

KLAMATH FALLS CITY SCHOOLS

KLAMATH COUNTY, OREGON

REPORT OF AUDIT

JUNE 30, 2017



**Klamath Falls City Schools
Klamath County, Oregon
Report of Audit
Fiscal Year Ended June 30, 2017**

Board of Directors

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Bill Jennings Vice-Chairperson	1834 Birch Street Klamath Falls, Oregon 97601	6/30/2017
Tina Perez	639 Buena Vista Street Klamath Falls, Oregon 97601	6/30/2019
Lori Theros Chairperson	1641 Lancaster Klamath Falls, Oregon 97601	6/30/2019
Mychal Amos	2530 Cascade Lane Klamath Falls, Oregon 97601	6/30/2017
Jeremy Payer	1620N Eldorado Ave Klamath Falls, Oregon 97601	6/30/2019
Donald Ambers	2235 Garden Ave. Klamath Falls, Oregon 97601	6/30/2019
Mike Moore	2818 Front Street Klamath Falls, Oregon 97601	6/30/2017

Administrative Personnel

<u>Name</u>	<u>Address</u>
Dr. Paul Hillyer Superintendent	1336 Avalon Klamath Falls, Oregon 97603
Teri Leeper-Taylor Administrative Secretary	1336 Avalon Klamath Falls, Oregon 97603
Shelly Hunt Director of Personnel	1336 Avalon Klamath Falls, Oregon 97603
Patricia Baldini Business Manager	1336 Avalon Klamath Falls, Oregon 97603

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Independent Auditors' Report

Directors and Superintendent
Klamath Falls City Schools
Klamath County, Oregon
Klamath Falls, Oregon

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Klamath Falls City Schools, Klamath County, Oregon (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents to the report.

Management's Responsibility for the Financial Statements

Klamath Falls City Schools, Klamath County, Oregon's 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 of material misstatement.

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

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

The District's basic financial statements include the operations of EagleRidge High School (EagleRidge) as a discretely presented component unit. The financial statements of EagleRidge were not audited in accordance with *Government Auditing Standards*.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the District as of June 30, 2017, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Terrence J. Scroggin C.P.A. ~ Andrew E. Peterson C.P.A. ~ Gerrin P. DeGroot C.P.A. ~ Richard F. Dillard C.P.A. (1961-2014)

☞ 824 Pine Street ☞ ☞ Klamath Falls, OR 97601 ☞ ☞ Phone: (541) 884-4164 ☞ ☞ Fax: (541) 883-1232 ☞ Terrence J. Scroggin C.P.A. ~

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of budgetary comparison information for the general fund and special programs fund, the schedules of funding progress, the schedule of the proportionate share of the net pension liability for PERS, and the schedule of contributions for PERS 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.

The schedules of budgetary comparison information for the general fund and special programs fund, the schedules of funding progress, the schedule of the proportionate share of the net pension liability for PERS, and the schedule of contributions for PERS have 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 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other 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 accompanying other supplementary schedules listed in the table of contents to the report and the Schedule of Expenditures of Federal Awards, required by the Uniform Guidance, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information 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 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 information and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2017 on our consideration of the District's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards* in considering the District's internal control over financial reporting and compliance.

In accordance with Oregon State Regulation, we have also issued our report dated December 15, 2017 on our consideration of the District's compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes (ORS) as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations. The purpose of that report is to describe the scope of our testing necessary to address the required provisions of ORS, and not to provide an opinion on compliance with such provisions.

Molatore, Scroggin, Peterson & Co. LLP



Andrew E. Peterson, Partner

Klamath Falls, Oregon
December 15, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Klamath Falls City Schools
Klamath County, Oregon
Management's Discussion and Analysis
June 30, 2017**

As management of Klamath Falls City Schools, Klamath County, Oregon (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2017.

Financial Highlights

In the government-wide statements, the assets of the District exceeded its liabilities at June 30, 2017, by \$4,885,527. Of this amount, \$20,035,916 represents the District's investment in capital assets, net of related debt, \$18,008 is restricted for the Permanent Fund, \$7,472,906 is restricted for special programs, and the balance, (\$22,641,303) is unrestricted. The District's total net position decreased by \$6,866,984 with the prior period adjustment.

The District's governmental funds reported combined ending fund balances of \$27,871,721, a decrease of \$9,353,643 in comparison with the prior year. As of June 30, 2017, \$6,636,764 was available for spending at the District's discretion.

At the end of the fiscal year, the unreserved fund balance for the general fund was \$6,636,764, an increase of \$527,869 in comparison with the prior year.

The District's total debt increased by \$28,236,721 during the 2016-2017 fiscal year. The primary reason for the increase was the change in the PERS Net Pension Liability reported in order to implement the new Governmental Accounting Standards Board (GASB) regulations, and long-term debt related to post retirement benefit that continues to increase due to statutory obligations.

EagleRidge High School is a charter school sponsored by the District, governed by a separate board of directors, and organized under the provisions of ORS Chapter 338. It serves high school students in Klamath Falls. The District exercises oversight as required by Oregon law. The financial statements of EagleRidge are included in this report as a component of the District.

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 consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains 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. These statements include:

The Statement of Net Position

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 assets. 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

The statement of activities presents information showing how the net position of the District changed over the most recent fiscal year. All 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).

