

1434-2008

KLAMATH COUNTY DRAINAGE SERVICE DISTRICT
KLAMATH FALLS, OREGON

ANNUAL FINANCIAL REPORT

June 30, 2008 and 2007



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

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

June 30, 2008 and 2007

BOARD OF DIRECTORS

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

OFFICIALS

Stan Strickland	Managing Agent	Public Works Director
Michael Long	Financial Manager	County Treasurer

REGISTERED OFFICE

Klamath County Drainage Service District
305 Main Street, Room 122
P.O. Box 340
Klamath Falls, Oregon 97601-0349
TEL: (541) 883-4269

RECEIVED MUNICIPALITIES

	Date	Initial
Rec'd	1-27-09	CS
Dist	1-27-09	JMC
Comm	1-28-09	KM
Created		
Created		

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

June 30, 2008 and 2007

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REPORT OF INDEPENDENT AUDITORS

450 COUNTRY CLUB ROAD
SUITE 155
EUGENE, OREGON 97401-6078



GREGOR PROFESSIONAL
CORPORATION

Telephone (541) 686-8777
Facsimile (541) 686-8779
E-mail: gpccpa@gregorpc.com
john@gregorpc.com
becky@gregorpc.com
chunil@gregorpc.com
wmb@gregorpc.com
billt@gregorpc.com
linglin@gregorpc.com
chelsea@gregorpc.com

REPORT OF INDEPENDENT AUDITORS

Members of the Board
Klamath County Drainage Service District
Klamath Falls, Oregon

We have audited the accompanying basic financial statements of the Klamath County Drainage Service District as of and for the years ended June 30, 2008 and 2007 as listed in the table of contents. These financial statements are the responsibility of management of the District. 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 we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2008 and 2007, and the changes in financial position and its cash flows, thereof and the respective budgetary comparison for the general fund year then ended in conformity with accounting principles generally accepted in the United States of America.

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

GREGOR PROFESSIONAL CORPORATION
Certified Public Accountants

By 
John Gregor, President

Eugene, Oregon
January 14, 2009

MANAGEMENT'S DISCUSSION & ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Financial Highlights

- The District's net assets exceeded its liabilities at the close of the most recent fiscal year by \$8,133 (*net assets*). Of this amount, \$1,905,896 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets decreased by \$89,245 due to increases of Drainage maintenance amounts.
- The District's total long-term debt is zero.

Overview of the Financial Statements

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

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

The District's basic financial statements comprise with *statement of net assets, statement of revenue, expenses and changes in fund net assets, statement of cash flows and statement revenues, expenses and changes in fund net assets - budget and actual*.

The District adopts an annual budget for all of its funds. Budgetary comparison statements for the major governmental funds have been provided for the required supplementary information. There are also individual budgetary statements for non-major governmental funds to demonstrate compliance with this budget included in this report.

The basic governmental fund financial statements can be found on pages 1-4 of this report.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Klamath County Board of Commissioners is also the Directors of the Klamath County Drainage District which provides Drainage services countywide. Intergovernmental agreements hold Klamath County harmless if named in any lawsuits.

The notes to the financial statements can be found on pages 3-8 of this report.

Financial Statement Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$8,133,283 at the close of the current fiscal year.

By far the largest portion of the District's net assets (76.57 %) reflects its investments in capital assets (e.g., ditch excavation and drainage system); 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.

Drainage District's Net Assets

	<u>2008</u>	<u>2007</u>	<u>Increases (decreases)</u>
ASSETS			
Cash and cash equivalents	\$ 1,887,643	\$ 1,953,411	\$ (65,768)
Receivables	31,706	34,367	(2,661)
Capital assets	<u>6,227,387</u>	<u>6,244,558</u>	<u>(17,171)</u>
Total assets	<u>8,146,736</u>	<u>8,232,336</u>	<u>(85,600)</u>
LIABILITIES			
Accounts payable	<u>13,453</u>	<u>9,808</u>	<u>3,645</u>
Total liabilities	<u>13,453</u>	<u>9,808</u>	<u>3,645</u>
NET ASSETS			
Invested in capital assets	6,227,387	6,244,558	(17,171)
Restricted	-	-	-
unrestricted	<u>1,905,896</u>	<u>1,977,970</u>	<u>(72,074)</u>
Total net assets	<u>\$ 8,133,283</u>	<u>\$ 8,222,528</u>	<u>\$ (89,245)</u>

The District's net assets balance of *unrestricted net assets*, which amounts to \$1,905,896, may be used to meet the government's ongoing obligations to citizens and creditors.

