

**KLAMATH COUNTY LIBRARY SERVICE DISTRICT**

**FINANCIAL STATEMENTS**

**JUNE 30, 2010**



**Certified Public Accountants**

**Klamath County Library Service District**  
**Elected and Appointed Officials**  
**June 30, 2010**

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## **INTRODUCTORY SECTION**

**Klamath County Library Service District  
Elected and Appointed Officials  
June 30, 2010**

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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
John Elliott	County Commissioner	December 31, 2010
Cheryl Hukill	County Commissioner	December 31, 2012

**Officials**

Andy Swanson	District Manager	Library Director
Michael Long	Financial Manager	County Treasurer
David Groff	Legal	County Counsel

**Mailing Address**

Klamath County Library Service District  
126 South Third Street  
Klamath Falls, Oregon 97601  
Tel (541) 882-8894  
<http://www.klamathlibrary.plinkit.org/>

## **FINANCIAL SECTION**



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(541) 884-4164  
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A0610-51084-10

Certified Public Accountants

## Independent Auditors' Report

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 Klamath County Library Service District, as of June 30, 2010 and for the year then ended, which collectively comprise Klamath County Library Service District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Klamath County Library Service District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the 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 Klamath County Library Service District, as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with the generally accepted accounting principles of the United States of America.

The management's discussion and analysis on pages 2 through 5, and the budgetary comparison information on pages 21 through 22 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures to the management's discussion and analysis, 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 we express no opinion on it. The budgetary comparison information is has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Klamath County Library Service District's basic financial statements. The other supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Molatore, Scroggin, Peterson & Co. LLP

Andrew E. Peterson, Partner

Klamath Falls, Oregon  
July 15, 2011

**Klamath County Library Service District  
Management's Discussion and Analysis  
June 30, 2010**

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As management of Klamath County Library Service District (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, 2010.

**Financial Highlights**

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$4,309,425 (*net assets*). Of this amount, \$1,890,056 (*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 \$123,125. This increase was due to revenues in excess of expenditures in the current fiscal year.

As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,743,969 a decrease of \$273,438 when compared with the prior year. Of this amount \$1,614,765 is *available for spending* at the District's discretion (*unreserved, undesignated fund balance*).

At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,614,765, or 70.2% of total general fund expenditures.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of 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 of 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 District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. 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 compensated absences).

The governmental activities of the District include library services and reserves for future needs of the District.

The government-wide financial statements can be found on pages 6 and 7 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 are in one category: governmental funds.

Governmental fund *Governmental funds* are used to account for essentially the same function 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 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 District's near-term financing decisions. There is a reconciliation to facilitate this comparison between governmental funds and governmental activities on pages 8 and 10.

**Klamath County Library Service District  
Management's Discussion and Analysis  
June 30, 2010**

The District maintains two individual governmental 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 for the general and the reserve fund. The reserve fund accounts for the accumulation of resources for acquisitions of fixed assets or construction of major capital projects.

The District adopts an annual appropriated budget for all its funds. A budgetary comparison statement has been provided for each fund to demonstrate compliance with their budgets.

The basic governmental fund financial statements can be found on pages 8 through 10 of this report.

Notes to 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 notes to the financial statements are on pages 11 through 20.

**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 \$4,309,425 at the close of the most recent fiscal year.

Part of the District's net assets (56.1%) reflects its investment in capital assets (e.g., land, construction in progress, buildings and system, machinery and equipment and infrastructure), 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 that capital assets themselves can not be used to liquidate these liabilities.

The remaining balance of *unrestricted net assets* \$1,890,056 (43.8%) may be used to meet the government's ongoing obligations to citizens and creditors.

**Klamath County Library Service District's Net Assets**

	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 2,001,641	\$ 2,290,829
Capital assets	2,419,369	2,109,715
Total assets	<u>4,421,010</u>	<u>4,400,544</u>
Long-term liabilities outstanding	14,337	-
Other liabilities	97,248	150,548
Total liabilities	<u>111,585</u>	<u>150,548</u>
Invested in Capital assets, Net of related debt	2,419,369	2,109,715
Unrestricted	1,890,056	2,076,585
Total net assets	<u>\$ 4,309,425</u>	<u>\$ 4,186,300</u>

At the end of the current fiscal year, the District is able to report positive balances in total net assets for the government as a whole, as well as for its separate governmental activities. The same held true for the prior fiscal year.

The government's net assets were increased by \$123,125 during the current fiscal year. The largest factor in this increase is due to increased collection of property taxes.

