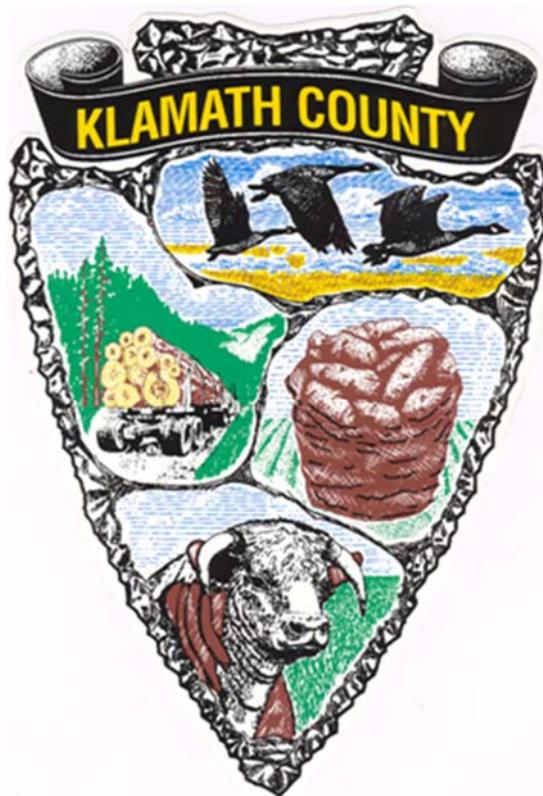


KLAMATH COUNTY DRAINAGE SERVICE DISTRICT

A COMPONENT UNIT OF KLAMATH COUNTY, OREGON



**ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2015**

Prepared by:

Finance Department

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Klamath County Drainage Service District
Annual Financial Report
For the Fiscal Year Ended June 30, 2015
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INTRODUCTORY SECTION

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**Klamath County Drainage Service District
List of Elected and Appointed Officials
June 30, 2015**

Board of Directors

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Tom Mallams	County Commissioner	January 3, 2017
Dennis Linthicum / Kelley Minty Morris	County Commissioner	January 5, 2015 / 2019
Jim Bellet	County Commissioner	January 3, 2017

Appointed Officials

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

Mailing Address

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

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FINANCIAL SECTION

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REPORT OF INDEPENDENT AUDITORS

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REPORT OF INDEPENDENT AUDITORS

The Board of Commissioners
Klamath County Drainage Service District

Report on the Financial Statements

We have audited the accompanying statement of fund net position, statement of revenues, expenses and change in fund net position, and statement of cash flows of Klamath County Drainage Service District (the District), a component unit of Klamath County, Oregon as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The other supplementary schedules, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary schedules are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Report on Other Legal and Regulatory Requirements

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 29, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Other Reporting Required by *Minimum Standards for Audits of Oregon Municipal Corporations*

In accordance with the Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated February 29, 2016 on our consideration of the County's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.



For Moss Adams LLP
Eugene, Oregon
February 29, 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**Klamath County Drainage Service District
Management's Discussion and Analysis
June 30, 2015**

As management of Klamath County Drainage Service District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$2,340,894 (*net position*). Of this amount, \$2,338,472 (*unrestricted net position*) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net position increased by \$114,261. This increase was due to a decrease in operating expenses in the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise two components: 1) fund financial statements, and 2) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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. The District uses a proprietary fund to account for its activities.

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

Notes to the basic financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements.

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

Fund Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$2,340,894 at the most recent fiscal year.

By far the largest portion of the District's net position (98%) reflects its investments in cash and cash equivalents. The District uses these assets to provide services to citizens.

