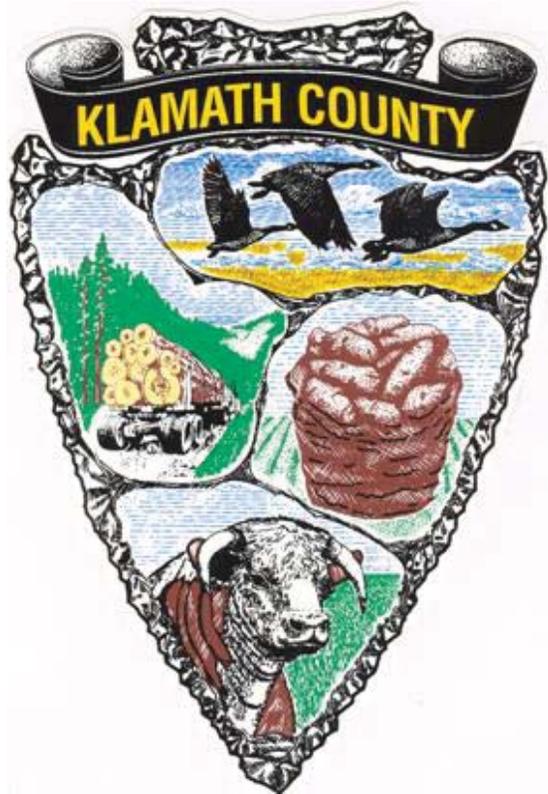


Klamath County, Oregon

KLAMATH COUNTY LIBRARY SERVICE DISTRICT



FINANCIAL STATEMENTS

JUNE 30, 2013

Klamath County Library Service District
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June 30, 2013

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INTRODUCTORY SECTION

**Klamath County Library 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

Andy Swanson	District Manager
Jason Link	Chief Financial Officer
David Groff	County Counsel

Mailing Address

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

FINANCIAL SECTION

REPORT OF INDEPENDENT AUDITORS

Board of Commissioners
 Klamath County Library Service District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major funds of Klamath County Library 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 the financial statements. We did not audit the aggregate discretely presented component units. These financial statements 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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. Because of the matter described in the "Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units" paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide an audit opinion on the aggregate discretely presented component units.

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 '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.

Summary of Opinions

Type of Opinion

Governmental Activities	Unmodified
Aggregately Discretely Presented Component Units	Disclaimer
Governmental Fund – General Fund	Unmodified
Governmental Fund – Capital Projects Fund	Unmodified

MOSS ADAMS LLP***Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units***

The financial statements of Klamath County Library Foundation (KCLF) and Friends of the Klamath County Library (FKCL) have not been audited, and we were not engaged to audit the KCLF and FKCL financial statements as part of our audit of the District's basic financial statements. KCLF and FKCL's financial activities are included in the District's basic financial statements as discretely presented component units and collectively represent 100% of the assets, net position, and revenues, of the District's aggregate discretely presented component units.

Disclaimer of Opinion

Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on the Aggregate Discretely Presented Component Units" paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the aggregate discretely presented component units of Klamath County Library Service District. Accordingly, we do not express an opinion on these financial statements.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 12 to the financial statements, the District recorded a correction of an error related to capital assets. Our opinion is not modified with respect to this matter.

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 7, and the budgetary schedule on page 20, 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 management discussion and analysis on pages 4 through 7 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.

MOSS ADAMS LLP

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The budgetary comparison information on page 20 is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The budgetary comparison 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 budgetary comparison information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The budgetary comparison on page 21 and schedule of property tax transactions on page 22 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison and schedule of property tax transactions is 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 schedule of budgetary comparison and property tax transactions and is 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 January 3, 2014 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.

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 January 3, 2014 on our consideration of the District'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
January 3, 2014

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

As management of Klamath County Library Service District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2013.

Financial Highlights

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$3,930,944 (*net position*). Of this amount, \$2,384,369 (*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 \$389,209. This increase was due to contributions from Klamath County and current operating revenues in excess of expenses.