**Klamath County Library Service District  
Management's Discussion and Analysis  
June 30, 2010**

Key elements of the changes in net assets are as follows:

**Klamath County Library Service District's Changes in Net Assets**

	<b>Governmental Activities</b>	
	<b>2010</b>	<b>2009</b>
Revenues:		
Program revenues:		
Charges for services	\$ 76,569	\$ 272,315
Operating grants and contributions	47,348	2,126,840
General revenues:		
Property taxes	2,309,855	2,207,134
Unrestricted investment earnings	32,011	65,473
Property surplus income	22,489	-
Transfers	-	21,368
Total revenues	<u>2,488,272</u>	<u>4,693,130</u>
Expenses:		
Library services	<u>2,365,147</u>	<u>1,784,379</u>
Total expenses	<u>2,365,147</u>	<u>1,784,379</u>
Increase (decrease) in net assets	123,125	2,908,751
Net assets, beginning	4,186,300	6,668,065
Prior period adjustment	-	(5,390,516)
Net assets, ending	<u>\$ 4,309,425</u>	<u>\$ 4,186,300</u>

Governmental activities Governmental activities increased the District's net assets by \$123,125. This is \$2,785,626 less than the fiscal year 2009 increase. Key elements of this difference are as follows: Decreased for property transferred from Klamath County to the District.

**Financial Analysis of the Government's Funds**

As noted earlier, the 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 the near-term inflows, outflows, and balances of *spendable* 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.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,743,969, a decrease of \$273,438 from the prior year. Of this amount \$1,614,765 constitutes *unreserved, undesignated fund balance*, which is available for spending at the District's discretion. The remainder of fund balance is *reserved or designated* to indicate that it is not available for new spending because it has been committed for capital outlay.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,614,765. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to the total fund expenditures. The unreserved fund balance represents 70.5% of total general fund expenditures.

During the current fiscal year the fund balance of the District's general fund increased by \$75,153. The key factor in this is increased collection of property taxes.

**Klamath County Library Service District  
Management's Discussion and Analysis  
June 30, 2010**

The reserve fund has a fund balance of \$129,204, all of which is reserved for capital expenditures. The net decrease in fund balance during the current year was \$348,591. The reason for this decrease was due to expenditures for various capital outlay projects.

**Budgetary Highlights**

The District budgets all funds in compliance with Oregon budget law. The District did not adopt any supplemental budgets during the year.

**Capital Asset and Debt Administration**

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2010, amounts to \$2,419,369 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and system, machinery and equipment and infrastructure. The total increase in the District's investment in capital assets for the current fiscal year was \$309,654.

Major capital asset events during the fiscal year included the Sprague River library branch remodel.

**Klamath County Library Service District's Capital Assets**

	<b>Governmental Activities</b>	
	<b>2010</b>	<b>2009</b>
Construction in progress	\$ -	\$ 651,087
Land	222,600	222,600
Buildings and system	2,164,398	1,232,000
Machinery and equipment	32,371	4,028
Total	\$ 2,419,369	\$ 2,109,715

Additional information on the District's capital assets can be found in note 5 on page 16 of this report.

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

Klamath County is not immune from the national recession. The current unemployment outlook for Klamath County is bleaker than the previous year. The rate for 2010 is 13.0% compared to 8.4% in 2009. Residential and commercial construction has slowed down and various companies in the basin have downsized their staffing levels and some businesses have closed. Tax revenues are expected to decrease by 3.2%.

**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 to District Manager, Klamath County Library Service District, 126 South Third Street, Klamath Falls, Oregon 97601.

## **BASIC FINANCIAL STATEMENTS**

**Klamath County Library Service District**  
**Statement of Net Assets**  
**June 30, 2010**

<b>Assets</b>	<b>Governmental Activities</b>	<b>Component Units</b>
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 1,718,270	\$ 252,289
Accounts receivable	24,129	-
Property taxes receivable	259,242	-
Total Current Assets	<u>2,001,641</u>	<u>252,289</u>
<b>Noncurrent Assets:</b>		
Capital assets (net of accumulated depreciation)		
Building and improvements	2,164,398	-
Land	222,600	-
Equipment	32,371	-
Total Noncurrent Assets	<u>2,419,369</u>	<u>-</u>
Total Assets	<u>4,421,010</u>	<u>252,289</u>
<b>Liabilities</b>		
<b>Current Liabilities:</b>		
Accounts payable	36,248	-
Total Current Liabilities	36,248	-
<b>Noncurrent Liabilities:</b>		
Compensated absences	60,999	-
OPEB liability	570	-
Pension liability	13,768	-
Total Liabilities	<u>111,585</u>	<u>-</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	2,419,369	-
Unrestricted	1,890,056	252,289
Total Net Assets	<u>\$ 4,309,425</u>	<u>\$ 252,289</u>

The notes to the financial statements are an integral part of this statement.

**Klamath County Library Service District  
Statement of Activities  
For the Year Ended June 30, 2010**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Governmental Activities</u>	<u>Component Units</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>		
Governmental Activities:						
Library Services	\$ 2,365,147	\$ 76,569	\$ 47,348	\$ -	\$ (2,241,230)	
Total primary government	<u>\$ 2,365,147</u>	<u>\$ 76,569</u>	<u>\$ 47,348</u>	<u>\$ -</u>	<u>\$ (2,241,230)</u>	
Component Units:						
Library Services	15,949		204,380			188,431
Total component units	<u>\$ 15,949</u>	<u>\$ -</u>	<u>\$ 204,380</u>	<u>\$ -</u>		<u>\$ 188,431</u>
General Revenues:						
Property taxes, levied for general purposes					2,309,855	
Unrestricted investment earnings					32,011	2,139
Property surplus income					22,489	
Total General Revenues					<u>2,364,355</u>	<u>2,139</u>
Change in Net Assets					123,125	190,570
Net Assets - Beginning, as restated					<u>4,186,300</u>	<u>61,719</u>
Net Assets - Ending					<u>\$ 4,309,425</u>	<u>\$ 252,289</u>

The notes to the financial statements are an integral part of this statement.