In government-wide financial statements, the District's activities are shown in one category:

Governmental Activities

All of the District's basic functions are shown here, such as regular and special education, child nutrition services, transportation, administration, and facilities acquisition and construction and capital projects. These activities are primarily financed through property taxes, Oregon's State School Fund and other intergovernmental revenues.

Klamath Falls City Schools
Klamath County, Oregon
Management's Discussion and Analysis
June 30, 2017

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. 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 can be categorized as governmental funds.

Governmental Funds

The governmental funds are used to account for essentially the same functions 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 government's near-term financing decisions. Both the governmental fund Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances are reconciled to the government-wide Statements of Net Position and Activities.

The District maintains three individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances for the General, Special Programs, and Capital Projects, all which are considered to be major funds.

The basic governmental fund financial statements can be found on pages 10 through 15 of this report.

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 \$4,885,527 at June 30, 2017.

Capital assets, which consist of the District's land, buildings, building improvements, construction in progress, vehicles, and equipment, represent about 59 percent of total assets. The remaining assets consist mainly of bond receipts, investments, cash, and grants and property taxes receivable.

The District's net position reflect a large investment in capital assets (e.g. land, buildings, vehicles and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students and other District residents; 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 (generally property taxes), since the capital assets themselves cannot be used to liquidate these liabilities.

**Klamath Falls City Schools
Klamath County, Oregon
Management's Discussion and Analysis
June 30, 2017**

	<u>Net Position</u>		Increase (Decrease)
	<u>2017</u>	<u>2016</u>	
Current and other assets	\$ 32,724,066	\$ 41,005,541	\$ (8,281,475)
Capital assets, net	<u>47,492,354</u>	<u>35,009,720</u>	<u>12,482,634</u>
Total Assets	<u>80,216,420</u>	<u>76,015,261</u>	<u>4,201,159</u>
Deferred outflow of resources	<u>18,317,899</u>	<u>1,119,295</u>	<u>17,198,604</u>
Current liabilities	5,834,754	4,534,684	1,300,070
Long-term debt	<u>85,048,345</u>	<u>56,811,624</u>	<u>28,236,721</u>
Total liabilities	<u>90,883,099</u>	<u>61,346,308</u>	<u>29,536,791</u>
Deferred inflow of resources	<u>2,765,693</u>	<u>4,035,737</u>	<u>(1,270,044)</u>
Net position:			
Net investment in capital assets	20,035,916	4,649,145	15,386,771
Restricted for special programs	7,472,906	17,639,170	(10,166,264)
Restricted for permanent fund	18,008	18,008	-
Unrestricted	<u>(22,641,303)</u>	<u>(10,553,812)</u>	<u>(12,087,491)</u>
Total net positions	<u>\$ 4,885,527</u>	<u>\$ 11,752,511</u>	<u>\$ (6,866,984)</u>

Governmental Activities

During the current fiscal year, the District's net position decreased by \$6,866,984, which is the current year change of \$2,052,957 netted with the \$8,919,941 PERS prior period adjustment. The key elements of the change in the District's net position for the year ended June 30, 2017, are as follows:

The primary reason for the large decrease in the District's net position can be explained by the change in reporting of the PERS Net Pension Liability in order to implement the new Governmental Accounting Standards Board (GASB) regulations.

The Board of Directors adopted a policy of budgeting a minimum of 5% contingency in the general fund in 2010, and the District has continued to maintain this minimum. The Board used a conservative approach for the 2015-2017 biennium, budgeting a spending level of 48% of the expected State School Fund (SSF) revenue for 2015-2016. This strategy provided an increased percentage of SSF for 2016-2017. As part of the budget process, staffing levels were adjusted based on enrollment. An anticipated, additional revenue loss was the end of the Local Option Levy.

The bond funds provided by passage of a General Obligation Bond resolution in November 2014, which was a major event for the district, are being used for capital projects, primarily the renovation of Klamath Union High School, and improvements for safety and security at other schools. The bonds were sold in March 2015 at a favorable time in the market. Some projects have been completed while others are still in progress.

The District was successful in two major grant application processes, receiving awards through the State of Oregon for funds for renewal of the Collaboration Grant for professional development (\$272,020) and renewal of the 21st Century Community Learning Centers for the After-School Program (\$449,156).

Financial Analysis of the District's Funds

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

Klamath Falls City Schools
Klamath County, Oregon
Management's Discussion and Analysis
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Governmental Funds

The focus of the District's governmental funds is to provide information on relatively short-term cash flow and funding the future basic services. 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 resource's available for spending at the end of a fiscal year.

At June 30, 2017, the District's governmental funds reported combined ending fund balances of \$27,871,721, a decrease of \$9,353,643 in comparison with the prior year. Over 24% (\$6,670,011) of fund balances are general revenue funds, and 55% (\$15,339,219) are general obligation bond receipts.