As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,080,760 an increase of \$289,660 when compared with the prior year. Of this amount \$2,080,760 is *available for spending* at the District's discretion (*assigned, unassigned fund balance*).

At the end of the current fiscal year, unassigned fund balance for the general fund was \$972,624, or 41.3% of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. Changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

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

The government-wide financial statements can be found on pages 8 and 9 of this report.

Fund financial statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District are in one category: governmental funds.

Governmental fund

Governmental funds are used to account for essentially the same function reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing

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

decisions. There is a reconciliation to facilitate this comparison between governmental funds and governmental activities on pages 10 and 12.

The District maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and the capital projects fund. The capital projects fund accounts for the accumulation of resources for acquisitions of fixed assets or construction of major capital projects.

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

The basic governmental fund financial statements can be found on pages 10 through 12 of this report.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 13 through 19.

Government-wide 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 \$3,930,944 at the close of the most recent fiscal year.

Part of the District's net position (39.3%) reflects its investment in capital assets (e.g., land, construction in progress, buildings and system, machinery and equipment and infrastructure) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since that capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of *unrestricted net position* \$2,384,369 (60.7%) may be used to meet the government's ongoing obligations to citizens and creditors.

Klamath County Library Service District's Net Position

	Governmental Activities	
	2013	2012 (restated)*
Current and other assets	\$ 2,410,564	\$ 2,108,993
Capital assets	1,546,575	1,553,084
Total assets	3,957,139	3,662,077
Long-term liabilities outstanding	-	39,735
Other liabilities	26,195	80,606
Total liabilities	26,195	120,341
Invested in Capital assets	1,546,575	1,553,083
Unrestricted	2,384,369	1,988,652
Total net position	\$ 3,930,944	\$ 3,541,735

*See note 12 regarding details of restatement

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

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

The government's net position increased by \$389,209 during the current fiscal year. The largest factor in this increase is due to the contribution by Klamath County.

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

Klamath County Library Service District's Changes in Net Position

	Governmental Activities	
	2013	2012
Revenues:		
Program revenues:		
Charges for services	\$ 68,090	\$ 66,537
Operating grants and contributions	67,642	76,729
Capital grants and contributions	214,677	10,000
General revenues:		
Property taxes	2,461,859	2,435,163
Unrestricted investment earnings	5,966	10,912
Total revenues	<u>2,818,234</u>	<u>2,599,341</u>
Expenses:		
Library services	<u>2,429,025</u>	<u>2,390,697</u>
Total expenses	<u>2,429,025</u>	<u>2,390,697</u>
Increase (increase) in net position	389,209	208,644
Net position, beginning	3,541,735	4,559,980
Prior Period Adjustment		(1,226,889)
Net position beginning - restated	<u>3,541,735</u>	<u>3,333,091</u>
Net position, ending	<u>\$ 3,930,944</u>	<u>\$ 3,541,735</u>

Governmental activities

Governmental activities increased the District's net position by \$389,209. Key elements of this difference are contributions from Klamath County and current operating revenues in excess of expenses.

Financial Analysis of the Government's Funds

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

Governmental funds

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,080,760, an increase of \$289,660 from the prior year. All of this amount constitutes *assigned* and *unassigned fund balance*, which is available for spending at the District's discretion.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$972,624. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to the total fund expenditures. The unassigned fund balance represents 41.3% of total general fund expenditures.

During the current fiscal year the fund balance of the District's general fund increased by \$146,125. The key factor in this is current revenues in excess of expenditures.

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

The capital projects fund has a fund balance of \$1,108,136, all of which is assigned for capital expenditures. The net increase in fund balance during the current year was \$143,535. The reason for this increase was due to a transfer from the general fund.

Budgetary Highlights

The District budgets all funds in compliance with Oregon budget law. The District did adopt supplemental budgets during the year for materials and service costs in the capital projects fund. All of the budget changes were 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 of June 30, 2013, amounts to \$1,546,575 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and system, machinery and equipment and infrastructure. The total decrease in the District's investment in capital assets for the current fiscal year was \$6,509.

Major capital asset events during the fiscal year included purchases for building improvements.