**Klamath County Drainage Service District
Management's Discussion and Analysis
June 30, 2015**

	<u>2015</u>	<u>2014</u>	<u>Amount Inc(Dec)</u>
Assets			
Current and other assets	\$ 2,344,443	\$ 2,230,139	\$ 114,304
Capital Assets	<u>2,422</u>	<u>-</u>	<u>2,422</u>
Total Assets	<u>2,344,443</u>	<u>2,230,139</u>	<u>\$ 114,304</u>
Liabilities			
Other liabilities	<u>5,971</u>	<u>3,506</u>	<u>2,465</u>
Total Liabilities	<u>5,971</u>	<u>3,506</u>	<u>2,465</u>
Net Position			
Net investment in capital assets	2,422	-	2,422
Unrestricted	<u>2,338,472</u>	<u>2,226,633</u>	<u>111,839</u>
Total Net Position	<u>\$ 2,340,894</u>	<u>\$ 2,226,633</u>	<u>\$ 114,261</u>

The District's net position balance of *unrestricted net position*, which amounts to \$2,338,472, 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 position for the government as a whole. The same situation held true for the prior fiscal year.

	<u>2015</u>	<u>2014</u>	<u>Amount Inc(Dec)</u>
Income			
Operating income	\$ 221,267	\$ 216,286	\$ 4,981
Total Income	<u>221,267</u>	<u>216,286</u>	<u>4,981</u>
Expenses			
Operating expenses	<u>116,237</u>	<u>115,295</u>	<u>942</u>
Total Expenses	<u>116,237</u>	<u>115,295</u>	<u>942</u>
Operating Income	<u>105,030</u>	<u>100,991</u>	<u>4,039</u>
Other Income (Expense)	<u>9,231</u>	<u>8,326</u>	<u>905</u>
Total Other Income (Expense)	<u>9,231</u>	<u>8,326</u>	<u>905</u>
Increase (decrease) in net position	<u>114,261</u>	<u>109,317</u>	<u>4,944</u>
Net position, beginning	<u>2,226,633</u>	<u>2,117,316</u>	<u>109,317</u>
Net position, ending	<u>\$ 2,340,894</u>	<u>\$ 2,226,633</u>	<u>\$ 114,261</u>

For the most part, the increase in net position is related to revenues in excess of expenses.

**Klamath County Drainage Service District
Management's Discussion and Analysis
June 30, 2015**

Budgetary Highlights

The District budgets all funds in compliance with Oregon budget law. All of the budget changes are done by resolution and or a supplemental budget as required by Oregon budget law. There was one supplemental budgets during the year to recognize an increase in beginning fund balance.

Capital Assets

Capital assets: The District investment in capital assets for its business-type activities as of June 30, 2015, amounts to \$2,422 (net of accumulated depreciation). This investment in capital assets includes construction-in-progress, land, buildings and system, improvements, machinery and equipment.

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

- A variety of land, buildings and equipment previously held by the County were transferred to the District.

	<u>2015</u>	<u>2014</u>
Land	\$ 500	\$ -
Buildings and improvements	1,922	-
Machinery and equipment	<u>-</u>	<u>-</u>
Total	<u>\$ 2,422</u>	<u>\$ -</u>

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

Economic Factors and Next Year's Budgets

Klamath County was not immune from the national recession. The current unemployment outlook for Klamath County improved from the previous year. The County rate remains relatively high compared to other parts of the state. Residential and commercial construction has remained flat over the prior fiscal year. Assessment revenues are expected to remain flat.

The State of Oregon is determining the amount of Total Maximum Daily Loads that various entities are allowed to discharge into the Klamath River. This process may impact the District by requiring additional water quality testing and controls which could have financial implications on the District.

All of these factors were considered in preparation of the District's budgets for 2014-15 and 2015-16 fiscal years.

Requests for Information

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

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BASIC FINANCIAL STATEMENTS

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Klamath County Drainage Service District
Statement of Fund Net Position
June 30, 2015

Assets

Current Assets

Cash and cash equivalents	\$ 2,297,578
Assessments receivable	26,055
Prepaid expenses	20,810
Total current assets	<u>2,344,443</u>

Capital Assets

Land	500
Buildings and improvements, net	1,922
Total capital assets	<u>2,422</u>
Total assets	<u>2,346,865</u>

Liabilities

Current Liabilities:

Accounts payable	<u>5,971</u>
Total Liabilities	<u>5,971</u>

Net Position

Net investment in capital assets	2,422
Unrestricted	<u>2,338,472</u>
Total net position	<u>\$ 2,340,894</u>

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

Klamath County Drainage Service District
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Year Ended June 30, 2015