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

Drainage District's Changes in Net Assets

	<u>2008</u>	<u>2007</u>	<u>Increases (decreases)</u>
OPERATING REVENUES			
Drainage Fees	\$ 168,707	\$ 165,023	\$ 3,684
Other operating revenues	<u>1,867</u>	<u>2,554</u>	<u>(687)</u>
Total assets	<u>170,574</u>	<u>167,577</u>	<u>2,997</u>
OPERATING EXPENSES			
Material and services	316,716	125,328	191,388
Depreciation	<u>17,171</u>	<u>17,171</u>	<u>-</u>
Total liabilities	<u>333,887</u>	<u>142,499</u>	<u>191,388</u>
Net operating income	(163,313)	25,078	(188,391)
NON OPERATING REVENUES (EXPENSES)			
Interest	82,068	84,122	(2,054)
Transfer to other departments	<u>(8,000)</u>	<u>(6,000)</u>	<u>(2,000)</u>
Net income	(89,245)	103,200	(192,445)
NET ASSETS			
Beginning	<u>8,222,528</u>	<u>8,119,328</u>	<u>103,200</u>
Ending	<u>\$ 8,133,283</u>	<u>\$ 8,222,528</u>	<u>\$ (89,245)</u>

For the most part, increases in expenses of drainage maintenance.

Budgetary Highlights

The District budgets in compliance with Oregon budget law. Differences between the original budget and the final amended budget were relatively minor and can be briefly summarized as follows:

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

Capital Asset and Debt Administration

Capital assets: The District's investment in capital assets for its governmental activities as June 30, 2008, amounts to \$6,227,387 (net of accumulated depreciation). This investment in capital assets includes ditch excavation and drainage systems. The total decrease in investment in capital assets for the current fiscal year was \$17,171.

Drainage District's Capital Assets

	Balance 7/1/2007	Increases	Decreases	Balance 6/30/2008
Ditch excavation	\$ 6,210,214	\$ -	\$ -	\$ 6,210,214
Drainage system	515,142	-	-	515,142
	<u>6,725,356</u>	<u>-</u>	<u>-</u>	<u>6,725,356</u>
Less accumulated depreciation				
Drainage system	480,798	17,171	-	497,969
	<u>480,798</u>	<u>17,171</u>	<u>-</u>	<u>497,969</u>
Total capital assets, net	<u>\$ 6,244,558</u>	<u>\$ (17,171)</u>	<u>\$ -</u>	<u>\$ 6,227,387</u>

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

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

Economic Factors and Next Year's Budgets

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

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

General Information

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

Requests for Information

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

BASIC FINANCIAL STATEMENTS

KLAMATH COUNTY DRAINAGE SERVICE DISTRICT

STATEMENT OF NET ASSETS

June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents	\$ 1,887,643	\$ 1,953,411
Receivables:		
Accounts	7,361	9,866
Drainage fees	24,345	24,501
Capital assets, net		
Ditch excavation	6,210,214	6,210,214
Drainage systems	<u>17,173</u>	<u>34,344</u>
 Total assets	 <u>8,146,736</u>	 <u>8,232,336</u>
 LIABILITIES		
Accounts payable	<u>13,453</u>	<u>9,808</u>
 Total liabilities	 <u>13,453</u>	 <u>9,808</u>
 NET ASSETS		
Invested in capital assets, net of related debt	6,227,387	6,244,558
Restricted	-	-
Unrestricted	<u>1,905,896</u>	<u>1,977,970</u>
 Total net assets	 <u>\$ 8,133,283</u>	 <u>\$ 8,222,528</u>

The accompanying notes are an integral part of this statement.

KLAMATH COUNTY DRAINAGE SERVICE DISTRICT

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS

For the Years Ending June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
OPERATING REVENUES:		
Drainage fees	\$ 168,707	\$ 165,023
Other operating revenue	<u>1,867</u>	<u>2,554</u>
Total operating revenue	<u>170,574</u>	<u>167,577</u>
OPERATING EXPENSES:		
Materials and services	316,716	125,328
Depreciation	<u>17,171</u>	<u>17,171</u>
Total operating expenses	<u>333,887</u>	<u>142,499</u>
Net operating income	(163,313)	25,078
NON OPERATING REVENUES (EXPENSES):		
Interest	82,068	84,122
Transfer to other departments	<u>(8,000)</u>	<u>(6,000)</u>
Net income	(89,245)	103,200
NET ASSETS		
Beginning of year	<u>8,222,528</u>	<u>8,119,328</u>
End of year	<u>\$ 8,133,283</u>	<u>\$ 8,222,528</u>

The accompanying notes are an integral part of this statement.