Klamath County Library Service District's Capital Assets

	Governmental Activities	
	2013	2012 (restated)
Construction in progress	\$ 242,587	\$ 201,166
Land	165,000	165,000
Buildings and system	1,129,819	1,174,350
Machinery and equipment	9,169	12,568
Total	<u>\$ 1,546,575</u>	<u>\$ 1,553,084</u>

Additional information on the District's capital assets can be found in note 5 and note 12 of this report.

Economic Factors and Next Year's Rates

Klamath County is not immune from the national recession. The current unemployment outlook for Klamath County improved significantly 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. Tax revenues are expected to remain flat.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to District Manager, Klamath County Library Service District, 126 South Third Street, Klamath Falls, Oregon 97601.

BASIC FINANCIAL STATEMENTS

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

	<u>Governmental Activities</u>	<u>Component Units</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 2,047,553	\$ 508,106
Accounts receivable	20,355	-
Property taxes receivable	342,656	-
Total Current Assets	<u>2,410,564</u>	<u>508,106</u>
Noncurrent Assets:		
Capital assets (net of accumulated depreciation)		
Construction in progress	242,587	-
Building and improvements	1,129,819	-
Land	165,000	-
Equipment	9,169	-
Total Noncurrent Assets	<u>1,546,575</u>	<u>-</u>
Total Assets	<u>3,957,139</u>	<u>508,106</u>
Liabilities		
Current Liabilities:		
Accounts payable	26,195	-
Total Current Liabilities	<u>26,195</u>	<u>-</u>
Total Liabilities	<u>26,195</u>	<u>-</u>
Net Position		
Invested in capital assets	1,546,575	-
Unrestricted	2,384,369	508,106
Total Net Position	<u>\$ 3,930,944</u>	<u>\$ 508,106</u>

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

Klamath County Library Service District
Statement of Activities
For the Year Ended June 30, 2013

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Governmental Activities</u>	<u>Component Units</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>		
Governmental Activities:						
Library Services	\$ 2,429,025	\$ 68,090	\$ 67,642	\$ 214,677	\$ (2,078,616)	
Total primary government	<u>\$ 2,429,025</u>	<u>\$ 68,090</u>	<u>\$ 67,642</u>	<u>\$ 214,677</u>	<u>(2,078,616)</u>	
Component Units:						
Library Services	\$ 178,948	\$ -	\$ 459,640	\$ -		\$ 280,692
Total component units	<u>\$ 178,948</u>	<u>\$ -</u>	<u>\$ 459,640</u>	<u>\$ -</u>		<u>280,692</u>
General Revenues:						
Property taxes, levied for general purposes					2,461,859	
Unrestricted investment earnings					<u>5,966</u>	6,166
Total General Revenues					<u>2,467,825</u>	<u>6,166</u>
Change in Net Position					<u>389,209</u>	<u>286,858</u>
Net Position - Beginning					4,768,624	221,248
Prior Period Adjustment					<u>(1,226,889)</u>	
Net Position - Beginning Restated					<u>3,541,735</u>	<u>221,248</u>
Net Position - Ending					<u>\$ 3,930,944</u>	<u>\$ 508,106</u>

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

Klamath County Library Service District
Balance Sheet – Governmental Funds
June 30, 2013

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 938,722	\$ 1,108,831	\$ 2,047,553
Accounts receivable	20,355	-	20,355
Property taxes receivable	342,656	-	342,656
	<u>1,301,733</u>	<u>1,108,831</u>	<u>2,410,564</u>
Liabilities and Fund Balances			
Accounts payable	\$ 25,500	\$ 695	\$ 26,195
Deferred property tax	303,609	-	303,609
	<u>329,109</u>	<u>695</u>	<u>329,804</u>
Fund balances:			
Assigned	-	1,108,136	1,108,136
Unassigned	972,624	-	972,624
	<u>972,624</u>	<u>1,108,136</u>	<u>2,080,760</u>
Total Liabilities and Fund Balances	<u>\$ 1,301,733</u>	<u>\$ 1,108,831</u>	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resource and, therefore, are not reported in the funds.

