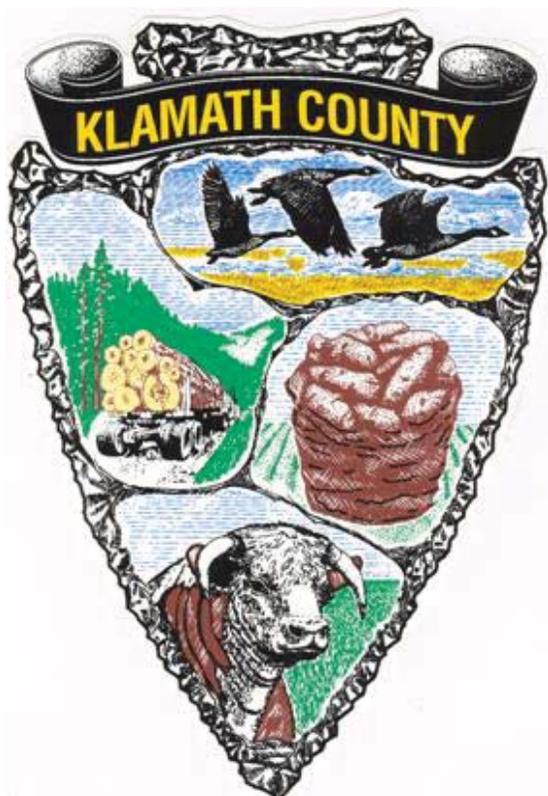


KLAMATH COUNTY, OREGON
KLAMATH COUNTY DRAINAGE SERVICE DISTRICT



FINANCIAL STATEMENTS

JUNE 30, 2013

Klamath County Drainage Service District
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INTRODUCTORY SECTION

**Klamath County Drainage Service District
Elected and Appointed Officials
June 30, 2013**

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
<u>Board of Directors</u>		
Al Switzer/Tom Mallams	County Commissioner	January 6, 2013/2017
Dennis Linthicum	County Commissioner	January 4, 2015
Cheryl Hukill/Jim Bellet	County Commissioner	January 6, 2013/2017

Officials

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

MAILING ADDRESS

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

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REPORT OF INDEPENDENT AUDITORS

Board of Commissioners
Klamath County Drainage Service District

Report on the Financial Statements

We have audited 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 unit of Klamath County, as of and for the year ended June 30, 2013, and the related, notes to basic 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 District'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 opinions.

MOSS ADAMS LLP***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, 2013, 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, is presented for purposes of additional analysis and is 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2013 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 District's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with the Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated December 31, 2013 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.



James C. Lanzarotta
For Moss Adams LLP
Eugene, Oregon
December 31, 2013

Klamath County Drainage Service District
Management's Discussion and Analysis
June 30, 2013

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, 2013.

Financial Highlights

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$2,117,316 (*net position*). Of this amount, \$2,117,316 (*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 \$69,825. 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) financial statements, and 2) notes to the financial statements.

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

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

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

The basic financial statements can be found on pages 7-9 of this report.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The Klamath County Board of Commissioners is also the Directors of the District which provides drainage services primarily in the south suburbs of Klamath Fall's urban growth boundary. Intergovernmental agreements hold Klamath County harmless if named in any lawsuits. The Klamath County Drainage Service District is treated as a component unit of the County due to the sharing of the same governing board and because the County is responsible for District operations.

The notes to the financial statements can be found on pages 10-12 of this report.

Financial Statement 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 \$2,117,316 at the close of the current fiscal year.

By far the largest portion of the District's net position (95%) 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, 2013**

District's Net Position

	<u>2013</u>	<u>2012</u>	<u>Amount Inc(Dec)</u>
Assets			
Current and other assets	\$ 2,147,864	\$ 2,047,491	\$ 100,373
Total Assets	<u>2,147,864</u>	<u>2,047,491</u>	<u>\$ 100,373</u>
Liabilities			
Other liabilities	30,548	-	\$ 30,548
Total Liabilities	<u>30,548</u>	<u>-</u>	<u>\$ 30,548</u>
Net Position			
Unrestricted	<u>2,117,316</u>	<u>2,047,491</u>	<u>\$ 69,825</u>
Total Net Position	<u>\$ 2,117,316</u>	<u>\$ 2,047,491</u>	<u>\$ 69,825</u>

The District's net position balance of *unrestricted net position*, which amounts to \$2,117,316, may be used to meet the District's ongoing obligations to citizens and creditors.