Revenues	
Licenses, fees, and permits	\$ 220,521
Total operating revenues	220,521
Operating Expenses	
Materials and services	116,157
Depreciation	78
Total Operating Expenses	116,235
Operating income (loss)	104,286
Non-Operating Revenues (Expenses)	
Interest and investment revenue	6,376
Miscellaneous revenue	354
Capital grants and contributions	2,500
Other taxes	745
Total non-operating revenue (expenses)	9,975
Change in net position	114,261
Total net position - beginning	2,226,633
Total net position - ending	\$ 2,340,894

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

Klamath County Drainage Service District
Statement of Cash Flows
For the Year Ended June 30, 2015

Cash Flows From Operating Activities	
Receipts from customers and users	\$ 222,718
Payment to suppliers	<u>(90,991)</u>
Net Cash Flows Provided (Used) by Operating Activities	<u>131,727</u>
Cash Flows From Noncapital Financing Activities	
Other income	<u>354</u>
Net Cash Provided (Used) by Noncapital Financing	<u>354</u>
Cash Flows From Investing Activities	
Investment interest	<u>6,376</u>
Net Cash Flows Provided by Investing Activities	<u>6,376</u>
Net Increase (Decrease) in Cash and Cash Equivalents	138,457
Cash and Cash Equivalents, Beginning of Year	<u>2,159,121</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,297,578</u>
Reconciliation of Operating Income (Loss) to Net Cash Flows Provided (Used) by Operating Activities	
Operating Income (Loss)	\$ 104,286
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows Provided (Used) by Operating Activities	
Depreciation expense	78
(Increase) decrease in assets	
Assessments receivable	1,452
Prepaid expenses	22,701
Increase (decrease) in liabilities	
Accounts payable	<u>2,465</u>
Net Cash Flows Provided (Used) by Operating Activities	<u>\$ 130,982</u>

Klamath County transferred assets to the District with a net book value of \$2,500.00.

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

Klamath County Drainage Service District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2015

Note 1 – Summary of Significant Accounting Policies

Organization

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

The following is a summary of significant accounting policies utilized by the District in the preparation of the accompanying financial statements.

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. It is governed by a board comprised of the County's board of commissioners and county management has operational responsibility for the Drainage District. The District reviewed all the potential component units that might be included in the financial statements and concluded that none had any significant financial or operational relationships with the District.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resource being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The fund 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 when the related cash flow takes place.

Budgetary Basis of Accounting

Annual budgets are adopted on a basis consistent with 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 government considers revenues to be available if they are collected within 60 days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

The nature and amount of all significant adjustments necessary are noted on the budget to actual statements included in the financial statements.

Deposits and Investments

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

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

Receivables and Payables

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

Klamath County Drainage Service District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2015

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

Assessments

The assessments are billed and collected through Klamath County’s property tax system. The assessments attach as an enforceable lien on real property and are levied on July 1st. Property taxes are assessed in October and tax payments are due November 15th of the same year. Under the partial payment schedule, the first one-third of taxes is due November 15th, the second one-third on February 15th, and the remaining one-third on May 15th. A three percent discount is allowed in full payment is made by November 15th and a two percent discount is allowed if two-thirds payment is made by November 15th. Taxes become delinquent if not paid by the due date and interest accrues after each trimester at a rate of one percent per month. Property foreclosure proceedings are initiated four years after the tax due date.

Prepaid Items

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

Capital Assets

Capital assets, which includes property and equipment, and their improvements, are reported in the fund financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 for equipment with 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. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction phases of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the year, the District incurred no interest expense for capital assets for business-type activities.