	<u>Governmental Activities</u>		Increase (Decrease)
	<u>2017</u>	<u>2016</u>	
Revenues:			
Program revenues:			
Charges for service	\$ 1,992,062	\$ 2,251,103	\$ (259,041)
Operating grants and contributions	8,051,869	7,867,939	183,930
Capital grants and contributions	1,502,000	1,000	1,501,000
General revenues:			
Property taxes	8,554,575	8,501,115	53,460
State school fund – general support	22,311,918	20,946,828	1,365,090
State school fund - school improvement funds	4,163	-	4,163
Other governmental sources	619,400	1,057,006	(437,606)
Earnings on investments	388,975	293,688	95,287
Other	1,491,604	647,776	843,828
Total Revenues	<u>44,916,566</u>	<u>41,566,455</u>	<u>3,350,111</u>
Expenses:			
Instruction	24,962,181	35,944,473	(10,982,292)
Instructional student support	3,677,561	3,631,990	45,571
Administrative and financial support services	4,661,505	4,588,318	73,187
Operation and maintenance of plant services	2,998,168	2,866,986	131,182
Pupil transportation	1,629,680	1,523,106	106,574
Student activities	999,302	1,025,839	(26,537)
Food services	1,593,762	1,651,385	(57,623)
Community services	39,904	29,205	10,699
Supplemental retirement program	899,494	898,534	960
Facilities acquisition and construction	201,465	100,678	100,787
Interest on long-term debt	1,192,094	1,537,025	(344,931)
Flowthrough to other districts	8,493	124,000	(115,507)
Total expenses	<u>42,863,609</u>	<u>53,921,539</u>	<u>(11,057,930)</u>
Increase (decrease) in net position	2,052,957	(12,355,084)	14,408,041
Net position – beginning as restated	<u>2,832,570</u>	<u>24,107,595</u>	<u>(21,275,025)</u>
Net position - ending	<u>\$ 4,885,527</u>	<u>\$ 11,752,511</u>	<u>\$ (6,866,984)</u>

**Klamath Falls City Schools
Klamath County, Oregon
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General Fund

The General Fund is the chief operating fund of the District. As of June 30, 2017, the unreserved fund balance was \$6,636,764. As a measure of the fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Fund balance represents approximately 22 percent of total General Fund expenditures. The fund balance increased by \$537,365 during the current fiscal year.

Special Programs Fund

The Special Programs Fund has a total fund balance of \$5,349,461, which is designated for programs funded by federal and state grants and contracts, along with the proceeds of the sale of District property. The fund balance increased by \$1,305,722 during the current fiscal year.

Capital Projects Fund

The Capital Projects Fund has a total fund balance of \$15,339,219. The fund balance decreased by \$11,453,727. The Capital Project Fund was established in 2013-2014 by Board action for the Qualified Zone Academy Bond project at the Klamath Union High School's Modoc Field. The Modoc Field project has been completed. There are still some outstanding pledges for the Modoc Tennis Field Courts, which will be received over the next two years. A second, separate account for the funds received through the General Obligation Bond sale was established in 2014-2015 for the major capital projects that will be completed throughout the district over the next few years.

Other Governmental Funds

Other Governmental Funds, which includes Food Service and Debt Service, has a total fund balance of \$513,030. The Debt Service Fund was established in 2015-2016 for the repayment of the General Obligation Bonds issued by the District in March 2015.

Budgetary Highlights

There was one amendment to the budget for the fiscal year ended June 30, 2017.

Resolution No. 17-03 authorized a transfer in appropriations in the Food Service Fund in order to create a transit account to return cafeteria payments to families, which required a new function. The transfer reduced the 3XXX function (Enterprise & Community Services) by \$5,000, which was transferred to the new 53XX function (Apportionment of Funds).

Capital Asset and Debt Administration

The District's investment in capital assets includes land, buildings and improvements, vehicles and equipment, and construction in progress. As of June 30, 2017, the District had invested \$47,492,354 in capital assets, net of depreciation, as shown in the following table:

	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>
Land	\$ 7,520,965	\$ 7,521,590	\$ (625)
Construction in progress	25,631,249	12,868,846	12,762,403
Buildings and improvements	13,061,883	13,565,817	(503,934)
Vehicles and equipment	<u>1,278,257</u>	<u>1,053,467</u>	<u>224,790</u>
Total	<u>\$ 47,492,354</u>	<u>\$ 35,009,720</u>	<u>\$ 12,482,634</u>

During the year, the District's investment in capital assets increased by \$12,482,634.

The major capital asset events for the year include the following:

The major capital construction projects that were in progress during 2015-2016 which were completed during 2016-2017 include completion of the installation of a new HVAC system and controls at Mills Elementary School, and replacement of the Ponderosa Middle School Roof.

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Other completed construction projects during 2016-2017 include replacement of windows at Altamont School, currently being leased by Triad, installation of a stair chair lift at Pelican Elementary School to provide ADA access and construction of a new attendance office at Ponderosa Middle School. Major playground and landscaping improvements were installed at Roosevelt Elementary School, much of which was paid for through donations and the efforts of the Roosevelt PTO.

Construction in progress consists of many projects related to the General Obligation Bond.

Work is continuing at Pelican Elementary on the HVAC system and controls, and replacement of the boiler. Work on the HVAC systems and controls are also in progress at Ponderosa, as well as a new irrigation system. The major construction in progress project continues to be the renovation of Klamath Union High School. The project is being completed in stages and will take multiple years. Demolition of specific parts of the buildings and construction of a new auxiliary gym is complete. Seismic retrofit and major renovations of Pel Court is complete and new utilities, including a data center for the district, are installed. Design of the Academics Wing is complete and major construction is underway. Design of the Arts Wing is in progress, taking into consideration the seismic rehabilitation grant awarded to the District in the spring of 2017.

