

**KLAMATH COUNTY DRAINAGE SERVICE DISTRICT**

**FINANCIAL STATEMENTS**

**JUNE 30, 2011**



**Certified Public Accountants**

**Klamath County Drainage Service District**  
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**June 30, 2011**

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## **INTRODUCTORY SECTION**

**Klamath County Drainage Service District  
Elected and Appointed Officials  
June 30, 2011**

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<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
<b><u>Board of Directors</u></b>		
Al Switzer	County Commissioner	December 31, 2012
Dennis Linthicum	County Commissioner	December 31, 2014
Cheryl Hukill	County Commissioner	December 31, 2012

**Officials**

Stan Strickland	Managing Agent
Jason Link	Chief Financial Officer
David Groff	County Counsel

**MAILING ADDRESS**

Klamath County Drainage Service District  
305 Main Street  
Klamath Falls, Oregon 97601-0349  
Tel (541) 883-4696

## **FINANCIAL SECTION**



824 Pine Street  
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A0611-51086-12

Certified Public Accountants

## **Independent Auditors' Report**

**Board of Directors  
Klamath County Drainage Service District  
Klamath Falls, Oregon**

We have audited the accompanying statement of net assets of the Klamath County Drainage Service District (District) as of and for the year ended June 30, 2011, and the related statement of revenues, expenses and changes in net assets. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Klamath County Drainage Service District, as of June 30, 2011, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated July 6, 2012 on our consideration of the Districts' internal control over financial reporting and our tests of it compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Supplementary Information is presented for purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our

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opinion, based on our audit and the report of other auditors, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Molatore, Scroggin, Peterson & Co. LLP



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Andrew E. Peterson, Partner

Klamath Falls, Oregon  
July 6, 2012

**Klamath County Drainage Service District**  
**Management's Discussion and Analysis**  
**June 30, 2011**

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As management of Klamath County Drainage Service District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2011.

**Financial Highlights**

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$2,295,571 (*net assets*). Of this amount, \$2,295,571 (*unrestricted net assets*) may be used to meet the District's ongoing obligations to citizens and creditors

The District's total net assets increased by \$135,529. This increase was due to revenues in excess of expenditures in the current fiscal year.

**Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise two components: 1) financial statements, and 2) notes to the financial statements.

Financial statements: The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No 34, Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments. The District follows the "business-type activities" reporting requirements of GASB Statement No. 34 that provides a comprehensive one-column look at the District's financial activities.

The District's basic financial statements are comprised of a statement of net assets, statement of revenue, expenses and changes in fund net assets and a statement of cash flows.

The District adopts an annual budget for all of its funds. A budgetary comparison schedule to demonstrate compliance with this budget can be found elsewhere in this report.

The basic financial statements can be found on pages 6-8 of this report.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The Klamath County Board of Commissioners is also the Directors of the District which provides drainage services primarily in the south suburbs of Klamath Fall's urban growth boundary. Intergovernmental agreements hold Klamath County harmless if named in any lawsuits.

The notes to the financial statements can be found on pages 9-11 of this report.

**Financial Statement Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position, In the case of the District, assets exceeded liabilities by \$2,295,571 at the close of the current fiscal year.

By far the largest portion of the District's net assets (94%) reflects its investments in cash and investment. The District uses these assets to provide services to citizens.

**Klamath County Drainage Service District  
Management's Discussion and Analysis  
June 30, 2011**

**District's Net Assets**

	<u>2011</u>	<u>2010</u>	<u>Amount Inc(Dec)</u>
<b>Assets</b>			
Current and other assets	2,300,288	2,196,234	\$ 104,054
Total Assets	<u>\$ 2,300,288</u>	<u>\$ 2,196,234</u>	<u>\$ 104,054</u>
<b>Liabilities</b>			
Other liabilities	4,717	36,192	(31,475)
Total Liabilities	<u>4,717</u>	<u>36,192</u>	<u>(31,475)</u>
<b>Net Assets</b>			
Unrestricted	2,295,571	2,160,042	135,529
Total Net Assets	<u><u>\$ 2,295,571</u></u>	<u><u>\$ 2,160,042</u></u>	<u><u>\$ 135,529</u></u>

The District's net assets balance of *unrestricted net assets*, which amounts to \$2,295,571, may be used to meet the District's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the District was able to report positive balances in all categories of net assets for the government as a whole. The same situation held true for the prior fiscal year.