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

District's Changes in Net Position

	<u>2013</u>	<u>2012</u>	<u>Amount Inc(Dec)</u>
Income			
Operating income	\$ 219,275	\$ 218,937	\$ 338
Total Income	<u>219,275</u>	<u>218,937</u>	<u>\$ 338</u>
Expenses			
Operating expenses	154,730	479,223	\$ (324,493)
Total Expenses	<u>154,730</u>	<u>479,223</u>	<u>\$ (324,493)</u>
Operating Income	<u>64,545</u>	<u>(260,286)</u>	<u>\$ 324,831</u>
Other Income (Expense)	<u>5,280</u>	<u>12,206</u>	<u>\$ (6,926)</u>
Total Other Income (Expense)	<u>5,280</u>	<u>12,206</u>	<u>\$ (6,926)</u>
Increase (decrease) in net position	<u>69,825</u>	<u>(248,080)</u>	<u>\$ 317,905</u>
Net position, beginning	<u>2,047,491</u>	<u>2,295,571</u>	<u>\$ (248,080)</u>
Net position, ending	<u>\$ 2,117,316</u>	<u>\$ 2,047,491</u>	<u>\$ 69,825</u>

For the most part, the increase in net income is related to decreases in expenses for drainage maintenance. During the 2012 fiscal year, a large culvert was replaced behind Sterns Elementary School.

**Klamath County Drainage Service District
Management's Discussion and Analysis
June 30, 2013**

Budgetary Highlights

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

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

Economic Factors and Next Year's Budgets

Klamath County is not immune from the national recession. The current unemployment outlook for Klamath County remained flat from the previous year. The rate for 2013 is 10.5% compared to 10.8% in 2012. 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 2012-13 and 2013-14 fiscal years.

Requests for Information

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

Klamath County Drainage Service District
Statement of Net Position
June 30, 2013

Assets

Current Assets

Cash and cash equivalents	\$ 2,050,713
Receivables	30,939
Prepaid expenses	<u>66,212</u>
Total Current Assets	<u>2,147,864</u>

Total Assets	<u>2,147,864</u>
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Liabilities

Current Liabilities

Accounts payable	<u>30,548</u>
Total Current Liabilities	<u>30,548</u>

Net Position

Unassigned	<u>2,117,316</u>
Total Net Position	<u>\$ 2,147,864</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, 2013

Operating Revenue	
Assessments	\$ 219,275
	<u>219,275</u>
Total Operating Revenue	<u>219,275</u>
Operating Expenses	
Materials and services	154,730
	<u>154,730</u>
Total Operating Expenses	<u>154,730</u>
Operating Income	<u>64,545</u>
Non-Operating Revenue (Expenses)	
Investment interest	5,280
Total Non-Operating Revenue (Expenses)	<u>5,280</u>
Change in Net Position	69,825
Total Net Position, Beginning	<u>2,047,491</u>
Total Net Position, Ending	<u><u>\$ 2,117,316</u></u>

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

Klamath County Drainage Service District
Statement of Cash Flows
For the Year Ended June 30, 2013

Cash Flows From Operating Activities		
Receipts from customers and users	\$	218,939
Payment to suppliers		<u>(101,481)</u>
Net Cash Flows Provided (Used) by Operating Activities		<u>117,458</u>
Cash Flows From Investing Activities		
Investment interest		<u>5,280</u>
Net Cash Flows Provided (Used) by Investing Activities		<u>5,280</u>
Net Increase (Decrease) in Cash and Cash Equivalents		122,738
Cash and Cash Equivalents, Beginning of Year		<u>1,927,975</u>
Cash and Cash Equivalents, End of Year	\$	<u><u>2,050,713</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Flows Provided (Used) by Operating Activities		
Operating income	\$	64,545
Adjustments to Reconcile Operating Loss to Net Cash Flows Provided (Used) by Operating Activities		
(Increase) decrease in assets		
Assessments receivable		(337)
Prepaid expenses		22,702
Increase (decrease) in liabilities		
Accounts payable		<u>30,548</u>
Net Cash Flows Provided (Used) by Operating Activities	\$	<u><u>117,458</u></u>

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

Klamath County Drainage Service District
Notes to the Financial Statements
For the Year Ended June 30, 2013

Note 1 – Summary of Significant Accounting Policies

Organization

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

Reporting entity

The District's financial statements include the accounts of all District operations. The District is a component unit of Klamath County and is presented as a blended component unit. 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, basis of accounting, and financial statement presentation

The financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

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

Deposits and investments

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

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

Receivables and Payables

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

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

Prepaid Items

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

Use of Estimates

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

Klamath County Drainage Service District
Notes to the Financial Statements
For the Year Ended June 30, 2013

Note 2 – Stewardship, Compliance, and Accountability

Budgetary information

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

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

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

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

Note 3 – Cash and Cash Equivalents

Cash and cash equivalents are comprised of and reflected on the Statement of Net Position at June 30, 2013 as follows:

Klamath County Treasurer Investment Pool	\$ 2,050,713
Total Cash and Cash Equivalents	<u>\$ 2,050,713</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, 2013, 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 Financial Statements
For the Year Ended June 30, 2013

Note 5 – Related Party

Transactions with the County for the year ended June 30, 2013 were as follows:

Expenses:

Weed control	\$ 1,297
Administration fee	13,000
Drainage maintenance	<u>92,187</u>
 Total Expense	 <u>\$ 106,484</u>

Note 6 – Contingencies

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

Note 7 – Risk Management

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

OTHER SUPPLEMENTARY SCHEDULES

Klamath County Drainage Service District
Schedule of Revenues, Expenditures and Changes in Fund Balance -
Budget to Actual:
For the year ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Drainage Fees	\$ 205,000	\$ 205,000	\$ 218,864	\$ 13,864
Interest	10,000	10,000	5,280	(4,720)
Total Revenues	<u>215,000</u>	<u>215,000</u>	<u>224,144</u>	<u>9,144</u>
Expenses				
Material and Services	274,000	274,000	132,029	141,971
Capital Outlay	25,000	25,000	-	25,000
Contingency	916,000	916,000	-	916,000
Total Expenses	<u>1,215,000</u>	<u>1,215,000</u>	<u>132,029</u>	<u>1,082,971</u>
Excess of Revenues over (under) Expenses	<u>(1,000,000)</u>	<u>(1,000,000)</u>	<u>92,115</u>	<u>1,092,115</u>
Fund Balance - beginning of year	<u>2,000,000</u>	<u>2,000,000</u>	<u>1,931,570</u>	<u>(68,430)</u>
Fund Balance - end of year	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>	<u>\$ 2,023,685</u>	<u>\$ 1,023,685</u>
Reconciliation of Fund Balance - Budgetary Basis to Net Position				
Fund Balance - Budgetary Basis - End of Year			\$ 2,023,685	
Prepaid expenses are recognized for GAAP, but are not included for the Budgetary Basis			66,212	
Receivable are recognized for GAAP, but are deferred for the Budgetary Basis			<u>27,420</u>	
Net Position, Ending (GAAP)			<u>\$ 2,117,317</u>	

**Klamath County Drainage Service District
Schedule of Assessment Transactions
For the Year Ended June 30, 2013**

Fiscal Year	Current Assessment and Balances as of July 1, 2012	Add Levy Extended by Assessor	(Deduct) Discounts	Add Interest	(Deduct) Collections	Balance Receivable June 30, 2013
2012-13	\$ -	\$ 223,848	\$ (5,790)	\$	\$ 207,133	\$ 10,925
Prior years						
2011-12	11,667		(186)	5,187	5,033	11,635
2010-11	6,766	-	(181)		2,165	4,420
2009-10	4,385	-	(161)		2,174	2,050
2008-09	1,318	-	(25)		849	444
2007-08	329	-	(22)		65	242
2006-07 and prior	1,378	-	(39)		116	1,223
Total - Prior Years	25,843	-	(614)	5,187	10,402	20,014
Total	\$ 25,843	\$ 223,848	\$ (6,404)	\$ 5,187	\$ 217,535	\$ 30,939

GOVERNMENT AUDITING STANDARDS SECTION

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, 2013, and the related notes to the financial statements, which collectively comprise Klamath County Drainage Service District's basic financial statements, and have issued our report thereon dated December 31, 2013.

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 the 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 's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations,

MOSS-ADAMS_{LLP}

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.

A handwritten signature in black ink that reads "Moss Adams, LLP". The signature is written in a cursive, slightly slanted style.

Eugene, Oregon
December 31, 2013

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

**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, 2013 and have issued our report thereon dated December 31, 2013. 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 2012 and 2013.
- 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.

MOSS ADAMS LLP**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.



James C. Lanzarotta
For Moss Adams LLP
Eugene, Oregon
December 31, 2013