The District took delivery of a new large, 78-passenger bus ordered in 2015-16 in the summer of 2016, and ordered two new buses in the fall of 2017. Purchase of new buses is necessary to meet the DEQ regulations which will be enforced in the next few years that require the District have buses with different exhaust systems. The District also purchased a 2017 Toyota Rav 4 for the Early Childhood Education program and a new lawn tractor and attachments for use at Klamath Union High School properties. Playground equipment was purchased and installed for the Long Term Care and Treatment program located at the Klamath Basin Behavioral Health. A fleet of new photocopiers was deployed throughout the District, replacing old copiers with new models and re-locating copiers with less use to new locations.

Additional information of the District's capital assets can be found in Note 4 on pages 21 and 22 of this report.

Long-term Debt

At the end of the current fiscal year, the District had long-term debt in the amount of \$85,048,345, which includes \$3,639,339 of bond amortization. A substantial portion of the long-term debt, \$33,200,940, is for repayment of the General Obligation Bonds. The PERS Net Pension Liability, reported in order to implement the Governmental Accounting Standards Board (GASB) regulations, is \$36,174,675. Post-employment benefit obligations represents \$10,244,799 of long-term debt. The balance of \$1,788,592 of the long-term debt consists of the long-term portion of the capital lease obligation for the district photocopier fleet, the Qualified Zone Academy Bond for the artificial turf field and new track at Klamath Union High School, and energy conservation projects funded through the Oregon Cool Schools program and financing the purchase of new buses.

Additional information of the District's long-term debt can be found in Note 9 on pages 35 through 37 of this report.

Economic Factors and Next Year's Budget

The Board adopted the 2017-2018 budget using calculations based on spending over 50% of the biennium's anticipated State School Fund (SSF) revenue, due to budgeting at 48% for the 2016-2017 school year, while the SSF split was 49.2/50.8 for the period.

Average Daily Membership (ADM) paid through the State School Fund (SSF) is the primary basis of funding the programs of the District. The District enrollment has been declining and continues to be a concern, especially at the high school level. The Advanced Diploma Program (ADP), which allows students who are eligible to graduate but whom have not yet received a diploma to attend Klamath Community College, has been very successful but will be phased out by legislative action taken in 2015-2016. Klamath Union High School had 31 students enrolled in the program June 2016 but only 5 students as of June 2017.

A budget reduction process was necessary for 2017-2018 due to the financial pressures caused by declining enrollment, expiration of the local option levy and significantly increased PERS costs. PERS employer rates changed effective July 1, 2015, and increased to 22.33% for Tier 1/Tier 2 members and decreased to 17.64% for OPSRP members. Rates for the following biennium, effective July 1, 2017, increased over 4% due to the recent Supreme Court decision and lower investment earnings. The new rates are 27.2% for Tier 1/Tier 2 members (4.87% increase) and 21.87% (4.23% increase) for OPSRP members. The increase was a major factor in the 2017-2018 budget process, as such a large percentage of the District budget is dedicated to employee salary and benefits.

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Management's Discussion and Analysis
June 30, 2017

In developing next year's budget, the District focused on maintaining high school programs and electives, minimizing class size increases, creating a stable budget for the future and "right-sizing" the budget to reflect current enrollment. Alternative revenue sources, such as grant and community partnerships, will continue to be sought out. The completion of Klamath Union High School's major renovation is hoped to bring increased and more stable enrollment.

Salary and benefit negotiations with all employee groups were completed after the budget was adopted but prior to the first payroll of the new fiscal year. Salary schedules were increased 3% and insurance cap contributions were increased 5%. As the agreements were negotiated before the Oregon State Legislature had finalized the amount of State School Funding, a clause was included that all staff would agree to two non-student contact furlough days in 2017-2018 if the funding level did not reach \$8.4 Billion. The funding level was set at \$8.2 Billion for the biennium, with a 50/50 split, so the furlough days will be taken.

It is anticipated to be more difficult to continue District Programs and staffing levels in future years without strong financial support from the Legislature.

The District's Budget Committee and School Board considered all of these factors while preparing the District's budget for the 2017-2018 fiscal year.

Requests for Information

This financial report is designed to present the user (citizens, taxpayers, investors, and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the District's Business Manager at 1336 Avalon Street, Klamath Falls, Oregon 97603.

Klamath Falls City Schools
Klamath County, Oregon
Statement of Net Position
June 30, 2017

Assets	Governmental Activities	Component Units
Cash and Equivalents	\$ 28,557,224	\$ 358,585
Receivables	878,920	91
Due from Other Governmental Agencies	3,204,093	-
Inventories	33,247	-
Other assets	50,582	78,462
Capital Assets		
Land, improvements, and construction in progress	33,152,214	1,266,707
Buildings, net of depreciation	13,061,883	2,112,476
Equipment and Furniture, net of depreciation	1,278,257	28,529
Total assets	<u>80,216,420</u>	<u>3,844,850</u>
Deferred Outflows of Resources		
Deferred outflow of resources - pension related	18,317,899	754,010
Total deferred outflow of resources	<u>18,317,899</u>	<u>754,010</u>
Liabilities		
Accounts Payable and Accrued Expenses	1,809,059	14,553
Accrued Salaries and Benefits	2,292,098	46,903
Long-Term Liabilities		
Due within one year		
Capital leases and contracts	1,702,481	68,648
Accrued interest	31,116	-
Due in more than one year		
Capital leases and contracts	34,989,532	2,258,991
Bond premium	3,639,339	-
Other post employment benefit obligations	10,244,799	-
Net Pension liability	36,174,675	1,402,541
Total liabilities	<u>90,883,099</u>	<u>3,791,636</u>
Deferred Inflow of Resources		
Deferred inflow of resources - pension related	2,765,693	258,241
Total deferred inflow of resources	<u>2,765,693</u>	<u>258,241</u>
Net Position		
Net Investment in Capital Assets	20,035,916	1,080,073
Restricted for:		
Permanent fund, non-expendable	18,008	-
Special programs	7,472,906	78,462
Unrestricted	(22,641,303)	(609,552)
Total net position	<u>\$ 4,885,527</u>	<u>\$ 548,983</u>