**District's Changes in Net Assets**

	<u>2011</u>	<u>2010</u>	<u>Amount Inc(Dec)</u>
Income			
Operating income	\$ 214,390	\$ 217,473	\$ (3,083)
Total Income	<u>214,390</u>	<u>217,473</u>	<u>(3,083)</u>
Expenses			
Operating expenses	103,587	129,263	(25,676)
Total Expenses	<u>103,587</u>	<u>129,263</u>	<u>(25,676)</u>
Net Income	<u>110,803</u>	<u>88,210</u>	<u>22,593</u>
Other Income (Expense)	<u>24,726</u>	<u>33,893</u>	<u>(9,167)</u>
Total Other Income (Expense)	<u>24,726</u>	<u>33,893</u>	<u>(9,167)</u>
Increase (decrease) in net assets	135,529	122,103	13,426
Net assets, beginning	<u>2,160,042</u>	<u>2,037,939</u>	<u>122,103</u>
Net assets, ending	<u><u>\$ 2,295,571</u></u>	<u><u>\$ 2,160,042</u></u>	<u><u>\$ 135,529</u></u>

For the most part, the increase in net income is related to decreases in expenses for drainage maintenance.

**Klamath County Drainage Service District  
Management's Discussion and Analysis  
June 30, 2011**

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**Budgetary Highlights**

The District budgets on the modified accrual basis of accounting. The primary differences between the budgetary basis of accounting and generally accepted accounting principles are prepaid expenses and deferred revenue for assessments receivable.

All of the budget changes are done by resolution and or a supplemental budget as required by Oregon budget law.

**Economic Factors and Next Year's Budgets**

Klamath County is not immune from the national recession. The current unemployment outlook for Klamath County improved slightly than the previous year. The rate for 2011 is 12.4% compared to 13.6% in 2010. Residential and commercial construction has remained flat over the prior fiscal year. Assessment revenues are expected to decrease by 3.2%.

The State of Oregon is determining the amount of Total Maximum Daily Loads that various entities are allowed to discharge into the Klamath River. This process may impact the District.

All of these factors were considered in preparation of the District's budgets for 2010-11 and 2011-12 fiscal years.

**Requests for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed the Office of the Chief Financial Officer, Klamath County, 305 Main Street, Klamath Falls, Oregon 97601.

**Klamath County Drainage Service District**  
**Statement of Net Assets**  
**June 30, 2011**

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**Assets**

Current Assets

Cash and cash equivalents	\$ 2,154,185
Receivables	32,472
Prepaid expenses	<u>113,631</u>
Total Current Assets	<u>2,300,288</u>

Total Assets 2,300,288

**Liabilities**

Current Liabilities

Accounts payable 4,717

Total Current Liabilities 4,717

**Net Assets**

Unassigned 2,295,571

Total Net Assets \$ 2,295,571

The accompanying notes are an integral part of these financial statements.

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**Klamath County Drainage Service District**  
**Statement of Revenues, Expenditures, and Changes in Fund Net Assets**  
**For the Year Ended June 30, 2011**

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Operating Revenue	
Assessments	\$ 214,390
Total Operating Revenue	<u>214,390</u>
Operating Expenses	
Materials and services	<u>103,587</u>
Total Operating Expenses	<u>103,587</u>
Operating Income	<u>110,803</u>
Non-Operating Revenue (Expenses)	
Investment interest	<u>24,726</u>
Total Non-Operating Revenue (Expenses)	<u>24,726</u>
Change in Net Assets	135,529
Total Net Assets, Beginning, as restated	<u>2,160,042</u>
Total Net Assets, Ending	<u><u>\$ 2,295,571</u></u>

The accompanying notes are an integral part of these financial statements.

**Klamath County Drainage Service District**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2011**

Cash Flows From Operating Activities	
Receipts from customers and users	\$ 216,006
Payment to suppliers	<u>(248,692)</u>
Net Cash Flows Provided (Used) by Operating Activities	<u>(32,686)</u>
Cash Flows From Investing Activities	
Investment interest	<u>24,726</u>
Net Cash Flows Provided (Used) by Investing Activities	<u>24,726</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(7,960)
Cash and Cash Equivalents, Beginning of Year	<u>2,162,145</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 2,154,185</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Flows Provided (Used) by Operating Activities	
Operating income	\$ 110,803
Adjustments to Reconcile Operating Loss to Net Cash Flows Provided (Used) by Operating Activities	
(Increase) decrease in assets	
Assessments receivable	(1,584)
Accounts receivable	3,202
Prepaid expenses	(113,630)
Increase (decrease) in liabilities	
Accounts payable	<u>(31,477)</u>
Net Cash Flows Provided (Used) by Operating Activities	<u><u>\$ (32,686)</u></u>

The accompanying notes are an integral part of these financial statements.