1,546,575

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.

Deferred revenue

303,609

Net position of governmental activities

\$ 3,930,944

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

Klamath County Library Service District
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2013

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Revenues			
Property taxes	\$ 2,453,859	\$ -	\$ 2,453,859
Operating grants and contributions	51,470	116,619	168,089
Per Capita State Aid	16,172	-	16,172
Charges for services	55,694	-	55,694
Investment income	3,338	2,628	5,966
Miscellaneous revenues	12,396	-	12,396
	<u>2,592,929</u>	<u>119,247</u>	<u>2,712,176</u>
Expenditures			
Current:			
Materials and services	2,351,804	29,291	2,381,095
Capital outlay:			
Building improvements	-	41,421	41,421
	<u>2,351,804</u>	<u>70,712</u>	<u>2,422,516</u>
	<u>241,125</u>	<u>48,535</u>	<u>289,660</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures			
	<u>241,125</u>	<u>48,535</u>	<u>289,660</u>
Other Financing Sources and Uses			
Transfer in		95,000	95,000
Transfer out	(95,000)		(95,000)
Total Other Financing Sources and Uses	<u>(95,000)</u>	<u>95,000</u>	<u>-</u>
	146,125	143,535	289,660
Net Change in Fund Balances	146,125	143,535	289,660
Fund Balances - Beginning	<u>826,499</u>	<u>964,601</u>	<u>1,791,100</u>
Fund Balances - Ending	<u>\$ 972,624</u>	<u>\$ 1,108,136</u>	<u>\$ 2,080,760</u>

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

**Klamath County Library Service District
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balance of Governmental
Funds to the Statement of Activities
For the Year Ended June 30, 2013**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 289,660
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(6,509)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	8,000
Expenses for post employment obligations reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>98,058</u>
Change in net position of governmental activities	<u><u>\$ 389,209</u></u>

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

Klamath County Library Service District
Notes to Financial Statements
June 30, 2013

Note 1 – Summary of Significant Accounting Policies

Organization

The Klamath County Library Service District (the District), was created by the residents of Klamath County through Measure 18-39 on July 1, 2001. The governing body is a three member Board of Directors consisting of the Klamath County Board of Commissioners. The Board of Directors is charged with the responsibility for overseeing operations of the District. The Board is further charged with the selection of a budget committee to oversee the preparation and review of the annual budget.

Reporting Entity

The District's financial statements include the accounts of all District operations. The District is a component unit of Klamath County and is presented as a blended component unit. The District is governed by a board comprised of the County's board of commissioners and county management has operational responsibility for the Library District. The Library District's annual property tax levy is approved by the County commissioners. The accompanying financial statements present the District and its component units, entities for which the District is considered to be financially accountable. These entities do not qualify as blended component units and are presented separately in a discrete presentation.

Discretely Presented Component Units

Klamath County Library Foundation (the Foundation) – The Foundation was organized as a legally separate entity in 2004 as a 501(c)(3) not-for-profit organization. The Foundation exists for the purpose of promotion of reading and life-long learning through the support of the Klamath County Library by conducting capital campaigns to expand and enhance facilities within the District. The Foundation has no potential component units. The Foundation board consists of four members from the community that direct the functions of the Foundation and make decisions regarding the direction of the Foundation and the projects it will support. The financial statements of the Foundation have not been audited.

Friends of the Klamath County Library (the Friends) – The Friends was formed in 1984 as a legally separate entity under 501(c)(3) as a not-for-profit organization. The Friends exists for the purpose of raising funds for the support of the operations of the District. The Friends has no potential component units. The Friends board consists of seven members from the community that direct the functions of Friends and make decisions regarding the direction of Friends and the projects it will support. The financial statements of Friends have not been audited.

Government – Wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, are recorded only when payment is due.

Klamath County Library Service District
Notes to Financial Statements
June 30, 2013

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

The District reports the following major governmental funds:

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

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

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

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

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

Cash and Cash Equivalents

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. The District's investment portfolio as of June 30, 2013 is representative of the types of investments made throughout the year.

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.