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

**Klamath Falls City Schools
Klamath County, Oregon
Statement of Activities
June 30, 2017**

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets	Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Primary government						
Governmental Activities						
Instruction	\$ 24,962,181	\$ 1,144,516	\$ 6,458,356	\$ -	\$ (17,359,309)	
Instructional student support	3,677,561	27,044	-	-	(3,650,517)	
Administrative and financial support services	4,661,505	253,110	-	-	(4,408,395)	
Operation and maintenance of plant services	2,998,168	-	-	-	(2,998,168)	
Pupil transportation	1,629,680	-	-	-	(1,629,680)	
Student activities	999,302	435,685	-	-	(563,617)	
Food service	1,593,762	131,707	1,593,513	-	131,458	
Community services	39,904	-	-	-	(39,904)	
Supplemental retirement program	899,494	-	-	-	(899,494)	
Facilities acquisition and construction	201,465	-	-	1,502,000	1,300,535	
Interest on long-term debt	1,192,094	-	-	-	(1,192,094)	
Flowthrough to other districts	8,493	-	-	-	(8,493)	
Total governmental activities	<u>42,863,609</u>	<u>1,992,062</u>	<u>8,051,869</u>	<u>1,502,000</u>	<u>(31,317,678)</u>	
Component Units						
Charter school	1,457,984	-	56,170	-		(1,401,814)
Total component units	<u>\$ 1,457,984</u>	<u>\$ -</u>	<u>\$ 56,170</u>	<u>\$ -</u>		<u>\$ (1,401,814)</u>
General revenues:						
Taxes:						
Property taxes, levied for general purposes				\$ 8,519,930	\$ -	
Property taxes, levied for debt service				34,645	-	
State school fund - general support				22,311,918	1,547,415	
State school fund - school improvement funds				4,163	-	
Common school fund				364,617	-	
State forest fees				38,321	-	
Grants and contributions not restricted to specific programs				216,462	-	
Unrestricted investment earnings				388,975	231	
Miscellaneous				457,103	22,616	
Net deferred pension inflows				-	(80,548)	
Special item - gain on sale of asset				1,034,501	-	
Total general revenues, special items, and transfers				<u>33,370,635</u>	<u>1,489,714</u>	
Change in net position				<u>2,052,957</u>	<u>87,900</u>	
Net position - beginning				11,752,511	461,083	
Restatement and prior period adjustments				(8,919,941)	-	
Net position- beginning after restatement/adjustment				<u>2,832,570</u>	<u>461,083</u>	
Net position - ending				<u>\$ 4,885,527</u>	<u>\$ 548,983</u>	

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

**Klamath Falls City Schools
Klamath County, Oregon
Balance Sheet
Governmental Funds
June 30, 2017**

	<u>General Fund</u>	<u>Special Programs</u>	<u>Capital Project Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and equivalents	\$ 8,789,679	\$ 3,938,299	15,383,677	\$ 445,569	\$ 28,557,224
Taxes receivable	691,070	-	-	168,372	859,442
Due from other funds	-	-	-	-	-
Receivable from other governments	218,102	1,401,227	1,500,000	84,763	3,204,092
Other receivables	11,049	8,429	-	-	19,478
Inventories	33,247	-	-	-	33,247
Prepaid expenses	-	50,582	-	-	50,582
Total assets	<u>9,743,147</u>	<u>5,398,537</u>	<u>16,883,677</u>	<u>698,704</u>	<u>32,724,065</u>
Liabilities, Deferred Inflows and Fund Balances					
Liabilities:					
Accounts payable	168,669	49,076	1,544,458	46,854	1,809,057
Other accrued expenses	2,292,098	-	-	-	2,292,098
Total liabilities	<u>2,460,767</u>	<u>49,076</u>	<u>1,544,458</u>	<u>46,854</u>	<u>4,101,155</u>
Deferred Inflows:					
Unavailable revenue - property taxes	612,369	-	-	138,820	751,189
Fund balances:					
Non-Spendable	33,247	50,582	-	-	83,829
Restricted	-	1,116,473	15,339,219	513,080	16,968,722
Committed	-	3,821,071	-	-	3,821,071
Assigned	-	361,335	-	-	361,335
Unassigned	6,636,764	-	-	-	6,636,764
Total fund balances	<u>6,670,011</u>	<u>5,349,461</u>	<u>15,339,219</u>	<u>513,080</u>	<u>27,871,721</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 9,743,147</u>	<u>\$ 5,398,537</u>	<u>\$ 16,883,677</u>	<u>\$ 698,704</u>	<u>\$ 32,724,065</u>

