Klamath Falls | 120,000 | - | - | 120,000 | - |
| Governmental activities total | \$ 3,709,124 | \$ 2,876,564 | \$ 2,860,124 | \$ 3,725,564 | \$ 355,818 |

Klamath Falls Urban Renewal Agency
Notes to the Financial Statements
June 30, 2023

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

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

| | <u>2024</u> | <u>2025</u> | <u>2026</u> | <u>2027</u> | <u>2028</u> | <u>2029-2033</u> | <u>Total</u> |
|------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------|---------------------|
| <u>Lakefront Urban Renewal</u> | | | | | | | |
| City of Klamath Falls | | | | | | | |
| Principal | \$ 153,384 | \$ 166,038 | \$ 179,737 | \$ 194,565 | \$ 210,616 | \$ 1,344,224 | \$ 2,248,564 |
| Interest | 185,507 | 172,852 | 159,154 | 144,326 | 128,274 | 350,230 | 1,140,343 |
| <u>Town Center Urban Renewal</u> | | | | | | | |
| City of Klamath Falls | | | | | | | |
| Principal | 106,514 | 115,302 | 124,814 | 135,112 | 146,258 | - | 628,000 |
| Interest | 51,810 | 43,023 | 33,510 | 23,213 | 12,066 | - | 163,622 |
| <u>Spring Street Urban Renewal</u> | | | | | | | |
| City of Klamath Falls | | | | | | | |
| Principal | 95,920 | 98,538 | 101,228 | 103,992 | 106,831 | 222,491 | 729,000 |
| Interest | 19,902 | 17,283 | 14,593 | 11,829 | 8,990 | 9,152 | 81,749 |
| City of Klamath Falls | | | | | | | |
| Principal | - | 15,996 | 16,364 | 16,740 | 17,125 | 53,775 | 120,000 |
| Interest | 2,760 | 2,760 | 2,392 | 2,016 | 1,631 | 2,492 | 14,051 |
| Total other long-term liabilities | <u>\$ 615,797</u> | <u>\$ 631,792</u> | <u>\$ 631,792</u> | <u>\$ 631,793</u> | <u>\$ 631,791</u> | <u>\$ 1,982,364</u> | <u>\$ 5,125,329</u> |

E. Related party transactions

Transactions with the Agency and the City of Klamath Falls for the year ended June 30, 2023 are as follows:

Expenses:

| | |
|----------------|-------------------|
| Debt service | <u>\$ 527,748</u> |
| Total expenses | <u>\$ 527,748</u> |

F. Net Position

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

Klamath Falls Urban Renewal Agency
Notes to the Financial Statements
June 30, 2023

Note IV – New pronouncements

GASB Statement No. 94, *Public-Private and Public-Public Partnership and Available Payment Arrangements* was issued on March 2020 to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). It also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). Under this Statement, a transferor is required to recognize receivables for installment payments to be submitted by the operator and a deferred inflow of resources, while an operator is required to recognize a liability for installment payments to be submitted and a deferred outflow of resources, which taken together enhance the relevance and consistency of information about governments' outsourcing of functions to external operators. The Agency did not have any agreements covered by GASB Statement No. 94 in the fiscal year ending June 30, 2023 and was implemented with no material impact.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, was issued May 2020 to provide guidance on reporting for subscription-based information technology arrangements (SBITA). To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. Under this Statement, a government generally should recognize a right-to-use subscription asset (intangible asset) and a corresponding subscription liability. The Agency did not have any agreements covered by GASB Statement No. 96 in the fiscal year ending June 30, 2023, and was implemented with no material impact.

GASB Statement No. 99, *Omnibus*, was issued April 2022 with the object to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation an application of certain GASB Statements, and accounting and financial reporting for financial guarantees. The requirements related to financial guarantees and the classification and reporting of derivative instruments are effective for the City for fiscal year ending June 30, 2024.

