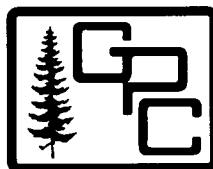


1618-2008

KLAMATH COUNTY LIBRARY SERVICE DISTRICT
OREGON

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2008



GREGOR PROFESSIONAL
C O R P O R A T I O N

**KLAMATH COUNTY LIBRARY SERVICE DISTRICT
OREGON**

June 30, 2008

BOARD OF DIRECTORS

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Al Switzer	County Commissioner	December 31, 2012
William Brown	County Commissioner	December 31, 2008
John Elliott	County Commissioner	December 31, 2011
Cheryl Hukill	County Commissioner (Elected in November 2008 and sworn in January 2009)	December 31, 2012

OFFICIALS

Andy Swanson	Managing & Registered Agent	Library Director
Michael Long	Financial Manager	County Treasurer
W. Daniel Bunch	Legal	County Counsel

REGISTERED OFFICE

Klamath County Library Service District
126 South Third Street
Klamath Falls, Oregon 97601
Tel (541) 882-8894

AUDITS MUNICIPALITIES

Rec'd	Date	Initial
DIS	1-27-09	CM
Muni	1-28-09	SMC
Scanned		ICM
Comments		

**KLAMATH COUNTY LIBRARY SERVICE DISTRICT
OREGON**

ANNUAL FINANCIAL REPORT

June 30, 2008

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REPORT OF THE INDEPENDENT AUDITORS



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SUITE 155
EUGENE, OREGON 97401-6078

GREGOR PROFESSIONAL
C O R P O R A T I O N

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REPORT OF THE INDEPENDENT AUDITORS

Board of Directors
Klamath County Library Service District
Klamath Falls, Oregon

We have audited the accompanying financial statements of the governmental activities and each major fund of the Klamath County Library Service District, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of management of the District. Our responsibility is to express opinions on these financial statements based on our audit.

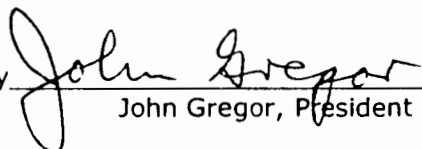
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of June 30, 2008, and the respective changes in financial position, thereof and the respective budgetary comparison for the general and reserve funds then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures to the information, which consisted principally of inquiries 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 opinions on the financial statements that collectively comprise basic financial statements (BFS) of the District. The supplementary financial information are presented for purpose of additional analysis and are not a required part of the BFS. Those statements and information have been subjected to the auditing procedures applied in the audit of the BFS and, in our opinion, are fairly stated in all material respects in relation to the BFS taken as a whole.

GREGOR PROFESSIONAL CORPORATION
Certified Public Accountants

By 
John Gregor, President

Eugene, Oregon
January 20, 2009

MANAGEMENT'S DISCUSSION & ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Klamath County Library Service District, we offer readers of the Klamath County Library Service District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with the accompanying transmittal letter and the accompanying basic financial statements.

Financial Highlights

- The District's net assets exceeded its liabilities at the close of the most recent fiscal year by \$6,668,065 (*net assets*). Of this amount, \$2,271,853 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$600,739. This increase is attributable to reserving funds for future infrastructure.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,138,670, an increase of \$250,178 in comparison with the prior year. The total amount is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,581,088, or 80.16% percent of total general fund expenditures.
- The District's total long-term debt is zero

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The Library District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to 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 District's finances, in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets 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 in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include library services and reserves for future needs of District. The government-wide financial statements can be found on pages 1 of this report.

Fund financial statements: A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, 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 District can be divided into two categories: governmental funds and reserve 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 expendable*

resources, as well as on *balances of expendable resources* available at the end of the fiscal year. Such information may be useful in evaluating 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. There is a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities* on page 2.

The District adopts an annual budget for all of its funds. Budgetary comparison statements for the major governmental funds have been provided for the required supplementary information. There are also individual budgetary statements for non-major governmental funds to demonstrate compliance with this budget elsewhere in this report. The basic governmental fund financial statements can be found on pages 1-5 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 government-wide and fund financial statements. The Klamath County Board of Commissioners is also the Directors of the Klamath County Library District which provides library services countywide. Intergovernmental agreements hold Klamath County harmless if named in any lawsuits. The notes to the financial statements can be found on pages 6-11 of this report.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents other schedules and information required by the State of Oregon. This information can be found on pages 13-15.