**Klamath County Library Service District  
Balance Sheet – Governmental Funds  
June 30, 2010**

	<b>General Fund</b>	<b>Reserve Fund</b>	<b>Total Governmental Funds</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 1,589,066	\$ 129,204	\$ 1,718,270
Accounts receivable	24,129	-	24,129
Property taxes receivable	259,242	-	259,242
	<b>\$ 1,872,437</b>	<b>\$ 129,204</b>	<b>\$ 2,001,641</b>
<b>Liabilities and Fund Balances</b>			
Accounts payable	\$ 36,248	\$ -	\$ 36,248
Deferred property tax	221,424	-	221,424
	<b>257,672</b>	<b>-</b>	<b>257,672</b>
Fund balances:			
Reserved for:			
Capital projects	-	129,204	129,204
Unreserved, reported in:			
General fund	1,614,765	-	1,614,765
	<b>1,614,765</b>	<b>129,204</b>	<b>1,743,969</b>
	<b>\$ 1,872,437</b>	<b>\$ 129,204</b>	
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resource and, therefore, are not reported in the funds.			2,419,369
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.			
Deferred revenue			221,424
Long-term liabilities not payable in the current year are not reported as governmental fund liabilities. These liabilities consist of:			
Compensated absences			(60,999)
OPEB liability			(570)
Pension liability			(13,768)
			<b>\$ 4,309,425</b>

The notes to the financial statements are an integral part of this statement.

**Klamath County Library Service District**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Governmental Funds**  
**June 30, 2010**

	<u>General Fund</u>	<u>Reserve Fund</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>			
Property taxes	\$ 2,222,946	\$ -	\$ 2,222,946
Per Capita State Aid	20,041	-	20,041
Charges for services	72,038	-	72,038
Investment income	32,011	-	32,011
Sales and donations	1,307	26,000	27,307
Sales - Property Distribution	22,489	-	22,489
Miscellaneous revenues	4,531	-	4,531
	<u>2,375,363</u>	<u>26,000</u>	<u>2,401,363</u>
<b>Expenditures</b>			
Current:			
Personnel Services	1,269,534	-	1,269,534
Materials and services	1,030,676	-	1,030,676
Capital outlay:			
Building Improvements	<u>-</u>	<u>374,591</u>	<u>374,591</u>
	<u>2,300,210</u>	<u>374,591</u>	<u>2,674,801</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>75,153</u>	<u>(348,591)</u>	<u>(273,438)</u>
Net Change in Fund Balances	75,153	(348,591)	(273,438)
Fund Balances - Beginning, as restated	<u>1,539,612</u>	<u>477,795</u>	<u>2,017,407</u>
Fund Balances - Ending	<u>\$ 1,614,765</u>	<u>\$ 129,204</u>	<u>\$ 1,743,969</u>

The notes to the financial statements are an integral part of this statement.

**Klamath County Library Service District  
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, 2010**

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Amounts reported for governmental activities in the statement of activities  
(page 7) are different because:

Net change in fund balances - total governmental funds (page 9)	\$ (273,438)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	309,654
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	<u>86,909</u>
Change in net assets of governmental activities (page 7)	<u><u>\$ 123,125</u></u>

The notes to the financial statements are an integral part of this statement.

**Klamath County Library Service District**  
**Notes to Financial Statements**  
**June 30, 2010**

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

**Organization**

The Klamath County Library Service District (the District), was created by the residents of Klamath County through Measure 18-39 on July 1, 2001. 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 accompanying financial statements present the District and its component units, entities for which the District is considered to be financially accountable. These entities do not qualify as blended component units and are presented separately in a discrete presentation.

**Discretely Presented Component Units**

Klamath County Library Foundation (the Foundation) – The Foundation was organized as a legally separate entity in 2004 as a 501(c)(3) not-for-profit organization. The Foundation exists for the purpose of promotion of reading and life-long learning through the support of the Klamath County Library by conducting capital campaigns to expand and enhance facilities within the District. The Foundation has no potential component units.

The Foundation board consists of four members from the community that direct the functions of the Foundation and make decisions regarding the direction of the Foundation and the projects it will support. The financial statements of the Foundation have not been audited.

Friends of the Klamath County Library (the Friends) - The Friends was formed in 1984 as a legally separate entity under 501(c)(3) as a not-for-profit organization. The Friends exists for the purpose of raising funds for the support of the operations of the District. The Friends has no potential component units.

The Friends board consists of seven members from the community that direct the functions of Friends and make decisions regarding the direction of Friends and the projects it will support. The financial statements of Friends have not been audited.