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

**Klamath Falls City Schools
Klamath County, Oregon
Reconciliation of the Balance Sheet – Governmental Funds
To the Statement of Net Position
June 30, 2017**

Total fund balance, governmental funds	\$ 27,871,721
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	47,492,354
Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	751,189
The assets and liabilities of certain internal service funds are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.	-
Some liabilities, (such as Capital Lease Contract Payable, Contracts Payable, and Other Post Employment Benefit Obligations), are not due and payable in the current period and are not included in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	(50,607,268)
The proportionate share of net pension asset not reported as an asset in the governmental funds.	(36,174,675)
Deferred outflow of resources pension related not reported in governmental funds	18,317,899
Deferred inflow of resources pension related not reported in governmental funds	(2,765,693)
Net Position of Governmental Activities in the Statement of Net Position	\$ 4,885,527

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

Klamath Falls City Schools
Klamath County, Oregon
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
June 30, 2017

	<u>General Fund</u>	<u>Special Programs</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Property taxes	\$ 5,699,369	\$ -	\$ -	\$ 2,785,211	\$ 8,484,580
Tuition	-	8,644	-	-	8,644
Investment earnings	144,377	1,756	242,721	122	388,976
Federal sources	44,179	3,367,734	-	1,586,038	4,997,951
State sources	22,719,018	3,052,881	1,500,000	7,475	27,279,374
Intermediate sources	880,385	155,000	-	-	1,035,385
Other local sources	629,382	984,919	2,000	131,707	1,748,008
Total revenues	<u>30,116,710</u>	<u>7,570,934</u>	<u>1,744,721</u>	<u>4,510,553</u>	<u>43,942,918</u>
Expenditures					
Current:					
Instruction	17,229,236	5,583,682	-	-	22,812,918
Support services	12,507,678	1,750,799	-	-	14,258,477
Enterprise and community services	-	51,119	-	1,582,547	1,633,666
Debt Service:					
Principal	120,187	89,583	-	1,320,000	1,529,770
Interest and other charges	19,106	14,892	-	1,360,548	1,394,546
Capital Outlay					
Facilities acquisition and construction	-	-	13,198,448	-	13,198,448
Total Expenditures	<u>29,876,207</u>	<u>7,490,075</u>	<u>13,198,448</u>	<u>4,263,095</u>	<u>54,827,825</u>
Excess (deficiency) of revenues over expenditures	<u>240,503</u>	<u>80,859</u>	<u>(11,453,727)</u>	<u>247,458</u>	<u>(10,884,907)</u>
Other Financing Sources (Uses)					
Proceeds from long-term debt, net	424,185	-	-	-	424,185
Other use	-	(4,596)	-	(3,897)	(8,493)
Transfers in	18,382	202,058	-	13,436	233,876
Transfers out	(161,797)	(72,079)	-	-	(233,876)
Total other financing sources and (uses)	<u>280,770</u>	<u>125,383</u>	<u>-</u>	<u>9,539</u>	<u>415,692</u>
Special Item					
Proceeds from sale of assets	16,092	1,099,480	-	-	1,115,572
Net change in fund balances	537,365	1,305,722	(11,453,727)	256,997	(9,353,643)
Fund balances - beginning	6,132,646	4,043,739	26,792,946	256,033	37,225,364
Fund balances - ending	<u>\$ 6,670,011</u>	<u>\$ 5,349,461</u>	<u>\$ 15,339,219</u>	<u>\$ 513,030</u>	<u>\$ 27,871,721</u>

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

Klamath Falls City Schools
Klamath County, Oregon
Reconciliation of the Statement of Revenues, Expenditures and Changes
In Fund Balance – Governmental Funds to the Statement of Activities
June 30, 2017

Net change in fund balances - total governmental funds: \$ (9,353,643)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

This is the amount by which capital outlays (\$13,574,655) exceeded depreciation (\$1,010,952) in the current period. 12,563,703

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the assets. Thus, the change in net position differs from the change in fund balance by the cost of the asset sold. (81,071)

Governmental funds recognize the contributions to the pension trust fund as an expenditure. In contrast, the Statement of Activities reports the change in pension assets/liabilities. (3,241,864)

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. 2,445

Governmental funds report debt proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of debt principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. Also, government funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This is the amount by which proceeds exceeded repayments. 1,105,585

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Other post employment benefit obligations not reflected on Governmental funds 855,348
Accrued interest not reflected on Governmental funds 202,454

Change in net position of governmental activities \$ 2,052,957

**Klamath Falls City Schools
Klamath County, Oregon
Notes to the Financial Statements
June 30, 2017**

Note 1 – Summary of Significant Accounting Policies

Organization

Klamath Falls City Schools, Klamath County, Oregon (the District) is a public organization charged with the responsibility of providing education to students in grades K through 12 within its boundaries. The District is a municipal operation governed by a board of seven publicly elected officials, and its affairs are administered at their direction by a superintendent, who is employed by the board.

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

Reporting Entity

As required by generally accepted accounting principles, all activities of the District have been included in the basic financial statements. The District qualifies as a primary government since it has a separately elected governing body, is a legally separate entity, and is fiscally independent. The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) governmental organizations for which the primary government is not financially accountable, but for which the nature and significance of their financial relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be governmental organizations for which the primary government is not financially accountable, but for which the nature and significance of their financial relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

EagleRidge High School is a charter school sponsored by the District, and is presented as a discretely presented component unit and their complete financial statements may be obtained from its administrative office at 677 S 7th Street, Klamath Falls, Oregon 97601. The District is not financially responsible for the charter school, but the nature and significance of its financial relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The component unit is presented in total in a separate column in the government-wide financial statements to emphasize that it is a legally separate entity from the District.