Government-wide Financial 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 \$6,668,065 at the close of the most recent fiscal year.

By far the largest portion of the District's net assets (65.93 %) reflects its investments in capital assets (e.g., land, buildings, books, and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Library District's Net Assets

	2008	2007	Increases (decreases)
ASSETS			
Cash and cash equivalents	\$ 2,247,016	\$ 1,923,329	\$ 323,687
Receivables	215,469	232,149	(16,680)
Capital assets	4,396,212	4,431,507	(35,295)
Total assets	<u>6,858,697</u>	<u>6,586,985</u>	<u>271,712</u>
LIABILITIES			
Accounts payable	190,632	140,347	50,285
Total liabilities	<u>190,632</u>	<u>140,347</u>	<u>50,285</u>
NET ASSETS			
Invested in capital assets	4,396,212	4,431,507	(35,295)
Restricted	-	-	-
unrestricted	<u>2,271,853</u>	<u>2,015,131</u>	<u>256,722</u>
Total net assets	<u>\$ 6,668,065</u>	<u>\$ 6,446,638</u>	<u>\$ 221,427</u>

The District's net assets balance of *unrestricted net assets*, which amounts to \$2,015,131, may be used to meet the government'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 as well as for its separate governmental activities. The same situation held true for the prior fiscal year.

Governmental activities: Governmental activities increased the District's net assets by \$604. Key elements of this increase are as follows:

- Increase in property taxes from housing construction growth and increase in the interest rates on investment of funds the current fiscal year.

Library District's Changes in Net Assets

	2008	2007	Increases (decreases)
REVENUES			
Property taxes	\$ 2,052,193	\$ 2,039,791	\$ 12,402
Intergovernmental	22,264	17,621	4,643
Service charges	30,740	27,779	2,961
Interest	96,822	148,567	(51,745)
Miscellaneous	115,692	100,043	15,649
Total revenues	<u>2,317,711</u>	<u>2,333,801</u>	<u>(16,090)</u>
EXPENSES			
Personal services	1,101,241	1,063,416	37,825
Material and services	588,647	638,438	(49,791)
Depreciation	27,084	21,072	6,012
Total expense	<u>1,716,972</u>	<u>1,722,926</u>	<u>(5,954)</u>
Net income	600,739	610,875	(10,136)
NET ASSETS			
Beginning	6,446,638	5,835,763	610,875
Restated beginning	(379,312)	-	(379,312)
Ending	<u>\$ 6,668,065</u>	<u>\$ 6,446,638</u>	<u>\$ 221,427</u>

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. One noteworthy exception, however, was various grants received in human services showed growth.

Financial Analysis of the Government's Funds

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

Governmental funds: The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *expendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Library District. The fund balance of the District's general fund was increased by \$259,079 during the current fiscal year. The key factors are as follows:

- Increase in property taxes from housing construction growth and increase in the interest rates on investment of funds the current fiscal year.

Budgetary Highlights

The District budgets all funds (except for fiduciary funds) in compliance with Oregon budget law. Differences between the original budget and the final amended budget were relatively minor and can be briefly summarized as follows:

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

Capital Asset and Debt Administration

Capital assets: The District's investment in capital assets for its governmental activities as June 30, 2008, amounts to \$4,396,212 (net of accumulated depreciation). This investment in capital assets includes books, media and microfilm, land, buildings and improvements, equipment, furniture, and vehicle. The total decrease in the District's investment in capital assets for the current fiscal year was 0.79 percent.

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

- A variety of purchases for replacement of computers and books.
- A building project planned for the next year to expand the main library building.