**Government – Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the District. *Governmental activities* are supported by property taxes, billing services, and interest income.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Major individual governmental funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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.

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.

**Klamath County Library Service District**  
**Notes to Financial Statements**  
**June 30, 2010**

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**Note 1 – Summary of Significant Accounting Policies** *(continued)*

Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *reserve fund* accounts for the accumulation of resources for the construction of a building for the District.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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 pool may be requested by contacting the Klamath County Treasurer's office by mail, at 305 Main Street, Suite 121, Klamath Falls, OR 97601. The District's investment portfolio as of June 30, 2010 is representative of the types of investments made throughout the year.

**Receivables and Payables**

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as, "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business type activities are reported in the government-wide statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and not expendable available financial resources.

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.

Property taxes 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. Taxes 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 both government-wide and fund financial statements.

**Capital Assets**

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. All vehicles (rolling stock) are capitalized regardless of cost.

**Klamath County Library Service District**  
**Notes to Financial Statements**  
**June 30, 2010**

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**Note 1 – Summary of Significant Accounting Policies** *(continued)*

As the District acquires additional capital assets each period, they are capitalized and reported at historical cost. 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. In the case of donations, the District values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant, and equipment of the District is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings & Improvements	20 - 50
Infrastructure	30
Vehicles	5
Equipment	5

**Deferred Revenue**

Unearned revenues will be recognized in the fiscal year they are earned in accordance with the accrual basis of accounting. Deferred revenues reported in the governmental fund financial statements represent unearned revenues or revenues which are measurable but not available. In accordance with the modified accrual basis of accounting, these items are reported as deferred revenues.

**Compensated Absences**

It is the District's policy to permit employees to accumulate earned but unused vacation, compensatory and sick leave benefits. The District has a policy that employees hired after December 31, 1998 that are separated from employment do not get paid for unpaid accumulated sick leave. Only employees employed before December 31, 1998 are paid half of their unpaid accumulated sick leave. All vacation pay and compensatory time is accrued when incurred in the government-wide statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements at June 30. Liabilities for compensated absences are liquidated as employees separate from service and receive payment for accumulated leave benefits. Expenditures for liquidating the liabilities are recorded in the General fund.

**Pension and Other Postemployment Benefit Obligation (OPEB)**

The District participates in the Klamath County Employees' Pension Plan and the post-employment health care plan. The District's share of the pension and net OPEB obligations are recognized as long-term liabilities in the government-wide financial statements, the amount of which is actuarially determined and allocated to the District.

**Fund Equity**

In the financial statements, assets in excess of liabilities are presented in one of two ways depending on the measurement focus used in the reporting fund.

On the Balance Sheet – Governmental Funds, assets in excess of liabilities are reported as fund balances and are segregated between reserved and unreserved amounts. Reserves are legal requirements that make funds unavailable for appropriation by segregating them for a specific use. Conversely, unreserved fund balances are generally available for appropriation by segregating them for a specific use. However management may also make designations of unreserved fund balance that define management's intent that certain fund balance amounts are currently unavailable for appropriation. Designated unreserved fund balances are not legally segregated.

On the Government-wide Statement of Net Assets, net assets are segregated into restricted and unrestricted balances. Restrictions are limitations on how the net assets may be used. Restrictions may be placed on net assets by an external party that provided the resources, by enabling legislation or by the nature of the asset.

**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 Library Service District**  
**Notes to Financial Statements**  
**June 30, 2010**

**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 levying the property taxes. Prior to enacting this resolution, the proposed budget is presented to a budget committee consisting of members the Board of Commissioners and a like number of interested citizens. The budget committee presents the budget to the Board of Commissioners for budget hearings prior to enactment of the resolution approving the budget, appropriating the expenditures, and levying property taxes. 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 County Commissioners. 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 Commissioner’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 Commissioners during the fiscal year. The District does not use encumbrances.

Annual budgets are adopted generally following the modified accrual basis of accounting with the following exception: Interfund loans and repayments are budgeted similar to other debt transactions. The nature and amount of all significant adjustments necessary are noted on the budget to actual statements included in the financial statements.

**Note 3 – Cash and Cash Equivalents**

Deposits and investments as of as June 30, 2010 were as follows:

	<b>Primary Government</b>	<b>Component Units</b>	<b>Total</b>
Cash	\$ 150	\$	\$ 150
Deposits with financial institutions		62,563	62,563
Klamath county treasurer investment pool	1,718,120	189,726	1,907,846
	<u>\$ 1,718,270</u>	<u>\$ 252,289</u>	<u>\$ 1,970,559</u>

**Credit Risk**

At year end, the book balance of the District’s bank deposits was \$62,563 and the bank balance was \$13,343. Deposits are secured by federal deposit insurance to legal limits. The remaining amount is secured by collateral in accordance with Oregon Revised Statutes. The District has not adopted a policy for credit risk beyond that required by ORS Chapter 295.