KLAMATH COUNTY DRAINAGE SERVICE DISTRICT

STATEMENT OF CASH FLOWS

For the Years Ending June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Cash received from drainage fees	\$ 171,212	\$ 164,646
Cash received from other operational activities	1,867	2,554
Cash paid for personal services	-	-
Cash paid for materials and services	<u>(313,071)</u>	<u>(137,563)</u>
Net cash provided (used) by operating activities	<u>(139,992)</u>	<u>29,637</u>
Cash flows from noncapital financing activities:	<u>-</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Transfer to other departments	<u>(8,000)</u>	<u>(6,000)</u>
Cash flows from investing activities:		
Interest received	<u>82,224</u>	<u>84,256</u>
Net increase (decrease) in cash	(65,768)	107,893
Cash and cash equivalents		
Beginning of year	<u>1,953,411</u>	<u>1,845,518</u>
End of year	<u>\$ 1,887,643</u>	<u>\$ 1,953,411</u>
Reconciliation of net income to net cash provided by operating activities:		
Operating income	\$ (163,313)	\$ 25,078
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	17,171	17,171
Changes in assets and liabilities:		
(Increase) decrease in drainage fees receivable	2,505	(377)
Increase (decrease) in accounts payable	<u>3,645</u>	<u>(12,235)</u>
Net cash provided (used) by operating activities	<u>\$ (139,992)</u>	<u>\$ 29,637</u>

The accompanying notes are an integral part of this statement.

KLAMATH COUNTY DRAINAGE SERVICE DISTRICT

**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS -
BUDGET AND ACTUAL**

For the Year Ended June 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Drainage fees	\$ 150,000	\$ 150,000	\$ 168,707	\$ 18,707
Interest	99,750	99,750	82,068	(17,682)
Other	<u>-</u>	<u>-</u>	<u>1,867</u>	<u>1,867</u>
Total revenues	<u>249,750</u>	<u>249,750</u>	<u>252,642</u>	<u>2,892</u>
EXPENDITURES:				
Personal services	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Materials and services:				
Supplies	200	200	-	200
Travel	100	100	-	100
Dues/Fees	4,000	4,000	40	3,960
Legal notice publication	500	500	428	72
Vehicle fuel	100	100	-	100
Vehicle rental	100	100	-	100
Contract services	100,000	100,000	30,791	69,209
BMP public education	5,000	5,000	2,950	2,050
Weed control	10,000	10,000	-	10,000
Drainage maintenance	75,000	75,000	202,135	(127,135)
Storm water monitoring	20,000	20,000	-	20,000
Transfer to other departments	8,000	8,000	8,000	-
Insurance	65,000	65,000	80,372	(15,372)
Miscellaneous	<u>100</u>	<u>100</u>	<u>-</u>	<u>100</u>
Total materials and services	<u>288,100</u>	<u>288,100</u>	<u>324,716</u>	<u>(36,616)</u>
Capital outlay	125,000	125,000	-	125,000
Contingency	<u>500,000</u>	<u>500,000</u>	<u>-</u>	<u>500,000</u>
Total expenses	<u>913,100</u>	<u>913,100</u>	<u>324,716</u>	<u>588,384</u>
Revenues over (under) expenses	(663,350)	(663,350)	(72,074)	591,276
NET ASSETS				
Beginning of year	<u>1,995,000</u>	<u>1,995,000</u>	<u>8,222,528</u>	<u>6,227,528</u>
End of year	<u>\$ 1,331,650</u>	<u>\$ 1,331,650</u>	<u>\$ 8,150,454</u>	<u>\$ 6,818,804</u>
Reconciliation to GAAP basis:				
Depreciation			<u>(17,171)</u>	
Net assets - ending			<u>\$ 8,133,283</u>	

The accompanying notes are an integral part of this statement.

NOTES TO THE BASIC FINANCIAL STATEMENTS

**Klamath County Drainage Service District
Klamath Falls, Oregon**

**Notes to the Financial Statements
June 30, 2008 and 2007**

1. Summary of Significant Accounting Policies

REPORTING ENTITY

The Klamath County Drainage Service District operates under Oregon Revised Statutes, Chapter 190.03. The power of the District is vested in a three member board. Revenues consist of assessments to property owners in the District. Principal expense is the drainage maintenance in the District.

The District is a primary government. A primary government is financially accountable for the organizations that make up its legal entity. The District has considered all organizations for which it is financially accountable. Financial accountability may be evidenced by the ability to appoint the voting majority of the governing body, and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific burdens on, the primary government; or a fiscal dependency or intergovernmental relationship so close that exclusion from the primary government would render the financial statements incomplete or misleading. The District has no component units.

BASIS OF PRESENTATION

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 now 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.