Library District's Capital Assets

(Net of Depreciation)

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Books, media and microfilm	\$ 3,990,543	\$ 282,332	\$ -	\$ 4,272,875
Capital assets, being depreciated				
Land and buildings	159,165	-	159,165	-
Equipment and furniture	574,620	95,313	229,290	440,643
Vehicle	32,860	-	-	32,860
	<u>766,645</u>	<u>95,313</u>	<u>388,455</u>	<u>473,503</u>
Less accumulated depreciation				
Equipment and furniture	300,616	24,486	2,599	322,503
Vehicle	25,065	2,598	-	27,663
	<u>325,681</u>	<u>27,084</u>	<u>2,599</u>	<u>350,166</u>
Total being depreciated, net	<u>440,964</u>	<u>68,229</u>	<u>385,856</u>	<u>123,337</u>
Total capital assets	<u>\$ 4,431,507</u>	<u>\$ 350,561</u>	<u>\$ 385,856</u>	<u>\$ 4,396,212</u>

* Depreciation of \$27,084 was charged to general fund.

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

Long-Term Debt: The District has no outstanding debt at this time.

Economic Factors and Next Year's Budgets

- The slowdown in the housing industry will affect future property taxes.
- The State unemployment rate is increasing including the basin, along with the rest of the state.
- Inflationary trends in the region are increasing.

All of these factors were considered in preparation of the District's budgets for 2007-08 and 2008-09 fiscal years.

General Information

County Seat: Klamath Falls, Oregon E-mail: boccc@co.klamath.or.us Web: www.co.klamath.or.us
Incorporated: Oct. 17, 1882 Elevation at Klamath Falls: 4,105' Area: 6,135 sq. miles
Average Temp.: January 29.8" July 68.0" Assessed Value: \$4,083,883,233 Real Market Value: \$7,678,714,845
Annual Precipitation: 14.31" Economy: Forest products, agriculture, tourism, and recreation
College: Oregon Institute of Technology (OIT) County Population: 66,192

Requests for Information

This financial report is designed to provide a general overview of Klamath County Library Service District finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed the Office of the Finance Director, Klamath County, 305 Main Street, Room 121, PO Box 340, Klamath Falls, Oregon 97601.

BASIC FINANCIAL STATEMENTS

KLAMATH COUNTY LIBRARY SERVICE DISTRICT

BALANCE SHEET / STATEMENT OF NET ASSETS

June 30, 2008

	<u>Balance Sheet</u>			<u>Adjustments</u>	<u>Statement of</u>
	<u>General</u>	<u>Reserve</u>	<u>Totals</u>	<u>(Note 5)</u>	<u>Net Assets</u>
ASSETS					
Deposits and investments	\$ 1,365,619	\$ 881,397	\$ 2,247,016	\$ -	\$ 2,247,016
Receivables:					
Property taxes	207,006	-	207,006	-	207,006
Other accounts	8,463	-	8,463	-	8,463
Capital assets, net	-	-	-	4,396,212	4,396,212
Total assets	\$ 1,581,088	\$ 881,397	\$ 2,462,485	4,396,212	6,858,697
LIABILITIES					
Accounts payable	\$ 187,960	\$ 2,672	\$ 190,632	-	190,632
Deferred revenue	133,183	-	133,183	(133,183)	-
Total liabilities	321,143	2,672	323,815	(133,183)	190,632
FUND BALANCES / NET ASSETS					
Fund balances:					
Reserved for Automation	-	878,725	878,725	(878,725)	-
Unreserved	1,259,945	-	1,259,945	(1,259,945)	-
Total fund balances	1,259,945	878,725	2,138,670	(2,138,670)	-
Total liabilities and fund balances	\$ 1,581,088	\$ 881,397	\$ 2,462,485		
Net assets:					
Invested in capital assets				4,396,212	4,396,212
Restricted				-	-
Unrestricted				2,271,853	2,271,853
Total net assets				\$ 6,668,065	\$ 6,668,065

The accompanying notes are an integral part of this statement.

KLAMATH COUNTY LIBRARY SERVICE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES / STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2008