Property taxes are levied and become a lien on July 1. 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.

Property taxes were levied at the permanent rate of \$0.49 per \$1,000 of assessed value within the County. Measure 50 established the permanent rate and allows for an increase of the assessed value of 3% per year.

Prepaid Items

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

Capital Assets

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

As the District acquires additional capital assets each period, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the District values these capital assets at the estimated fair value of the item at the date of its donation.

Klamath County Library Service District
Notes to Financial Statements
June 30, 2013

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

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

<u>Assets</u>	<u>Years</u>
Buildings & Improvements	20 - 50
Infrastructure	30
Vehicles	7
Equipment	10

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Personnel Costs

The District contracts with Klamath County for all personnel related costs and reimburses Klamath County for actual costs incurred.

Fund Equity

Net position flow assumption

Sometimes the District 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 government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund balance flow assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the district fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District’s highest level of decision-making authority. The governing council is the highest level of decision-making authority for the District that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Klamath County Library Service District
Notes to Financial Statements
June 30, 2013

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

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The governing council (council) has by resolution authorized the finance director to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

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.

Note 2 – Stewardship, Compliance, and Accountability

Budgetary Information

The District budgets all funds. On or before June 30 of each year, the District enacts a resolution approving the budget, appropriating the expenditures, and levying the property taxes. Prior to enacting this resolution, the proposed budget is presented to a budget committee consisting of 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 levying property taxes. All annual appropriations lapse at fiscal year-end.

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

Unexpected additional resources or appropriations may be added to the budget through the use of a supplemental budget. A supplemental budget requires hearings before the public, publications in newspapers, and approval by the Board of 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 with the following exception: Interfund loans and repayments are budgeted similar to other debt transactions. The nature and amount of all significant adjustments necessary are noted on the budget to actual statements included in the financial statements.

Note 3 – Cash and Cash Equivalents

Deposits and investments as of as June 30, 2013 were as follows:

	Primary Government	Component Units	Total
Cash	\$ 400	\$ -	\$ 400
Deposits with financial institutions	-	447,157	447,157
Oregon Community Foundation	-	60,948	60,948
Klamath County Treasurer Investment Pool	2,047,153	1	2,047,154
	<u>\$ 2,047,553</u>	<u>\$ 508,106</u>	<u>\$ 2,555,659</u>

Klamath County Library Service District
Notes to Financial Statements
June 30, 2013

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

Deposit Credit Risk

At year end, the book balance of the District's bank deposits, from component units, was \$447,157 and the bank balance was \$447,157. The primary government did not have any deposits with financial institutions at year end. Deposits are secured by federal deposit insurance to legal limits. The remaining amount is secured by collateral in accordance with Oregon Revised Statutes. The District has not adopted a policy for credit risk beyond that required by ORS Chapter 295.

Deposit Custodial Credit Risk

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

Investment Credit Risk: 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 Treasurer's Investment Pool (TIP), please see Klamath County's financial statements for more information risk exposures of the TIP.

Investment Custodial Credit Risk: 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.

Investment Concentration of Credit Risk: The District does not have a policy regarding concentration of credit risk.

Investment Interest Rate Risk: The District does not have a policy regarding interest rate risk.

Note 4 - Receivables

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

Klamath County Library Service District
Notes to Financial Statements
June 30, 2013

Note 5– Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Prior Period Adjustment *</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Governmental activities						
Capital assets, not being depreciated						
Land	\$ 222,600	\$ (57,600)	\$ -	\$ -	\$ -	\$ 165,000
Construction in progress	201,166	-	41,421	-	-	242,587
	<u>423,766</u>	<u>(57,600)</u>	<u>41,421</u>	<u>-</u>	<u>-</u>	<u>407,587</u>
Capital assets, being depreciated:						
Building and improvements	3,177,732	(1,417,858)	-	-	-	1,759,874
Machinery and equipment	82,586	(18,108)	-	-	-	64,478
Vehicles	55,674	-	-	-	-	55,674
	<u>3,315,992</u>	<u>(1,435,966)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,880,026</u>
Less accumulated depreciation:						
Building and improvements	862,809	(266,677)	33,922	-	-	630,054
Machinery and equipment	41,302	-	14,008	-	-	55,310
Vehicles	55,674	-	-	-	-	55,674
Infrastructure	<u>959,785</u>	<u>(266,677)</u>	<u>47,930</u>	<u>-</u>	<u>-</u>	<u>741,038</u>
Total being depreciated, net	<u>2,356,207</u>	<u>(1,169,289)</u>	<u>(47,930)</u>	<u>-</u>	<u>-</u>	<u>1,138,988</u>
Total Capital Assets	<u>\$ 2,779,973</u>	<u>\$ (1,226,889)</u>	<u>\$ (6,509)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,546,575</u>