GASB Statement No. 100, *Accounting Changes and Error Corrections*—an amendment of GASB Statement No. 62, was issued June 2022. This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements. GASB Statement No. 100 will be effective for fiscal year ending June 30, 2024.

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Klamath Falls Urban Renewal Agency

Required Supplementary Information

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City of Klamath Falls, Oregon
Lakefront Urban Renewal Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
For the Year Ended June 30, 2023

Schedule A-1

| | BN 2021-2023 Biennium Budgeted Amounts | | First Year Actual | Second Year Actual | Total Actual for budget period | ariance with Final Budget |
|---|---|------------------|----------------------|-----------------------|--------------------------------------|------------------------------|
| | Original | Final | FY 2021-22 | FY 2022-23 | | |
| REVENUES | | | | | | |
| Taxes | \$ 718,150 | \$ 718,150 | \$ 121,933 | \$ 476,348 | \$ 598,281 | \$ (119,869) |
| Investment income (loss) | 1,300 | 1,300 | 793 | 11,317 | 12,110 | 10,810 |
| Total revenues | <u>719,450</u> | <u>719,450</u> | <u>122,726</u> | <u>487,665</u> | <u>610,391</u> | <u>(109,059)</u> |
| EXPENDITURES | | | | | | |
| Lakefront Urban Renewal | 2,248,575 | 2,248,575 | - | - | - | 2,248,575 |
| Debt service | 734,850 | 728,050 | 109,585 | 2,743,868 | 2,853,453 | (2,125,403) |
| Total expenditures | <u>2,983,425</u> | <u>2,976,625</u> | <u>109,585</u> | <u>2,743,868</u> | <u>2,853,453</u> | <u>123,172</u> |
| Excess (deficiency) of revenues over expenditures | (2,263,975) | (2,257,175) | 13,141 | (2,256,203) | (2,243,062) | 14,113 |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Loan proceeds - interfund loan | <u>2,248,575</u> | <u>2,248,575</u> | <u>-</u> | <u>2,248,564</u> | <u>2,248,564</u> | <u>(11)</u> |
| Net change in fund balance | (15,400) | (8,600) | 13,141 | (7,639) | 5,502 | 14,113 |
| Fund balance - beginning | 15,400 | 8,600 | 8,591 | 21,732 | 8,591 | (9) |
| Fund balance - ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 21,732</u> | <u>\$ 14,093</u> | <u>\$ 14,093</u> | <u>\$ 14,104</u> |

City of Klamath Falls, Oregon
Town Center Urban Renewal Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
For the Year Ended June 30, 2023

Schedule A-2

| | BN 2021-2023 Biennium Budgeted | | First Year Actual FY 2021-22 | Second Year Actual FY 2022-23 | Total Actual for budget period | ariance with Final Budget |
|---|-----------------------------------|------------------|------------------------------------|-------------------------------------|--------------------------------------|------------------------------|
| | Original | Final | | | | |
| REVENUES | | | | | | |
| Taxes | \$ 434,775 | \$ 434,775 | \$ 186,268 | \$ 186,589 | \$ 372,857 | \$ (61,918) |
| Investment income (loss) | 2,600 | 2,600 | 1,164 | 4,973 | 6,137 | 3,537 |
| Total revenues | <u>437,375</u> | <u>437,375</u> | <u>187,432</u> | <u>191,562</u> | <u>378,994</u> | <u>(58,381)</u> |
| EXPENDITURES | | | | | | |
| Town Center Urban Renewal | 688,000 | 688,000 | - | - | - | 688,000 |
| Debt service | 496,200 | 459,100 | 151,646 | 142,768 | 294,414 | 164,686 |
| Total expenditures | <u>1,184,200</u> | <u>1,147,100</u> | <u>151,646</u> | <u>142,768</u> | <u>294,414</u> | <u>852,686</u> |
| Excess (deficiency) of revenues over expenditures | (746,825) | (709,725) | 35,786 | 48,794 | 84,580 | 794,305 |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Loan proceeds - interfund loan | 688,000 | 688,000 | - | 628,000 | 628,000 | (60,000) |
| Net change in fund balance | (58,825) | (21,725) | 35,786 | 676,794 | 712,580 | 734,305 |
| Fund balance - beginning | 58,825 | 21,725 | 21,720 | 57,506 | 21,720 | (5) |
| Fund balance - ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 57,506</u> | <u>\$ 734,300</u> | <u>\$ 734,300</u> | <u>\$ 734,300</u> |