BASIS OF ACCOUNTING

The basic financial statements are accounted for on the flow of *economic resources measurement focus* and are prepared on the *accrual basis of accounting*, whereby revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Assessments are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The District's basic financial statements have applied all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure, issued on or before November 30, 1989 unless those pronouncements conflict or contradict Governmental Accounting Standards Board (GASB) pronouncements.

**Klamath County Drainage Service District
Klamath Falls, Oregon**

**Notes to the Financial Statements
June 30, 2008 and 2007**

CASH AND CASH EQUIVALENTS

The cash recorded on the balance sheet is the balance of the deposit with the County Treasurer in the County cash and investment pool, and for purposes of the cash flow statement is considered as cash and cash equivalents.

RECEIVABLES

Receivables consist of assessment receivable from property owners within the District boundaries that benefit from the system and interest. These are recorded on the statement of net assets in accordance with the policies enumerated in paragraph above. These receivables become a lien on the property until paid. Based on past collection experience, no allowance has been established for uncollectible drainage assessment receivable.

CAPITAL ASSETS

Capital assets, which include property, plant and equipment, are reported in the basic 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. 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.

Property, plant, and equipment of the District are depreciated using the straight line method over the estimated useful live 30 years of drainage systems and 5 years of equipment.

2. Stewardship, Compliance and Accountability

BUDGETARY COMPLIANCE

The District does not levy a property tax and is not covered by the provisions of Oregon Budget Law. However, the District does assess charges to cover the expenses of the District and does prepare an annual budget under the guidelines in ORS 294.900 to 294.930. The District estimates expenses and appropriates at the level of personal services, material and services, capital outlay and operating contingency.

EXCESS OF EXPENDITURES OVER APPROPRIATIONS

During the fiscal year, expenditures (on a budgetary basis) exceeded appropriations for material and services by \$36,616.

**Klamath County Drainage Service District
Klamath Falls, Oregon**

**Notes to the Financial Statements
June 30, 2008 and 2007**

3. Cash and Cash Equivalents

The cash and cash equivalents as of June 30, 2008 and 2007 were \$1,887,643 and \$1,953,411, respectively.

DEPOSITS

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

INVESTMENTS

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

4. Capital Assets

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

	Balance <u>7/1/2007</u>	Increases	Decreases	Balance <u>6/30/2008</u>
Ditch excavation	\$ 6,210,214	\$ -	\$ -	\$ 6,210,214
Drainage system	<u>515,142</u>	<u>-</u>	<u>-</u>	<u>515,142</u>
	<u>6,725,356</u>	<u>-</u>	<u>-</u>	<u>6,725,356</u>
Less accumulated depreciation				
Drainage system	<u>480,798</u>	<u>17,171</u>	<u>-</u>	<u>497,969</u>
	<u>480,798</u>	<u>17,171</u>	<u>-</u>	<u>497,969</u>
Total capital assets, net	<u>\$ 6,244,558</u>	<u>\$ (17,171)</u>	<u>\$ -</u>	<u>\$ 6,227,387</u>

5. Contingent Liabilities

Management is not aware of any other contingent liabilities that would require disclosure under Statement of Financial Accounting Standards Number 5, which include among other things: notes or accounts receivable which have been discounted; pending suits, proceedings, hearings, or negotiations possibly involving retroactive judgments or claims; taxes in dispute; endorsements or guarantees; and options given.

**Klamath County Drainage Service District
Klamath Falls, Oregon**

**Notes to the Financial Statements
June 30, 2008 and 2007**

6. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District participates in the Special District Association of Oregon. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

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

450 COUNTRY CLUB ROAD
SUITE 155
EUGENE, OREGON 97401-6078



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

Telephone (541) 686-8777
Facsimile (541) 686-8779
E-mail: gpccpa@gregorpc.com
john@gregorpc.com
becky@gregorpc.com
chunil@gregorpc.com
wmb@gregorpc.com
billt@gregorpc.com
linglin@gregorpc.com
chelsea@gregorpc.com

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

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

We have audited the basic financial statements of the Klamath County Drainage Service District (the District) as of and for the year ended June 30, 2008, and have issued our report thereon dated January 14, 2009.

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

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

- Internal Control

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

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

PROVIDE OVERSIGHT OF THE PREPARATION OF FINANCIAL STATEMENTS

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

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

The results of our tests disclosed no instance of noncompliance by the District with the foregoing requirements, except as mention on note 2. However, it should be noted that our audit was not directed primarily toward obtaining knowledge of noncompliance with these requirements.

Additionally, we make the following other comments:

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

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

GREGOR PROFESSIONAL CORPORATION
Certified Public Accountants

By 
John Gregor, President

Eugene, Oregon
January 14, 2009