**Klamath County Drainage Service District**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2011**

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**Note 1 – Summary of Significant Accounting Policies**

**Organization**

The Klamath County Drainage Service District (the District) was established in 1980 pursuant to an election held in December of 1979. This was in response to concerns expressed by the Klamath Irrigation District (KID) and the Bureau of Reclamation (BOR) regarding the quantity and quality of drainage in the suburban area. The District was activated in its present form in the early 1990s with a series of Intergovernmental Agreements with BOR, KID, Enterprise Irrigation District and the City of Klamath Falls. The governing body is a three member Board of Directors consisting of the Klamath County Board of Commissioners. The Board of Directors is charged with the responsibility for overseeing operations of the District. The Board is further charged with the selection of a budget committee to oversee the preparation and review of the annual budget.

**Reporting entity**

The District's financial statements include the accounts of all District operations. The District is a component unit of Klamath County and is presented as a blended component unit. The District reviewed all the potential component units that might be included in the financial statements and concluded that none had any significant financial or operational relationships with the District.

**Measurement focus, basis of accounting, and financial statement presentation**

The 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 the related cash flows.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

**Deposits and investments**

The District'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.

The District participates in Klamath County, Oregon Treasurer's Investment Pool (TIP). The TIP operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. Information regarding the TIP may be requested by contacting the Klamath County Treasurer's office by mail, at 305 Main Street, Klamath Falls, OR 97601. The District's investment portfolio as of June 30, 2011 is representative of the types of investments made throughout the year.

**Receivables and Payables**

All trade receivables are shown net of allowance for uncollectibles. Allowances for uncollectibles on trade accounts receivables is based on the District's expected net write-offs for the next year based upon past history.

The assessments are billed and collected through Klamath County's property tax system. The assessments become a lien against the property, as of July 1, in the year in which due and are assessed in October through billing by the county to the property owner. Payments are due in three equal installments on November 15, February 15 and May 15 with a 3% discount available for payment in full on November 15. Assessments unpaid and outstanding on May 16 are considered delinquent and are subject to lien, and penalties and interest are assessed.

**Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the fund financial statements.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Klamath County Drainage Service District**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2011**

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**Note 2 – Stewardship, Compliance, and Accountability**

**Budgetary information**

The District budgets all funds. On or before June 30 of each year, the District enacts a resolution approving the budget, appropriating the expenditures and imposing the assessment. Prior to enacting this resolution and imposing the assessment, the proposed budget is presented to a budget committee consisting of members the Board of Directors and a like number of interested citizens. The budget committee presents the budget to the Board of Directors for budget hearings prior to enactment of the resolution approving the budget, appropriating the expenditures and imposing the assessment. All annual appropriations lapse at fiscal year end.

The budget is prepared by fund, department, activity, and line, and includes information of the past year, current year estimates, and requested appropriations for the next fiscal year. Expenditures may not exceed legally budgeted appropriations at the level of personal services, materials and services, capital outlay, debt services, transfers out, and other requirements/expenditures for each fund.

Unexpected additional resources or appropriations may be added to the budget through the use of a supplemental budget. A supplemental budget requires hearings before the public, publications in newspapers, and approval by the Board of Directors. Original and supplemental budgets may be modified by the use of appropriation transfers between the levels of control. Such transfers require approval by passing a Director’s resolution authorizing the transfer. All budget amendments are subject to the limitations put forth in the Oregon Revised Statutes Chapters 294.305 through 294.565 (Oregon Budget Law). No supplemental appropriations, permitted by Oregon Budget Law, were authorized by the Directors during the fiscal year. The District does not use encumbrances.

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

**Note 3 – Deposits and Investments**

Cash and cash equivalents are comprised of and reflected on the Statement of Net Assets at June 30, 2011 as follows:

Klamath County Treasurer Investment Pool	<u>\$ 2,154,185</u>
Total Cash and Cash Equivalents	<u><u>\$ 2,154,185</u></u>

**Credit risk - TIP:** Oregon Revised Statutes, Chapter 294, authorize the District 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 District does not have a deposit policy for investment credit risk. The District’s investment portfolio as of June 30, 2011, is representative of the types of investments made throughout the year.