**Custodial Credit Risk**

In the case of deposits this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. Oregon laws require governmental deposits to be made in banks to be protected either by depository insurance or the financial institution is required to maintain on deposit with a collateral pool manager securities having a value at least equal to the bank’s maximum liability as defined by Oregon law. When such securities are deposited with the pool manager, covered funds are considered fully collateralized under Oregon law. The collateral is held by a state-sponsored pool manager, and is clearly designated as security for the benefit of depositors of public funds. When a loss has occurred in a bank, the State Treasurer shall assess the net amount of public funds against the collateral deposited by the bank with the pool manager. If this is not sufficient to cover the loss, the collateral of all other banks in the state shall be assessed, on a proportionate basis. The District has not adopted a policy for custodial credit risk.

**Klamath County Library Service District**  
**Notes to Financial Statements**  
**June 30, 2010**

**Note 3 – Cash and Cash Equivalents** *(continued)*

**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, 2010, 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**

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year *deferred revenue* reported in the governmental funds related to property taxes.

**Note 5– Capital Assets**

Capital asset activity for the year ended June 30, 2010 was as follows:

	<b>Beginning Balance</b>	<b>Prior Period Adjustment</b>	<b>Adjusted Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets, not depreciated						
Building and improvements	\$ 1,904,240	\$(1,904,240)	\$ -	\$ -	\$ -	\$ -
Land	222,600	-	222,600	-	-	222,600
Construction in progress	651,087	-	651,087	-	(651,087)	-
Books, media & microfilm	4,529,374	(4,529,374)	-	-	-	-
	<u>7,307,301</u>	<u>(6,433,614)</u>	<u>873,687</u>	<u>-</u>	<u>(651,087)</u>	<u>222,600</u>
Capital assets, being depreciated						
Building and improvements	-	1,904,240	1,904,240	995,921	-	2,900,161
Equipment and furniture	481,271	(440,183)	41,088	29,757	-	70,845
Vehicle	32,860	22,814	55,674	-	-	55,674
	<u>514,131</u>	<u>1,486,871</u>	<u>2,001,002</u>	<u>1,025,678</u>	<u>-</u>	<u>3,026,680</u>
Less accumulated depreciaton:						
Building and improvements	-	672,240	672,240	63,523	-	735,763
Equipment and furniture	354,636	(317,576)	37,060	1,414	-	38,474
Vehicle	30,261	25,413	55,674	-	-	55,674
	<u>384,897</u>	<u>380,077</u>	<u>764,974</u>	<u>64,937</u>	<u>-</u>	<u>829,911</u>
Total being depreciated, net	<u>129,234</u>	<u>1,106,794</u>	<u>1,236,028</u>	<u>960,741</u>	<u>-</u>	<u>2,196,769</u>
Total capital assets	<u>\$ 7,436,535</u>	<u>\$(5,326,820)</u>	<u>\$ 2,109,715</u>	<u>\$ 960,741</u>	<u>\$ (651,087)</u>	<u>\$ 2,419,369</u>

**Klamath County Library Service District**  
**Notes to Financial Statements**  
**June 30, 2010**

**Note 5– Capital Assets** *(continued)*

Management has determined that the prior accounting for library books was incorrect. Each book by itself is below the capitalization threshold established by management, and management has never adopted a policy of composite depreciation. The books are not works of art or historical treasures. A prior period adjustment of \$(4,529,374) has been recorded to remove the books from the financial statements.

Depreciation expense was charged to functions/programs of the District as follows:

Governmental Activities:

Library services	\$ 64,937
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**Note 6 – Operating Lease**

The District leases real property which is used for its various branches. Lease expense for the year ended June 30, 2010 was \$45,841.

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

2011	\$ 51,116
2012	57,804
2013	53,679
2014	32,344
2015	21,264
Remaining	5,016
Total	\$ 221,223

**Note 7 – Long-term Liabilities**

**Changes in Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Balance June 30, 2009	Prior Period Adjustment	Additions	Reductions	Balance June 30, 2010	Amounts Due Within One Year
Compensated absences	\$ -	\$ 63,383	\$ -	\$ (2,384)	\$ 60,999	\$ -
OPEB liability	-	310	260	-	570	-
Pension liability	-	-	13,768	-	13,768	-
Total	\$ -	\$ 63,693	\$ 14,028	\$ (2,384)	\$ 75,337	\$ -

**Note 8 – Contingencies**

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

**Note 9 – Interfund Transfers**

Transfers are used to 1) move resources from the fund with collection authorization to the debt service fund as debt service principal and interest payments are due, 2) move restricted amounts from borrowings to the debt service fund to establish mandatory reserve accounts, 3) move unrestricted general fund revenues to finance various programs that the District must

**Klamath County Library Service District**  
**Notes to Financial Statements**  
**June 30, 2010**

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**Note 9 – Interfund Transfers** *(continued)*

account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs, and 4) move amounts from various departments to reserve accounts to fund budgeted reserves.

**Note 10 – Risk Management**

The District participates in Klamath County's risk management fund for unemployment and workers compensation claims. The District purchases commercial insurance through Special Districts Association for general liability and auto. Settlements have not exceeded coverage for each of the past three fiscal years.