	<u>Statement of Revenues, Expenditures ...</u>			<u>Adjustments</u> <u>(Note 6)</u>	<u>Statement of</u> <u>Activities</u>
	<u>General</u>	<u>Reserve</u>	<u>Totals</u>		
REVENUES:					
Property taxes	\$ 2,052,193	\$ -	\$ 2,052,193	\$ -	\$ 2,052,193
Intergovernmental	22,264	-	22,264	-	22,264
Service charges	30,740	-	30,740	-	30,740
Other districts	36,000	-	36,000	-	36,000
Miscellaneous	7,217	50,000	57,217	-	57,217
Interest	60,410	36,412	96,822	-	96,822
Property sales	22,475	-	22,475	-	22,475
Total revenues	<u>2,231,299</u>	<u>86,412</u>	<u>2,317,711</u>	<u>-</u>	<u>2,317,711</u>
EXPENDITURES:					
Personal services	1,101,241	-	1,101,241	-	1,101,241
Materials and services	868,757	-	868,757	(282,332)	586,425
Capital outlay	2,222	95,313	97,535	(95,313)	2,222
Depreciation	-	-	-	27,084	27,084
Total expenditures	<u>1,972,220</u>	<u>95,313</u>	<u>2,067,533</u>	<u>(350,561)</u>	<u>1,716,972</u>
Excess (deficiency) of revenues over expenditures	<u>259,079</u>	<u>(8,901)</u>	<u>250,178</u>	<u>350,561</u>	<u>600,739</u>
OTHER FINANCING SOURCES (USES):					
Transfers	-	-	-	-	-
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	259,079	(8,901)	250,178	(250,178)	-
Change in net assets	-	-	-	600,739	600,739
Fund balances/net assets					
Beginning of the year	1,000,866	887,626	1,888,492	-	6,446,638
Restated beginning net assets	-	-	-	-	(379,312)
End of the year	<u>\$ 1,259,945</u>	<u>\$ 878,725</u>	<u>\$ 2,138,670</u>	<u>\$ -</u>	<u>\$ 6,668,065</u>

The accompanying notes are an integral part of this statement.

**KLAMATH COUNTY LIBRARY SERVICE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND**

For the fiscal year end June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Budget to actual</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	<u>differences</u> <u>Over (Under)</u>
REVENUES:				
Property taxes	\$ 1,973,040	\$ 1,973,040	\$ 2,052,193	\$ 79,153
Intergovernmental	17,000	17,000	22,264	5,264
Service charges	21,300	21,300	30,740	9,440
Other districts	36,000	36,000	36,000	-
Miscellaneous	1,300	1,300	7,217	5,917
Interest	90,000	90,000	60,410	(29,590)
Property sales	28,000	28,000	22,475	(5,525)
Total revenues	<u>2,166,640</u>	<u>2,166,640</u>	<u>2,231,299</u>	<u>64,659</u>
EXPENDITURES:				
Personal services:				
Library Director	73,056	73,056	73,056	-
Library Specialist	195,480	195,480	211,429	(15,949)
Business Service Manager	32,802	32,802	27,173	5,629
Supervising librarian	79,742	79,742	55,095	24,647
Library Assistant	488,873	488,873	466,285	22,588
Courier	21,601	21,601	17,436	4,165
Temporary Help	20,000	20,000	3,438	16,562
FICA	70,020	70,020	60,837	9,183
Medical Insurance	134,820	134,820	132,655	2,165
Life Insurance	706	706	451	255
STD	567	567	431	136
Retirement General	36,823	36,823	31,903	4,920
Unemployment Compensation	21,052	21,052	21,052	-
Total personal services	<u>1,175,542</u>	<u>1,175,542</u>	<u>1,101,241</u>	<u>74,301</u>
Materials and services:				
Travel & Training	12,000	12,000	11,845	155
Branch Maintenance	90,000	90,000	78,862	11,138
Office Supplies	15,000	15,000	14,048	952
Dues/Fees	1,500	1,500	1,059	441
Vehicle Fuel	4,000	4,000	3,766	234
Vehicle Maintenance & Repair	3,000	3,000	1,353	1,647
Audit Fees	3,000	3,000	2,819	181
State Aid Youth Services	17,000	17,000	14,859	2,141
Telephone	12,000	12,000	15,384	(3,384)
Teleprocessing	9,000	9,000	8,305	695
Postage	10,000	10,000	12,077	(2,077)
Publications/Periodicals	15,000	15,000	15,495	(495)
Printing	6,000	6,000	6,410	(410)
On-Line Catalogue System	15,000	15,000	17,498	(2,498)
On-Line Database	35,000	35,000	21,954	13,046
Contract Service	13,000	13,000	15,179	(2,179)
Memorial Service	5,000	5,000	-	5,000
refund	4,000	4,000	48	3,952
Collection Maintenance	60,000	60,000	32,669	27,331
Computer Software	3,000	3,000	3,249	(249)
Audio-Visual Materials	70,000	70,000	68,264	1,736
Books	270,000	270,000	214,068	55,932
Lost/Damaged Books Replace	50	50	160	(110)
Microfilm/Microfiche	1,000	1,000	231	769
Administrative Services	124,810	124,810	124,810	-
Space Rent	140,886	140,886	140,886	-
Insurance	21,089	21,089	36,753	(15,664)
Transfer Equipment Reserve	458	458	458	-
Miscellaneous	-	-	6,248	(6,248)
Total material and services	<u>960,793</u>	<u>960,793</u>	<u>868,757</u>	<u>92,036</u>