**Custodial credit risk – TIP:** The District’s investment in the TIP are not required to be categorized by level of credit risk because these investments are not evidenced by securities.

**Concentration of credit risk – TIP:** The District does not have a policy regarding concentration of credit risk.

**Interest rate risk - TIP:** The District does not have a policy regarding interest rate risk.

**Note 4 - Receivables**

Receivables include uncollected assessments. District management believes that the amount of any uncollectible accounts included in receivables is immaterial. Therefore no provision for uncollectible accounts has been made.

**Klamath County Drainage Service District**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2011**

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**Note 5 – Related Party**

Transactions with the County for the year ended June 30, 2011 were as follows:

Expenses:	
Weed control	\$ 145
Administration fee	17,000
Drainage maintenance	24,974
Contract services	<u>2,017</u>
Total Expense	<u>\$ 44,136</u>

**Note 6 – Contingencies**

The State of Oregon is determining the amount of Total Maximum Daily Loads that various entities are allowed to discharge into the Klamath River. This process may impact the District.

**Note 7 – Risk Management**

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

**Note 8 – Prior Period Adjustments**

Beginning net assets have been restated to remove capital assets that are not the property of the District in the amount of \$6,205,672.

**Note 9 – Subsequent Events**

The District is performing a major upgrade to the pipe under Stearns Elementary school in the 2011-12 fiscal year. Subsequent events were evaluated through July 6, 2012, which is the date the financial statements were available to be issued.

**Note 10 – New Accounting Pronouncements**

The Governmental Accounting Standards Board issued statement No. 62, *Codification of Accounting and Financial Reporting Guidance in Pre-November 30 1989 FASB and AICPA*, which incorporates certain pre-November 30, 1989 FASB and AICPA Pronouncements into the GASB literature. The benefits are that the applicable literature is easier to locate and contradictory literature should be eliminated. Accounting changes adopted to conform to the provisions of the Statement should be applied retroactively by restating financial statements, if practical, for all prior periods presented. The requirements of this standard will be implemented by the District in the fiscal year ending June 30, 2012. The District has not yet determined the impact of the implementation of this statement on its financial statements.

## **OTHER SUPPLEMENTARY SCHEDULES**

**Klamath County Drainage Service District**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance -**  
**Budget to Actual, Budgetary Basis**  
**June 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<b>Variance With</b>
	<u>Original</u>	<u>Final</u>		<b>Final Budget -</b>
				<b>Positive</b>
				<b>(Negative)</b>
<b>Revenues</b>				
Drainage Fees	\$ 205,000	\$ 205,000	\$ 212,620	\$ 7,620
Interest	16,500	16,500	24,726	8,226
Total Revenues	<u>221,500</u>	<u>221,500</u>	<u>237,346</u>	<u>15,846</u>
<b>Expenses</b>				
Material and Services	601,000	601,000	217,217	383,783
Capital Outlay	125,000	125,000	-	125,000
Contingency	500,000	500,000	-	500,000
Total Expenses	<u>1,226,000</u>	<u>1,226,000</u>	<u>217,217</u>	<u>1,008,783</u>
Excess of Revenues over (under) Expenses	<u>(1,004,500)</u>	<u>(1,004,500)</u>	<u>20,129</u>	<u>1,024,629</u>
Fund Balance - beginning of year	<u>2,010,000</u>	<u>2,010,000</u>	<u>2,135,156</u>	<u>125,156</u>
Fund Balance - end of year	<u><u>\$ 1,005,500</u></u>	<u><u>\$ 1,005,500</u></u>	<u><u>\$ 2,155,285</u></u>	<u><u>\$ 1,149,785</u></u>

**Klamath County Drainage Service District  
Reconciliations  
June 30, 2011**

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**Reconciliation of the Schedule of Revenues, Expenditures and Changes in Fund Balance,  
Budgetary Basis to the Statement of Revenues, Expenditures and Changes in Fund Net Assets**

Excess of Revenues over (under) Expenses	\$ 20,129
The budgetary basis treats amounts paid for prepaids as expenses. However, in the Statement of Revenues, Expenditures, and Changes in Fund Net Assets the cost of the prepaid is allocated over its estimated useful life.	113,631
Revenues in the statement of Revenues, Expenitures, and Changes in Fund Net Assets that do not provide current financial resources are not reported as revenues in the Schedule of Revenues, Expenditures, and Changes in Fund Balance, Budgetary Basis	<u>1,769</u>
Change in Net Assets	<u><u>\$ 135,529</u></u>