*See note 12 for details of restatement

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

Governmental Activities:

Library services \$ 47,930

Note 6 – Operating Lease

The District leases real property which is used for its various branches. Lease expense for the year ended June 30, 2013 was \$83,953.

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

2014	\$ 62,471
2015	26,215
2016	<u>5,429</u>
Total	<u>\$ 94,115</u>

Klamath County Library Service District
Notes to Financial Statements
June 30, 2013

Note 7 – Long-term Liabilities

Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Compensated absences	\$ 58,324	\$ -	\$ (58,324)	\$ -	\$ -
OPEB liability	2,110	-	(2,110)	-	-
Net pension obligation	37,624	-	(37,624)	-	-
Governmental total	<u>\$ 98,058</u>	<u>\$ -</u>	<u>\$ (98,058)</u>	<u>\$ -</u>	<u>\$ -</u>

Note 8 – Contingencies

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

Note 9 – Interfund Transfers

Transfers are used to 1) move resources from the fund with collection authorization to the debt service fund as debt service principal and interest payments are due, 2) move restricted amounts from borrowings to the debt service fund to establish mandatory reserve accounts, 3) move unrestricted general fund revenues to finance various programs that the District must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs, and 4) move amounts from various departments to reserve accounts to fund budgeted reserves.

Note 10 – Risk Management

The District purchases commercial insurance through Special Districts Association for general liability and auto. Settlements have not exceeded coverage for each of the past three fiscal years.

Note 11 – Related Party Transactions

Klamath County provides support for the District in the form of human resources, technical support, and administrative oversight. Totals for the year ended June 30, 2013 were as follows: Administrative fees \$273,280 and technology fees of \$6,090. The District also has the County provide maintenance services on certain District buildings. These services totaled \$180,281 for the year ended June 30, 2013. In addition the District contracts with Klamath County for personnel services. These services totaled \$1,286,830.

Note 12 – Prior Period Adjustment

During the reconciliation of capital assets, the District discovered financial statement errors and performed an extensive evaluation of capital assets during the 2012-2013 fiscal year. Several restatements to net book value of assets contributed to the net (\$1,226,889) adjustment to opening net position, which is an accumulation of all prior periods. The impact on the prior period change in net assets was approximately \$17,000. The errors primarily related to an understatement of land and buildings as well as an overstatements of items that did not meet the District capitalization threshold. The items that did not meet the capitalization policy were removed for consistency.

REQUIRED SUPPLEMENTARY INFORMATION

Klamath County Library Service District
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual – General Fund
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Property taxes	\$ 2,281,477	\$ 2,281,477	\$ 2,453,859	\$ 172,382
Operating grants & contributions	23,000	23,000	51,470	28,470
Per Capita State Aid	16,000	16,000	16,172	172
Charges for services	41,100	41,100	55,694	14,594
Investment income	10,000	10,000	3,338	(6,662)
Miscellaneous revenues	55,000	55,000	12,396	(42,604)
Total Revenues	2,426,577	2,426,577	2,592,929	166,352
Expenditures				
Current				
Materials and services	2,390,400	2,390,400	2,351,804	38,596
Contingency	370,523	370,523	-	370,523
Total Expenditures	2,760,923	2,760,923	2,351,804	409,119
Excess (Deficiency) of Revenues Over (Under) Expenditures	(334,346)	(334,346)	241,125	575,471
Other Financing Sources				
Transfers out	(95,000)	(95,000)	(95,000)	-
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	(429,346)	(429,346)	146,125	575,471
Fund Balance - Beginning	579,346	579,346	826,499	247,153
Fund Balance - Ending	\$ 150,000	\$ 150,000	\$ 972,624	\$ 822,624