The accompanying notes are an integral part of this statement.

**KLAMATH COUNTY LIBRARY SERVICE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND (Continued)
For the fiscal year end June 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Budget to actual differences Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES (Continued):				
Capital outlay				
Office Equipment	10,000	10,000	-	10,000
Building Improvement	10,000	10,000	2,222	7,778
Total capital outlay	<u>20,000</u>	<u>20,000</u>	<u>2,222</u>	<u>17,778</u>
Contingencies	<u>150,000</u>	<u>150,000</u>	<u>-</u>	<u>150,000</u>
Total expenditures	<u>2,306,335</u>	<u>2,306,335</u>	<u>1,972,220</u>	<u>334,115</u>
Excess (deficiency) of revenues over expenditures	<u>(139,695)</u>	<u>(139,695)</u>	<u>259,079</u>	<u>398,774</u>
OTHER FINANCING SOURCES (USES):				
Transfers	<u>(810,305)</u>	<u>(810,305)</u>	<u>-</u>	<u>810,305</u>
Net change in fund balance	(950,000)	(950,000)	259,079	1,209,079
Fund balances - beginning	<u>1,250,000</u>	<u>1,250,000</u>	<u>1,000,866</u>	<u>(249,134)</u>
Fund balances - ending	<u>\$ 300,000</u>	<u>\$ 300,000</u>	<u>\$ 1,259,945</u>	<u>\$ 959,945</u>

The accompanying notes are an integral part of this statement.

**KLAMATH COUNTY LIBRARY SERVICE DISTRICT
KLAMATH FALLS, OREGON**

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**

RESERVE FUND

For the fiscal year end June 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Budget to actual</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary Basis</u>	<u>differences</u>
				<u>Over (Under)</u>
REVENUES:				
Reserve Donations	\$ -	\$ -	\$ 50,000	\$ 50,000
Interest	<u>35,000</u>	<u>35,000</u>	<u>36,412</u>	<u>1,412</u>
Total revenues	<u>35,000</u>	<u>35,000</u>	<u>86,412</u>	<u>51,412</u>
EXPENDITURES:				
Personal services	-	-	-	-
Materials and services	200,000	200,000	-	200,000
Capital outlay:				
Computer Equipment	40,000	40,000	31,709	8,291
Building Improvement	1,363,765	1,363,765	63,604	1,300,161
Contingencies	<u>165,940</u>	<u>165,940</u>	-	<u>165,940</u>
Total expenditures	<u>1,769,705</u>	<u>1,769,705</u>	<u>95,313</u>	<u>1,674,392</u>
Excess (deficiency) of revenues over expenditures	<u>(1,734,705)</u>	<u>(1,734,705)</u>	<u>(8,901)</u>	<u>1,725,804</u>
OTHER FINANCING SOURCES (USES):				
Transfers	<u>810,305</u>	<u>810,305</u>	-	<u>(810,305)</u>
Net change in fund balance	(924,400)	(924,400)	(8,901)	915,499
Fund balances - beginning	<u>924,400</u>	<u>924,400</u>	<u>887,626</u>	<u>(36,774)</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 878,725</u>	<u>\$ 878,725</u>

The accompanying notes are an integral part of this statement.

NOTES TO THE BASIC FINANCIAL STATEMENTS

KLAMATH COUNTY LIBRARY SERVICE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS For the Year Ended June 30, 2008

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Klamath County Library Service District was created by the residents of Klamath County through Measure 18-39 on July 1, 2001. At that time, the District received the assets of the Library Fund of Klamath County. The board of commissioners of Klamath County directs and oversees the operations of the District.