Capital assets of the District are depreciated using the straight line method over the following estimated useful lives:

	<u>Years</u>		<u>Years</u>
Building & Improvements	20-50	System Infrastructure	30
Roads	50	Motor Vehicles	5-7
Bridges		Equipment	10
Timber	50	Software	5
Concrete	75		

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Klamath County Drainage Service District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2015

Note 2 – Stewardship, Compliance, and Accountability

Budgetary information

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

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

Unexpected additional resources or appropriations may be added to the budget through the use of a supplemental budget. A supplemental budget requires hearings before the public, publications in newspapers, and approval by the Board of Directors. Original and supplemental budgets may be modified by the use of appropriation transfers between the levels of control. Such transfers require approval by passing a Director’s resolution authorizing the transfer. All budget amendments are subject to the limitations put forth in the Oregon Revised Statutes Chapters 294.305 through 294.565 (Oregon Budget Law). One supplemental appropriation, permitted by Oregon Budget Law, was authorized by the Directors during the fiscal year to recognize an increase in beginning fund balance. The District does not use encumbrances.

Note 3 – Deposits and Investments

Cash and cash equivalents are comprised of and reflected on the Statement of Fund Net Position at June 30, 2015 as follows:

Klamath County Treasurer Investment Pool	<u>\$ 2,297,578</u>
Total Cash and Cash Equivalents	<u>\$ 2,297,578</u>

Credit risk - TIP: Oregon Revised Statutes, Chapter 294, authorize the District to invest in obligations of the U.S. Treasury, U.S. Government agencies and instrumentalities, bankers’ acceptances guaranteed by an Oregon financial institution, repurchase agreements, State of Oregon Local Government Investment Pool, certain high grade commercial paper, and various interest bearing bonds of Oregon municipalities, among others. The District does not have a deposit policy for investment credit risk. The District’s investment portfolio as of June 30, 2015, is representative of the types of investments made throughout the year. Since the District does not have formal policies and all deposits are in the TIP, please see Klamath County’s financial statements for more information risk exposures of the TIP.

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

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

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

Note 4 - Receivables

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

Klamath County Drainage Service District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2015

Note 5 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ -	\$ 500	\$ -	\$ 500
Total capital assets, not being depreciated	<u>-</u>	<u>500</u>	<u>-</u>	<u>500</u>
-				
Capital assets, being depreciated:				
Buildings and improvements	-	4,000	-	4,000
Equipment	-	21,980	-	21,980
Total capital assets being depreciated	<u>-</u>	<u>25,980</u>	<u>-</u>	<u>25,980</u>
Less accumulated depreciation for:				
Buildings and improvements	-	(2,078)	-	(2,078)
Equipment	-	(21,980)	-	(21,980)
Total accumulated depreciation	<u>-</u>	<u>(24,058)</u>	<u>-</u>	<u>(24,058)</u>
Total capital assets being depreciated, Net of accumulated depreciation	<u>-</u>	<u>1,922</u>	<u>-</u>	<u>1,922</u>
Total capital assets, net of Accumulated depreciation	<u>\$ -</u>	<u>\$ 2,422</u>	<u>\$ -</u>	<u>\$ 2,422</u>

Note 6 – Related Party

Transactions with the County for the year ended June 30, 2015 were as follows:

Expenses:	
Administration fee	\$ 14,517
Drainage maintenance	<u>13,482</u>
Total Expense	<u>\$ 27,999</u>

Note 7 – Contingent Liabilities

Management and legal counsel of the District believe the total amount of liability, if any, which may arise from claims and lawsuits beyond that which is covered by insurance would not have a material effect of the District's financial condition.

The State of Oregon is determining the amount of Total Maximum Daily Loads that various entities are allowed to discharge into the Klamath River. This process may impact the District by requiring additional water quality testing and controls which could have financial implications on the District.

Note 8 – Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Special Districts Insurance Services (SDIS). SDIS was created by the Special Districts Association of Oregon in 1984 for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. SDIS is fully funded by its members, who pay annual assessments on an experience rated basis, as determined by an outside, independent actuary. The assessment

Klamath County Drainage Service District
Notes to the Basic Financial Statements
For the Year Ended June 30, 2015

Note 8 – Risk Management *(continued)*

covers loss, loss adjustment, and administrative expenses. The District obtains insurance from SDIS for the following coverages: general liability limit of \$10,000,000 per occurrence; a public employee dishonesty bond for claims up to \$250,000; and various real, personal and inland marine property coverage for replacement costs. The District also carries commercial insurance for workers' compensation and employee health, life and disability coverages. Settled claims from these risks have not exceeded insurance limits in any of the past three years.