OTHER SUPPLEMENTARY SCHEDULES

Klamath County Library Service District
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual – Capital Projects Fund
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				
Investment income	\$ 3,000	\$ 3,000	\$ 2,628	\$ (372)
Total Revenues	<u>3,000</u>	<u>3,000</u>	<u>2,628</u>	<u>(372)</u>
Expenditures				
Current				
Materials and services	-	70,000	29,291	40,709
Capital outlay	<u>250,000</u>	<u>250,000</u>	<u>41,421</u>	<u>208,579</u>
Total Expenditures	<u>250,000</u>	<u>320,000</u>	<u>70,712</u>	<u>249,288</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(247,000)	(317,000)	(68,084)	248,916
Other Financing Sources				
Transfers in	<u>211,000</u>	<u>211,000</u>	<u>211,619</u>	<u>619</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other (Uses)	(36,000)	(106,000)	143,535	249,535
Fund Balance - Beginning	<u>974,523</u>	<u>974,523</u>	<u>964,601</u>	<u>(9,922)</u>
Fund Balance - Ending	<u><u>\$ 938,523</u></u>	<u><u>\$ 868,523</u></u>	<u><u>\$ 1,108,136</u></u>	<u><u>\$ 239,613</u></u>

**Klamath County Library Service District
Schedule of Property Tax Transactions
For the Year Ended June 30, 2013**

Fiscal Year Ending	Balance of Receivable July 01, 2012	Add Levy Extended by Assessor	(Deduct) Discounts	Add Interest	(Deduct) Collections	Balance Receivable June 30, 2013
2013	\$ -	\$ 2,503,029	\$ (64,743)	\$ 57,443	\$ 2,316,120	\$ 179,609
Prior years						
2012	129,522	-	(2,059)	-	55,872	71,591
2011	71,606	-	(1,921)	-	22,913	46,772
2010	45,757	-	(1,677)	-	22,689	21,391
2009	15,942	-	(305)	-	10,272	5,365
2008	3,963	-	(263)	-	788	2,912
2007	2,290	-	(253)	-	404	1,633
2006 and prior	14,641	-	(227)	-	1,031	13,383
Total - Prior Years	283,721	-	(6,705)	-	113,969	163,047
Total	<u>\$ 283,721</u>	<u>\$ 2,503,029</u>	<u>\$ (71,448)</u>	<u>\$ 57,443</u>	<u>\$ 2,430,089</u>	<u>\$ 342,656</u>
Summary by Fund						
General Fund						<u>\$ 342,656</u>
Total						<u>\$ 342,656</u>

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 Library 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 financial statements of the governmental activities and each major fund of Klamath County Library Service District (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Klamath County Library Service District's basic financial statements, and have issued our report thereon dated January 3, 2014. Our report includes a disclaimer of opinion over the financial statements of the aggregate discretely presented component units, Klamath County Library Foundation and Friends of the Klamath County Library, which were not audited, and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Klamath County Library Foundation and Friends of the Klamath County Library. Additionally, we included an Emphasis of Matter paragraph in our report, which makes reference to the reporting of the District's correction of an error related to capital assets.

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 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.

MOSS ADAMS_{LLP}**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
January 3, 2014

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

**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 Library Service District

We have audited the basic financial statements of the Klamath County Library 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 January 3, 2014. Our audit did not include the aggregately discretely presented component units of the District, for which we have disclaimed an opinion. 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 from material misstatement.

Compliance

As part of obtaining reasonable assurance about whether the District's basic financial statements are free from 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 appropriate laws, rules and regulations pertaining to programs funded wholly or partially by other governmental agencies.
- The statutory requirements pertaining to the investment of public funds.
- The requirements pertaining to the awarding of public contracts and the construction of public improvements.

However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our 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**

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
January 3, 2014