The District is a primary government. A primary government is a financial reporting entity, which has a separately elected governing body, is legally separate and is fiscally independent of other state and local governments. The District has considered for inclusion in its financial statements all potential governmental organizations (component units) for which the District is financially accountable. Financial accountability may be evidenced by the ability to appoint the voting majority of the governing body, and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific burdens on, the primary government; or a fiscal dependency or intergovernmental relationship so close that exclusion from the primary government would render the financial statements incomplete or misleading. The District has no component units.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The District now follows the "Reporting by Special Purpose Governments Engaged in Governmental Activities" of GASB Statement No. 34. Under this provision, the fund financial statements and the government-wide statements combined using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statements.

The government-wide financial statements report information on the entire District. For the most part, the effect of interfund activity has been removed from these statements. These 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 revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 District 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. 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.

KLAMATH COUNTY LIBRARY SERVICE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS For the Year Ended June 30, 2008

All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

General Fund is the general operating fund of the District. It is used to account for all financial sources except those required to be accounted for in another fund. The principal revenue sources are property taxes, state supports and interest on investments.

Reserve Fund accounts for funds which have been set aside for future automation reserve. The principal revenue sources are fund transfer in from general fund and interest on investments.

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.

C. Assets, Liabilities, and Net Assets

DEPOSITS AND INVESTMENTS

The deposits and investments reported on the balance sheets include deposits with the Klamath County Treasurer in the County's cash and investment pool. All investments are pooled in order to maximize interest.

RECEIVABLES AND PAYABLES

Property taxes are levied and attach as an enforceable lien on property on July 1 of each fiscal year. Taxes are payable in three installments on November 15, February 15 and May 15. A 3% discount is allowed for payment in full on November 15. Klamath County, Oregon, makes all assessments of property value, and levies and collects the taxes for the District, and all other taxing districts within the county.

For the current year, the District levied taxes at the rate of 0.4900 per \$1,000 of assessed value of all taxable property within the District. Measure 50 establishes the permanent rate and allows for an increase of the assessed value of property of 3% per year.

CAPITAL ASSETS

Capital assets, which include books, equipment and furniture, and vehicles, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

KLAMATH COUNTY LIBRARY SERVICE DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008**

Equipment, furniture and vehicles of the District are depreciated using the straight line method over the following estimated useful lives of 10 years for vehicles and 5 years for equipment and furniture.

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

Budgets are prepared and adopted, and expenditures are appropriated, in accordance with Oregon Local Budget Law. Budgets are adopted on the modified accrual basis of accounting. All annual appropriations lapse at fiscal year end. The District does not use encumbrance accounting.

On or before June 30 of each year, the District enacts a resolution approving the budget, appropriating the expenditures, and levying the property taxes. Prior to enacting this resolution, the proposed budget is presented to the District Board for a budget hearing by a budget committee.

The budget is prepared by fund, activity and line item, 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, Material and Services, Capital Outlay, Debt Service, Contingencies and Transfers for each fund.

During the fiscal year, no expenditures were exceeded legally budgeted appropriations.

3. Deposits and Investments

The cash and cash equivalents as of June 30, 2008 were as follows:

Cash with county treasurer	\$ 2,246,866
Cash in hand	150
total cash and cash	<u>\$ 2,247,016</u>

DEPOSITS

Deposits with financial institutions are comprised of cash with Klamath County Treasurer. The County maintains a cash and investment pool that is available for use by all funds including small special districts. Oregon Statutes authorize the County to invest in obligations of the U.S. Government and its agencies, the State Local Government Investment Pool, certificates of deposit, savings and money market accounts, bankers' acceptances, commercial paper and repurchase agreements. Audit report of Klamath County may be obtained by writing to the Klamath County Treasurer, PO Box 340, Klamath Falls, Oregon, 97601.

KLAMATH COUNTY LIBRARY SERVICE DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008**

INVESTMENTS

Interest rate risk: The District does not have a formal investment policy that limits investment maturities as a means of managing its exposures to fair value losses arising from increasing interest rates.