**Note 11 – Defined Benefit Pension Plans**

The District participates in The Klamath County Employees' Pension Plan.

**Klamath County Employees' Pension Plan**

**Plan Description**

This plan is a single employer defined benefit pension plan to which the employer makes contributions. The latest actuarial valuation of the plan was made as of January 1, 2009. The plan is a stand alone plan and covered under the Internal Revenue Code 401(a) and the subsequent trust document/restatement.

All qualified employees who work 20 hours or more per week and are not considered temporary are eligible for participation after the first of the month following the date of employment.

The benefits for participants vest at 0% for less than five years of service and 100% for five years or more of service.

Normal retirement is allowed at age 62, otherwise age 65. Early retirement is allowed at age 55 with reduced benefits until age 60. At age 60, retirement is allowed at an unreduced benefit level. Retirement benefits are based on salary and length of service; are calculated using a formula and are payable monthly using several payment options. The plan also provides death and disability benefits. A lump sum or rollover distribution can be made if the participant is under the age of 55.

A complete copy of the detailed Plan Summary can be inspected at the County office at 305 Main Street, Klamath Falls, Oregon 97601 or by calling 541-883-4296.

**Funding Policy**

The amount of employer contribution is calculated by an actuary and recommended to the employer. The amount is expressed as a percentage of the covered salary of each participating employee. Because the employer's funding policy is to make contributions as a percentage of actual payrolls, the following table summarizes the contribution information as a percentage of payrolls.

Note: In Fiscal Year 2009-10, the employer budgeted and contributed 10%. Currently 10% is budgeted in Fiscal Year 2010-11. The actuarially computed Annual Required Contribution (ARC) is 12.12% for 2010.

**Actuarial Methods and Assumptions**

Projections of benefits and financial accounting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions, from the December 31, 2007, projected unit credit method were used. The actuarial evaluation include an investment return of 8.0% on system assets, consumer price inflation of 2.75% per year, future general wage inflation of 3.75% per year, health care cost inflation of 8.0% in 2008, grading down by 0.06% per year to 5.0% in 2013.

**Klamath County Library Service District**  
**Notes to Financial Statements**  
**June 30, 2010**

**Note 11 – Defined Benefit Pension Plans** *(continued)*

**Three-year Trend Information**

Three-year trend information for the District is as follows:

<u>Fiscal Year Ending</u>	<u>Annual Required Contribution (ARC)</u>	<u>Employer Contribution</u>	<u>Percentage of ARC Contributed</u>
6/30/2010	\$ 78,706	\$ 64,939	83%
6/30/2009	42,052	42,052	100%
6/30/2008	36,997	36,997	100%

The employer's policy prior to Fiscal Year 2009-2010 was to contribute 100% of the ARC computed as a percentage of the projected payroll and in accordance with the selected actuarial cost method, and applied to actual payroll. As of Fiscal Year 2009-2010, the employer has contributed 10% and has budgeted 10% in the Fiscal Year 2010-2011.

**Annual Pension Cost**

Employer contributions are calculated in conformance with the provisions of GASB Statement No. 27 as a percentage of covered payrolls.

For the year ended June 30, 2010, the annual pension contribution was 83% of the ARC. The required contribution was determined as part of the January 1, 2008, actuarial valuation using the entry age actuarial cost method.

Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 8.0% per year, and (b) projected salary increases of 5.0% per year attributable to general wage adjustments, with additional increases for promotion and longevity that vary by age and service.

	<b>July 2009 to June 2010</b>
Annual required contribution (ARC)	\$ 78,707
Interest on net pension obligation	-
ARC adjustments	-
Annual pension cost	<u>78,707</u>
Contributions made	<u>(64,939)</u>
Increase in net pension obligation	13,768
Net pension obligation, beginning of year	-
Net pension obligation, end of year	<u>\$ 13,768</u>
Interest rate	7.25%
Amortization factor	7.50%

**Note 12 – Post-employment Healthcare Plan**

The District participates in Klamath County's post-employment healthcare plan.

**Klamath County Post-employment Healthcare Plan**

**Plan Description**

The employer is required by Oregon Revised Statute (ORS) 243.303 to allow retirees to continue health insurance coverage for themselves and their qualified dependents at the same rates as active employees from the time of their retirement to age 65. Providing the same rate to retirees as provided to current employees constitutes an implicit rate subsidy for other postemployment benefits (OPEB). Government Accounting Standards Board Statement 45 (GASB 45), Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, is applicable to the employer due to the resulting implicit rate

**Klamath County Library Service District**  
**Notes to Financial Statements**  
**June 30, 2010**

**Note 12 – Post-employment Healthcare Plan** *(continued)*

subsidy. The employer administers a single-employer defined benefit healthcare plan that covers both active and retired participants. These are not stand-alone plans and there are no separately issued financial statements.