OTHER SUPPLEMENTAL INFORMATION

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Klamath County Drainage Service District
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget to Actual
For the year ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Drainage fees	\$ 195,000	\$ 195,000	\$ 221,784	26,784
Other taxes	-	-	745	745
Interest	10,000	10,000	6,376	(3,624)
Miscellaneous	-	-	355	355
Total Revenues	<u>205,000</u>	<u>205,000</u>	<u>229,260</u>	<u>24,260</u>
Expenses				
Material and services	307,317	309,791	93,457	216,334
Contingency	<u>897,683</u>	<u>895,209</u>	-	<u>895,209</u>
Total Expenses	<u>1,205,000</u>	<u>1,205,000</u>	<u>93,457</u>	<u>1,111,543</u>
Net change in fund balance	(1,000,000)	(1,000,000)	135,803	1,135,803
Fund Balance - beginning of year	<u>2,000,000</u>	<u>2,159,000</u>	<u>2,158,858</u>	<u>(142)</u>
Fund Balance - end of year	<u>\$ 1,000,000</u>	<u>\$ 1,159,000</u>	<u>\$ 2,294,661</u>	<u>\$ 1,135,661</u>

Reconciliation of Fund Balance - Budgetary Basis to Net Position

Fund Balance - Budgetary Basis - End of Year	\$ 2,294,661
Prepaid expenses are recognized for GAAP, but are not included for the Budgetary Basis	20,810
Capital assets are recognized for GAAP, but are not included for the Budgetary Basis	2,422
Receivables are recognized for GAAP, but are deferred for the Budgetary Basis	<u>23,001</u>
Net Position, Ending (GAAP)	<u>\$ 2,340,894</u>

**Klamath County Drainage Service District
Schedule of Assessment Transactions
For the Year Ended June 30, 2015**

Fiscal Year	Balances as of July 1, 2014	Current Levy	Discounts and Adjustments	Collections	Balance as of June 30, 2015	Interest Receivable as of June 30, 2015
2014-15	\$ -	\$ 224,881	\$ (5,306)	\$ 209,944	\$ 9,631	\$ -
Prior years						
2013-14	9,916	-	(124)	4,269	5,523	1,607
2012-13	5,720	-	(80)	2,044	3,596	1,943
2011-12	4,011	-	(65)	2,362	1,584	828
2010-11	1,737	-	(57)	1,271	409	159
2009-10	448	-	(58)	162	228	55
2008-09 and prior	754	-	(199)	103	452	40
Total - Prior Years	22,586	-	(583)	10,211	11,792	4,632
Total	<u>\$ 22,586</u>	<u>\$ 224,881</u>	<u>\$ (5,889)</u>	<u>\$ 220,155</u>	<u>\$ 21,423</u>	<u>\$ 4,632</u>

GOVERNMENT AUDITING STANDARDS SECTION

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REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Commissioners
Klamath County Drainage Service District

We have audited, in accordance with the 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, the accompanying statement of net position, statement of revenues, expenses and changes in fund net position, and statement of cash flows of Klamath County Drainage Service District (the District), a component unity of Klamath County, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Klamath County Drainage District's basic financial statements, and have issued our report thereon dated February 29, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams, LLP

Eugene, Oregon
February 29, 2016

STATE OF OREGON COMPLIANCE SECTION

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**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH OREGON MINIMUM AUDIT STANDARDS**

Board of Commissioners
Klamath County Drainage Service District

We have audited the basic financial statements of the Klamath County Drainage Service District (the District), a component unit of Klamath County, as of and for the year ended June 30, 2015 and have issued our report thereon dated February 29, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

Compliance

As part of obtaining reasonable assurance about whether the 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 use of approved depositories to secure the deposit of public funds.
- The requirements relating to the preparation, adoption and execution of the annual budgets for fiscal years 2015 and 2016.
- The requirements relating to insurance and fidelity bond coverage.
- 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 test disclosed no instances of noncompliance that are required to be reported under Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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 the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State, in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



For Moss Adams LLP
Eugene, Oregon
February 29, 2016