4. Capital Assets

Capital assets activity for the year ended June 30, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases**</u>	<u>Ending Balance</u>
Capital assets, not being depreciated				
Books, media and microfilm	\$ 3,990,543	\$ 282,332	\$ -	\$ 4,272,875
Capital assets, being depreciated				
Land and buildings	159,165	-	(159,165)	-
Equipment and furniture	574,620	95,313	(229,290)	440,643
Vehicle	32,860	-	-	32,860
	<u>766,645</u>	<u>95,313</u>	<u>(388,455)</u>	<u>473,503</u>
Less accumulated depreciation				
Equipment and furniture	300,616	24,486	(2,599)	322,503
Vehicle	25,065	2,598	-	27,663
	<u>325,681</u>	<u>27,084</u>	<u>(2,599)</u>	<u>350,166</u>
Total being depreciated, net	<u>440,964</u>	<u>68,229</u>	<u>(385,856)</u>	<u>123,337</u>
Total capital assets	<u>\$ 4,431,507</u>	<u>\$ 350,561</u>	<u>\$ (385,856)</u>	<u>\$ 4,396,212</u>

* Depreciation of \$27,084 was charged to general fund.

** Reclassified capital assets.

5. Explanation of Differences between Balance Sheet and the Statement of Net Assets

"Total fund balances" differs from "net assets" reported in Page 1. This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheet.

1. When capital assets are purchased or constructed, the costs of those assets are reported as expenditures in the fund financial statements. However, the statement of net assets includes those capital assets among the assets of the District as a whole.

Cost of capital assets	\$ 4,746,378
Accumulated depreciation	<u>(350,166)</u>
Net capital assets	<u>\$ 4,396,212</u>

KLAMATH COUNTY LIBRARY SERVICE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

2. Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (for example, property taxes) are offset by deferred revenue in the governmental funds, and thus are not included in fund balance. Adjustment to deferred revenues as of June 30, 2008 was \$133,183.

6. Explanation of Differences between Statement of Revenues, Expenditures, and Changes in Fund Balances and the Statement of Activities

The "net change in fund balances" differs from the "change in net assets" in Page 2. The differences arise primarily from the long-term economic focus of statement of activities versus the current financial resources focus of the governmental funds. The main components of the difference are described below.

1. When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of net activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net assets decreases by the amount of depreciation expense charged for the year.

Material & services (books)	\$ 282,332
Capital outlay	95,313
Depreciation expense	<u>(27,084)</u>
Differences	<u>\$ 350,561</u>

7. Restated Beginning Net Assets

Restatement of beginning net assets was necessary due to reclassifications of capital assets of the District.

8. Contingent Liabilities

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

Management has represented that there are no other contingent liabilities which were understood to include among other things: notes or accounts receivable which have been discounted; pending suits, proceedings, hearings, or negotiations possibly involving retroactive judgments or claims; taxes in dispute; endorsements or guarantees; and options given that would require disclosure or recognition under Statement of Financial Accounting Standards Number 5.

KLAMATH COUNTY LIBRARY SERVICE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS For the Year Ended June 30, 2008

9. Intergovernmental Agreement

The District made an intergovernmental agreement with Klamath County on May 16, 2000, when it was established by the will of the majority of the voters. The agreement authorized by ORS 190.010 continues services provided by Klamath County to the District and employees in exchange for the continued payment of space rent and administrative fees by the District.

The District agrees to pay space rent of Library building, which the County owns annually and continue to occupy the building during the terms of this contract. The District will pay for telephone system maintenance and annual administrative fees. Under the terms of agreement, the annual fees will be established yearly during the budget process, and the Klamath County Finance Director and/or Treasurer have the authority to manage and invest the District's funds in the market.

The County provides services for office supplies, human resources, janitorial, maintenance, computer and hardware support, and administrative and legal services. The Klamath County Treasurer will provide payroll, accounts and budget services for the District. Accordingly, quarterly payroll reports and pension expenses paid by the District were included on the County's report.

The terms of this agreement expires on June 30, 2009 and may be renewed for one additional five-year terms.