**Funding Policy**

Retirees pay the entire premium in order to maintain coverage under the employer’s health plans. The employer does not directly contribute to the cost of premiums for retirees. However, premiums paid by retirees do not represent the full cost of providing health insurance to retirees because the employer’s rates are based on claims experienced for both active and retired employees; medical coverage would be more expensive for retirees in a separately rated health plan. The additional cost of allowing purchasing under the employer’s health insurance plans is considered an implicit rate subsidy and is financed on a pay-as-you-go basis. Contribution requirements are established and may be amended by the Board of Commissioners in conjunction with the applicable collective bargaining agreements.

**Actuarial Funding Methods and Assumptions**

In the actuarial valuation as of July 1, 2008, the projected unit credit method of funding was used. The objective under this method is to fund each participant’s employment benefits. Thus, the total benefit to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited service. Typically, when this method is introduced, there will be an initial liability for benefits credited for service prior to that date, and to the extent that the liability is not covered by plan assets, there is an unfunded liability to be funded over a chosen period in accordance with an amortization schedule.

The actuarial assumptions included (a) a discount rate 3.75% per annum, and payroll growth 3.75% per annum (b) an annual retiree health care cost trend increase rate of 9.5% initially, grading down by 0.5% per year to 5.0% by the year 2018.

**Annual OPEB Cost**

Annual OPEB cost requirements as of June 30, 2009 and 2010 are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2010	\$ 2,998	81%	\$ 570
2009	2,998	90%	310

**Annual OPEB Cost and Net OPEB Obligation**

The District’s annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is provided to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years.

The following table shows the components of the District’s annual OPEB cost, the amount actually contributed to the plan, and changes in the District’s net OPEB obligation to the plan.

	<u>July 2009 to</u> <u>June 2010</u>
Annual required contribution (ARC)	\$ 2,998
Interest on net OPEB obligation	-
ARC adjustments	-
Annual OPEB cost	<u>2,998</u>
Contributions made	<u>(2,738)</u>
Increase in net OPEB obligation	260
Net pension OPEB, beginning of year	<u>310</u>
Net pension OPEB, end of year	<u>\$ 570</u>
Interest rate	3.75%
Amortization factor	30

**Klamath County Library Service District**  
**Notes to Financial Statements**  
**June 30, 2010**

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**Note 13 – Prior Period Adjustments**

Beginning net assets on the statement of activities have been restated for the following prior period adjustments:

	<u>General Fund</u>	<u>Component Units</u>	<u>Total</u>
Cash	\$ -	\$ 61,719	\$ 61,719
Compensated Absences	(63,383)	-	(63,383)
OPEB liability	(310)	-	(310)
Prior period adjustment	<u>\$ (63,693)</u>	<u>\$ 61,719</u>	<u>\$ (1,974)</u>

Capital assets have also been restated as disclosed in note 5.

**Note 14 – Concentrations**

The District's employees are subject to a labor agreement that covers all employees except members of management. The agreement with Teamsters Local Union No. 121 is in effect from July 1, 2008 through June 30, 2011.

**Note 15 – Related Party Transactions**

Klamath County provides support for the District in the form of human resources, technical support, and administrative oversight. Administrative fees for these services totaled \$185,755 for the year ended June 30, 2011.

**Note 16 – Subsequent Events**

Subsequent events were evaluated through July 19, 2011, which is the date the financial statements were available to be issued.

**Note 17 – New Pronouncements**

The GASB issued statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, which is intended to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The requirements of this standard will be implemented by the District in the fiscal year ending June 30, 2011. The District has not yet determined the impact of this statement on its financial statements.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**Klamath County Library Service District**  
**Statement of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual – General Fund**  
**For the Year Ended June 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u> <u>- Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Property taxes	\$ 2,352,582	\$ 2,352,582	\$ 2,222,946	\$ (129,636)
Per Capita State Aid	21,368	21,368	20,041	(1,327)
Charges for services	21,300	21,300	72,038	50,738
Investment income	20,000	20,000	32,011	12,011
Sales and donations	1,300	1,300	1,307	7
Sales - Property Distribution	26,522	26,522	22,489	(4,033)
Miscellaneous revenues	17,000	17,000	4,531	(12,469)
<b>Total Revenues</b>	<u>2,460,072</u>	<u>2,460,072</u>	<u>2,375,363</u>	<u>(84,709)</u>
<b>Expenditures</b>				
Current				
Personnel Services	1,318,185	1,318,185	1,269,534	48,651
Materials and services	1,093,955	1,093,955	1,030,676	63,279
Contingency	150,000	150,000	-	150,000
<b>Total Expenditures</b>	<u>2,562,140</u>	<u>2,562,140</u>	<u>2,300,210</u>	<u>261,930</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(102,068)	(102,068)	75,153	177,221
<b>Other Financing Sources</b>				
Transfers in	39,440	39,440	-	(39,440)
Transfers out	(464,253)	(464,253)	-	464,253
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	(526,881)	(526,881)	75,153	602,034
Fund Balance - Beginning	<u>826,881</u>	<u>826,881</u>	<u>1,539,612</u>	<u>712,731</u>
Fund Balance - Ending	<u>\$ 300,000</u>	<u>\$ 300,000</u>	<u>\$ 1,614,765</u>	<u>\$ 1,314,765</u>