**Reconciliation of Fund Balance – Budgetary Basis to Net Assets**

Fund Balance - Budgetary Basis - End of Year	\$ 2,155,285
Prepaid expenses are recognized for GAAP, but are not included for the Budetary Basis	113,631
Accounts receivable are recognized for GAAP, but are deferred for the Budgetary Basis	<u>26,655</u>
Net Assets, Ending (GAAP)	<u><u>\$ 2,295,571</u></u>

**Klamath County Drainage Service District  
Schedule of Assessment Transactions  
For the Year Ended June 30, 2011**

Fiscal Year	<u>Current Assessment and Balances as of July 1, 2010</u>	<u>Add Levy Extended by Assessor</u>	<u>(Deduct) Discounts</u>	<u>Add Interest</u>	<u>(Deduct) Collections</u>	<u>Balance Receivable June 30, 2011</u>
2010-2011	\$ -	\$ 224,232	\$ (5,565)	\$ -	\$ 205,254	\$ 13,413
Prior years						
2009-10	12,580	-	25	3,089	5,403	10,291
2008-09	5,008	-	(187)	1,215	1,343	4,693
2007-08	2,795	-	(46)	760	1,395	2,114
2006-07	1,077	-	(44)	-	550	483
2005-06 and prior	1,734	-	(152)	-	104	1,478
Total - Prior Years	23,194	-	(404)	5,064	8,795	19,059
Total	<u>\$ 23,194</u>	<u>\$ 224,232</u>	<u>\$ (5,969)</u>	<u>\$ 5,064</u>	<u>\$ 214,049</u>	<u>\$ 32,472</u>

See accountants' audit report

**GOVERNMENT AUDITING STANDARDS SECTION**



824 Pine Street  
Klamath Falls, OR 97601  
(541) 884-4164  
Fax: (541) 883-1232

Certified Public Accountants

## **Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

### **Independent Auditors' Report**

Board of Directors  
Klamath County Drainage Service District  
Klamath Falls, OR 97601

We have audited the basic financial statements of Klamath County Drainage Service District as of and for the year ended June 30, 2011 and have issued our report thereon dated July 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered Klamath County Drainage Service District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Klamath County Drainage Service District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Klamath County Drainage Service District's internal control over financial reporting.

*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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### **Compliance and Other Matters**

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

This report is intended solely for the information and use of management, the Board of Directors, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

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Molatore, Scroggin, Peterson, & Co. LLP



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Andrew E. Peterson, CPA

Klamath Falls, Oregon  
July 6, 2012

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



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Klamath Falls, OR 97601  
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Certified Public Accountants

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

Board of Commissioners  
Klamath County Drainage Service District  
Klamath Falls, Oregon

We have audited the basic financial statements of the Klamath County Drainage Service District as of and for the year ended June 30, 2011, and have issued our report thereon dated July 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State.

### **Compliance**

As part of obtaining reasonable assurance about whether the Klamath County Drainage Service District's basic financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grants including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules OAR 162-10-0000 to 162-10-0330, as set forth below, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

- The accounting records and related internal control structure.
- The use of various depositories to secure the deposit of public funds.
- The requirements related to debt.
- The requirements relating to the preparation, adoption and execution of the annual budgets for fiscal years 2011 and 2012.
- The requirements relating to insurance and fidelity bond coverage.
- The appropriate laws, rules and regulations pertaining to programs funded wholly or partially by other government agencies.
- The requirements pertaining to the investment of public funds.
- The requirements pertaining to the awarding of public contracts and the construction of public improvements.

However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State.

### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered Klamath County Drainage Service District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of Klamath County Drainage Service District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Klamath County Drainage Service District's internal control over financial reporting.

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

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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 *significant deficiency* is a deficiency, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. 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. We did not identify any deficiencies in internal control that we consider to be significant deficiencies or material weaknesses.

This report is intended for the information of District Board Members, management, and the State of Oregon, Secretary of State, Audits Division and is not intended to be and should not be used by anyone other than those specified parties.

Molatore, Scroggin, Peterson & Co. LLP



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Andrew E. Peterson, Partner

Klamath Falls, Oregon  
July 6, 2012