10. 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; and natural disasters for which the District participates in the Special District Association of Oregon. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

SUPPLEMENTARY FINANCIAL INFORMATION

**KLAMATH COUNTY LIBRARY SERVICE DISTRICT
KLAMATH FALLS, OREGON**

SCHEDULE OF PROPERTY TAX TRANSACTIONS

June 30, 2008

Tax Year	Current Levy & Balance at 07/01/07	Discounts & Adjustments	Interest	Collections	Uncollected Balance 06/30/08
2007-08	\$ 2,114,723	\$ (89,895)	\$ 1,421	\$ 1,912,132	\$ 114,117
2006-07	106,480	36,394	2,981	103,224	42,631
2005-06	37,760	(2,827)	2,249	13,835	23,347
2004-05	21,464	(3,990)	3,387	12,686	8,175
2003-04	9,515	(1,503)	1,706	6,189	3,529
Prior years	<u>16,550</u>	<u>1,096</u>	<u>1,688</u>	<u>4,127</u>	<u>15,207</u>
Total	<u>\$ 2,306,492</u>	<u>\$ (60,725)</u>	<u>\$ 13,432</u>	<u>\$ 2,052,193</u>	<u>\$ 207,006</u>

*COMMENTS OF THE INDEPENDENT AUDITORS
REQUIRED BY THE STATE OF OREGON
MINIMUM STANDARDS FOR AUDITS OF
OREGON MUNICIPAL CORPORATIONS*

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COMMENTS OF INDEPENDENT AUDITORS AS REQUIRED
BY THE STATE OF OREGON MINIMUM STANDARDS
FOR AUDITS OF OREGON MUNICIPAL CORPORATIONS

Board of Directors
Klamath County Library Service District
Klamath Falls, Oregon 97601

We have audited the basic financial statements of the Klamath County Library Service District (the District) as of and for the year ended June 30, 2008, and have issued our report thereon dated January 20, 2009.

Pursuant to the provisions of Oregon Revised Statute (ORS) 297.465, Oregon Administrative Rules (OAR) 162-10-050 through 162-10-320 incorporate the *Minimum Standards for Audits of Oregon Municipal Corporations*. These standards have been approved by the Oregon Board of Accountancy, and have been adopted by the Secretary of State as Administrative Rules under the provisions of ORS Chapter 183.

The required statements and schedules are set forth in the preceding sections of this report. Required comments and disclosures related to our audit of such statements and schedules are set forth following.

- Internal Control

In planning and performing our audit, we considered the District's internal control over financial reporting (internal control) 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 the District's internal control.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as described above. However, we identified the following deficiencies in internal control that we consider to be significant deficiencies:

PROVIDE OVERSIGHT OF THE PREPARATION OF FINANCIAL STATEMENTS

Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial position, results of operations, cash flows and disclosures in the financial statements, in conformity with U.S. generally accepted accounting principles (GAAP). The District does not have a system of internal controls that would enable management to conclude the financial statements and related disclosures are complete and presented in accordance with GAAP. As such, management requested us to prepare a draft of the financial statements, including the related footnote disclosures. The outsourcing of these services is not unusual in special districts of your size and is a result of management's cost benefit decision to rely on our accounting expertise rather than incurring this internal resource cost.

- The amount and adequacy of collateral pledged by depositories to secure the deposit of public funds.
- Compliance with the requirements of local budget law in the preparation, adoption and execution of the budget for the current fiscal year and the preparation and adoption of the budget for next fiscal year.
- The legal requirements relating to insurance and fidelity bond coverage.
- The policies and procedures pertaining to the investment of public funds.
- The legal requirements covering the awarding of public contracts and construction of public improvements.
- To our knowledge no independently elected official was accountable for collecting or receiving cash.

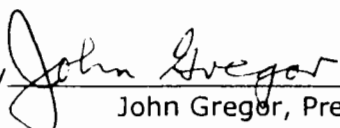
The results of our tests disclosed no instance of noncompliance by the District with the foregoing requirements. However, it should be noted that our audit was not directed primarily toward obtaining knowledge of noncompliance with these requirements.

Additionally, we make the following other comments:

- The accounting records were reasonably adequate for the audit.
- Our review of the insurance and fidelity bond was limited to the existing coverage for the period. We are not experts in insurance and make no representation as to the adequacy of coverage.

This report is intended solely for the information and use of the board of commissioners and management of the District and the State of Oregon, and is not intended to be used and should not be used by anyone other than these specified parties.

GREGOR PROFESSIONAL CORPORATION
Certified Public Accountants

By  _____
John Gregor, President

Eugene, Oregon
January 20, 2009