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 District's activities. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges for goods and services provided by a given function and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds and 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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

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. "Measurable" means

Klamath Falls City Schools
Klamath County, Oregon
Notes to the Financial Statements
June 30, 2017

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

the amount of the transaction can be determined and “available” means 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.

Property taxes, interest revenue and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

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 special programs fund accounts for resources acquired and payments made for federal and state grants, and student body activities.

The capital projects fund accounts for financial resources used to acquire or construct major capital facilities (other than those of proprietary funds and trust funds). The most common sources of revenue in this fund would be sale of bonds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are rental charges between the special programs fund and the general fund. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Cash and Cash Equivalents

The District’s cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less. Short-term investments are stated at cost, which approximates fair value.

The District’s investments consist of the State of Oregon Treasurer’s Local Government Investment Pool (LGIP). The LGIP is stated at cost, which approximates fair value. Fair value of the LGIP is the same as the District’s value in the pool shares. The Oregon State Treasury administers the LGIP. It is an open-ended no-load diversified portfolio offered to any agency, political subdivision or public corporation of the State that by law is made the custodian of, or has control of, any fund. The LGIP is commingled with the State’s short-term funds. In seeking to best serve local governments of Oregon, the Oregon legislature established the Oregon Short-Term Fund Board. The purpose of the Board is to advise the Oregon State Treasury in the management and investment options of the LGIP.

Property Taxes Receivable

Property taxes become a lien against the property, as of July 1, in the year in which due and are assessed in October through billing by the county to the property owner. Payments are due in three equal installments on November 15, February 15 and May 15 with a 3% discount available for payment in full on November 15. Taxes unpaid and outstanding on May 16 are considered delinquent and are subject to lien, and penalties and interest are assessed.

Klamath Falls City Schools
Klamath County, Oregon
Notes to the Financial Statements
June 30, 2017

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

Uncollected property taxes receivable for the governmental fund types which are considered measurable and available are recognized as revenues in the respective funds. All other uncollected property taxes receivable for the governmental fund types are offset by deferred revenues and, accordingly, have not been recorded as revenue. Uncollected property taxes, including delinquent amounts, are deemed to be substantially collectible or recoverable through foreclosure, therefore, no allowance for uncollectible accounts has been established.

Accounts Receivable

Accounts and other receivables are comprised primarily of claims for reimbursement of costs under various federal and state grants. Amounts are periodically reviewed for collectability. At June 30, 2017, no allowance for doubtful accounts is considered necessary.

Inventories

Inventories of supplies and materials in the governmental funds are stated at cost. Inventories of supplies and materials are valued at cost. All inventories use the first-in/first-out (FIFO) method. Inventoried items are charged to expenditures of the user department at the time of withdrawal from inventory (consumption method).

Capital Assets

Capital assets which include land and improvements, buildings and improvements, vehicles, furniture, equipment, and construction in progress, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost in excess of \$5,000 and an estimated useful life of more than one year. Such assets are recorded at historical cost, or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	20 years
Buildings and improvements	45-60 years
Vehicles, furniture and equipment	5-20 years

Grant Accounting

Unreimbursed expenditures due from grantor agencies are recorded in the financial statements as accounts receivable and revenues. Cash received from grantor agencies in excess of related grant expenditures is reflected as unearned/deferred revenue on the statement of net assets and the balance sheet.

Pensions

For purpose of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Oregon Public Employees Retirement System (PERS) and additions to/deductions from PER's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are reported at fair value.

Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the District. All unused vacation pay is accrued when earned in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignation and retirements. Compensated absences will be paid from general revenues from the District's General Fund.

Long-Term Debt

In the government-wide financial statements, long-term debt obligations are reported as liabilities in the statement of net position.

Fund Equity

In the government-wide financial statements, the District reports restricted net position when constraints placed on net position use are either externally imposed by creditors or other governments, or established through constitutional provisions or enabling

**Klamath Falls City Schools
Klamath County, Oregon
Notes to the Financial Statements
June 30, 2017**

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

legislation (such as for certain property taxes).

In the fund financial statements, government fund balances are classified as follows:

Non-Spendable – Amounts that cannot be spent either because they are in a non-spendable form such as inventory or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can only be spent for specific purposes because of local, state, or federal laws, or externally imposed conditions by grantors or creditors or enabling legislation.

Committed – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the School Board. These amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same type of action (resolution) that was employed when the funds were initially committed.

Assigned – Amounts that are to be used for specific purposes, authorized by the District’s Superintendent and/or Business Manager.

Unassigned – Amounts not included in other classifications.

Budgets and Budgetary Accounting

The budget is prepared for each program in accordance with the modified accrual basis of accounting and legal requirements set forth in Oregon Local Budget Law. The budgetary basis of accounting is the same as accounting principles generally accepted in the United States of America for the governmental fund types. The exception is capital outlay expenditures, which are budgeted by major function in governmental fund types. The resolution authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations. Appropriations are established at the major function level (instruction, supporting services, enterprise and community services, facilities acquisition and construction, debt service, transfers, and operating contingency) for each fund. The detail budget document, however, is required to contain more specific, detailed information for the above mentioned expenditure categories. Unexpected additional resources may be added to the budget through the use of a supplemental budget and appropriation resolution.