**Klamath County Library Service District**  
**Statement of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual – Reserve Fund**  
**For the Year Ended June 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<b>Variance with Final Budget - Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Sales and donations	\$ 26,000	\$ 26,000	\$ 26,000	\$ -
Investment income	3,000	3,000	-	(3,000)
Total Revenues	<u>29,000</u>	<u>29,000</u>	<u>26,000</u>	<u>(3,000)</u>
<b>Expenditures</b>				
Current				
Capital Outlay	470,150	470,150	374,591	95,559
Contingency	429,828	429,828	-	429,828
Total Expenditures	<u>899,978</u>	<u>899,978</u>	<u>374,591</u>	<u>525,387</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(870,978)	(870,978)	(348,591)	522,387
<b>Other Financing Sources</b>				
Transfers in	<u>463,795</u>	<u>463,795</u>	-	<u>(463,795)</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	(407,183)	(407,183)	(348,591)	58,592
Fund Balance - Beginning	<u>407,183</u>	<u>407,183</u>	<u>477,795</u>	<u>70,612</u>
Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 129,204</u>	<u>\$ 129,204</u>

## **OTHER SUPPLEMENTARY SCHEDULES**

**Klamath County Library Service District  
Schedule of Property Tax Transactions  
For the Year Ended June 30, 2010**

Schedule A-1

<b>Fiscal Year Ending</b>	<b>Assessor's Current Levy and Balances July 01, 2009</b>	<b>Discounts/ Adjustments</b>	<b>Taxes Collected</b>	<b>Balance Uncollected June 30, 2010</b>	<b>Interest Collected (Memo Only)</b>
2010	\$ 2,343,826	\$ (59,885)	\$ 2,152,664	\$ 131,277	\$ 1,661
<b>Prior years</b>					
2009	116,935	(5,552)	65,237	60,574	4,321
2008	50,823	(4,404)	21,886	33,645	3,091
2007	27,580	(5,979)	19,969	13,816	3,962
2006	9,455	(2,714)	8,848	3,506	1,945
2005	3,254	(141)	1,236	2,221	314
2004	2,877	(179)	928	2,128	272
2003 and prior	13,681	(597)	1,009	12,075	369
Total - Prior Years	224,605	(19,566)	119,113	127,965	14,274
Total	<u>\$ 2,568,431</u>	<u>\$ (79,451)</u>	<u>\$ 2,271,777</u>	<u>\$ 259,242</u>	<u>\$ 15,935</u>
<b>Summary by Fund</b>					
General Fund				<u>\$ 259,242</u>	
Total				<u>\$ 259,242</u>	

## **AUDIT COMMENTS SECTION**

**GOVERNMENT AUDITING STANDARDS SECTION**



824 Pine Street  
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 *Government Auditing Standards***

### **Independent Auditors' Report**

Board of Commissioners  
Klamath County Library Service District  
Klamath Falls, OR 97601

We have audited the basic financial statements of Klamath County Library Service District as of and for the year ended June 30, 2010 and have issued our report thereon dated July 15, 2011. 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 Library 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 Library Service District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Klamath County Library 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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies

*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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings that we consider to be significant deficiencies in internal control over financial reporting. 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.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Klamath County Library 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

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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 Klamath County Board of Commissioners, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Molatore, Scroggin, Peterson, & Co. LLP



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Andrew E. Peterson, CPA

Klamath Falls, Oregon  
July 15, 2011

**AUDIT COMMENTS AND DISCLOSURES  
REQUIRED BY STATE REGULATION**



824 Pine Street  
Klamath Falls, OR 97601  
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Certified Public Accountants

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

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

We have audited the basic financial of Klamath County Library Service District as of and for the year ended June 30, 2010, and have issued our report thereon dated July 15, 2011. 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 Klamath County Library Service District's basic financial statements are free of material misstatement, 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 162-10-000 to 162-10-330, 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 2010 and 2011.
- 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 statutory 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.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Klamath County Library 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of Klamath County Library Service District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Klamath County Library 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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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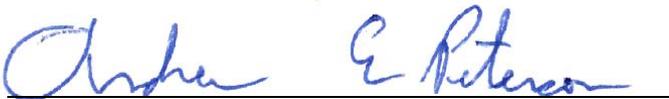
*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination 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 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 that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings that we consider to be significant deficiencies in internal control over financial reporting. 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.

We noted certain matters that we have reported to management of Klamath County Library Service District in a separate letter dated July 15, 2011.

This report is intended solely for the information of management, the Board of Directors, and the 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



Andrew E. Peterson, Partner

Klamath Falls, Oregon  
July 15, 2011

**Klamath County Library Service District**  
**Schedule of Findings**  
**June 30, 2010**

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- 2010-1. Klamath County Library Service District has inadequate documentation of the components of internal control.
- 2010-2. Klamath County Library Service District has an inadequate design of internal control over the preparation of the financial statements being audited.
- 2010-3. Klamath County Library Service District personnel lack the qualifications or training to apply generally accepted accounting principles in preparing the financial statements being audited.