City of Klamath Falls, Oregon
Spring Street Urban Renewal Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
For the Year Ended June 30, 2023

Schedule A-3

| | BN 2021-2022 Biennium Budgeted | | First Year Actual | Second Year Actual | Total Actual for budget period | ariance with Final Budget |
|-----------------------------|-----------------------------------|----------------|----------------------|-----------------------|--------------------------------------|------------------------------|
| | Original | Final | FY 2021-22 | FY 2022-23 | | |
| RE ENUES | | | | | | |
| Taxes | \$ 131,500 | \$ 131,500 | \$ 52,578 | \$ 75,518 | \$ 128,096 | \$ (3,404) |
| Investment income (loss) | 925 | 925 | 2,824 | 1,601 | 4,425 | 3,500 |
| Total revenues | <u>132,425</u> | <u>132,425</u> | <u>55,402</u> | <u>77,119</u> | <u>132,521</u> | <u>96</u> |
| E PENDITURES | | | | | | |
| Spring Street Urban Renewal | 510,000 | 26,525 | 6,653 | 157 | 6,810 | 19,715 |
| Debt service | 170,125 | 653,600 | 581,654 | 22,662 | 604,316 | 49,284 |
| Total expenditures | <u>680,125</u> | <u>680,125</u> | <u>588,307</u> | <u>22,819</u> | <u>611,126</u> | <u>68,999</u> |
| Net change in fund balance | (547,700) | (547,700) | (532,905) | 54,300 | (478,605) | 69,095 |
| Fund balance - beginning | 547,700 | 548,575 | 548,576 | 15,671 | 548,576 | 1 |
| Fund balance - ending | <u>\$ -</u> | <u>\$ 875</u> | <u>\$ 15,671</u> | <u>\$ 69,971</u> | <u>\$ 69,971</u> | <u>\$ 69,096</u> |

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Klamath Falls Urban Renewal Agency
**Audit Comments and
Disclosures Section**

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INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

Agency Officials
Klamath Falls Urban Renewal Agency
Klamath Falls, Oregon

We have audited the basic financial statements of the Klamath Falls Urban Renewal Agency (the Agency) as of and for the year ended June 30, 2023, and have issued our report thereon dated January 31, 2024. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

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 and other matters, including the provisions of Oregon Revised Statutes (ORS) as specified in Oregon Administrative Rules (OAR) 162-10-0000 through 162-10-0320 of the *Minimum Standards for Audits of Oregon Municipal Corporations*, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not the objective of our audit, and accordingly, we do not express such an opinion.

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

- Deposit of public funds with financial institutions under ORS Chapter 295.
- Indebtedness limitations, restrictions and repayment.
- Budgets legally required under ORS Chapter 294.
- Insurance and fidelity under bonds in force or required by law.
- Programs funded from outside sources.
- Authorized investment of surplus funds (ORS Chapter 294).
- Public contracts and purchasing under (ORS Chapters 279A, 279B, 279C).

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 grant agreements and other matters, including the provisions of Oregon Revised Statutes as specified in OAR 162-10-0000 through 162-10-0320 of the *Minimum Standards for Audits of Oregon Municipal Corporations*, except as disclosed in *Note II* of the financial statements.

OAR 162-10-0230 Internal Control

In planning and performing our audit of the financial statements, 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 were not 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 Agency's internal control or on compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of the Agency officials, Management of the Agency and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.



Donald F. Ewalt, CPA
KDP Certified Public Accountants, LLP
Medford, Oregon
January 31, 2024