Supplemental budgets less than 10% of a fund’s original budget may be adopted by the Board at a regular meeting. A supplemental budget greater than 10% of a fund’s original budget requires hearings before the public, publication in newspapers and approval by the Board. Original and supplemental budgets may be modified by the use of appropriations transfers between the fund levels of control (major function levels) with Board approval. Appropriations lapse at the end of each fiscal year.

Use of Estimates

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

Note 2 – Cash and Equivalents

Primary Government

The District maintains an internal investment pool that is available for use by all funds. Each fund type’s portion of this pool is displayed on the balance sheet as “Cash and equivalents.”

Cash and equivalents are comprised of the following at June 30, 2017:

Deposits with financial institutions	\$ 2,664,196
State of Oregon Treasurer’s Local Government Investment Pool	<u>25,893,028</u>
Total cash and equivalents	<u>\$ 28,557,224</u>

Klamath Falls City Schools
Klamath County, Oregon
Notes to the Financial Statements
June 30, 2017

Note 2 – Cash and Equivalents *(continued)*

Credit Risk – Deposits

At year end, the book balance of the District's bank deposits was \$2,649,429 and the bank balance was \$3,175,462. 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 those required by ORS Chapter 295.

Custodial Risk – Deposits

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 which is a commercial bank in the name of the 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 of all other banks in the state, on a proportionate rate basis. The District has not adopted a policy for custodial credit risk.

Interest rate risk – Investments

The District does not have a policy regarding interest rate risk. The District's investment portfolio consisted of investments in the LGIP.

Credit risk – Investments

Oregon Revised Statutes, Chapter 294, authorize the government to invest in obligations of the U.S. Treasury, U.S. Government Agencies, banker's 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 has not adopted a policy for credit risk beyond those required by ORS Chapter 294.

Concentration of credit risk – Investments

The District does not have a policy regarding concentration of credit risk.

Custodial credit risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The LGIP's collateral requirements are mandated under ORS 295 and are considered to have little or no custodial credit risk exposure. The District has not adopted a policy for custodial credit risk.

Component Unit

EagleRidge's cash and equivalents consist of deposits with financial institutions.

Credit risk – Deposits

At year end, the book balance of EagleRidge's bank deposits was \$437,045 and the bank balance was \$443,119. Deposits are secured by federal deposit insurance to legal limits. The remaining amount is secured by collateral in accordance with Oregon Revised Statutes. EagleRidge has not adopted a policy for credit risk beyond those required by ORS Chapter 295.

Custodial credit risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, EagleRidge'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 which is a commercial bank in the name of the 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 of all other banks in the state, on a proportionate rate basis. EagleRidge has not adopted a policy for custodial credit risk.

**Klamath Falls City Schools
Klamath County, Oregon
Notes to the Financial Statements
June 30, 2017**

Note 3 – Receivables

Receivables are comprised of the following as of June 30, 2017:

Property taxes	\$ 859,442
Grants	3,204,093
Other	19,478
Total	<u>\$ 4,083,013</u>

Note 4 – Capital Assets

Primary Government

Capital assets activity for the year was as follows:

	<u>Balance</u> <u>June 30, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2017</u>
Capital assets not being depreciated:				
Land	\$ 7,521,589	\$ -	\$ (625)	\$ 7,520,964
Construction in progress	12,868,847	12,902,175	(139,772)	25,631,250
Total capital assets not being depreciated	<u>20,390,436</u>	<u>12,902,175</u>	<u>(140,397)</u>	<u>33,152,214</u>
Capital assets being depreciated:				
Buildings and improvements	30,089,721	266,369	-	30,356,090
Vehicles and equipment	3,684,860	545,883	(668,894)	3,561,849
Total capital asset being depreciated	<u>33,774,581</u>	<u>812,252</u>	<u>(668,894)</u>	<u>33,917,939</u>
Less accumulated depreciation for:				
Buildings and improvements	(16,523,903)	(770,304)	-	(17,294,207)
Vehicles and equipment	(2,631,393)	(240,647)	588,448	(2,283,592)
Total accumulated depreciation	<u>(19,155,296)</u>	<u>(1,010,951)</u>	<u>588,448</u>	<u>(19,577,799)</u>
Total capital assets being depreciated, net	<u>14,619,285</u>	<u>(198,699)</u>	<u>(80,446)</u>	<u>14,340,140</u>
Total capital assets, net	<u>\$ 35,009,721</u>	<u>\$ 12,703,476</u>	<u>\$ (220,843)</u>	<u>\$ 47,492,354</u>

Depreciation expense for the year was charged to the following programs:

Instruction	\$ 862,330
Administration and financial support services	8,235
Operations and maintenance of plant services	30,881
Pupil transportation	109,505
Total	<u>\$ 1,010,951</u>

**Klamath Falls City Schools
Klamath County, Oregon
Notes to the Financial Statements
June 30, 2017**

Note 4 – Capital Assets *(continued)*

Component Unit

Capital assets activity for the year was as follows:

	<u>Balance June 30, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2017</u>
Capital assets not being depreciated:				
Land	\$ 1,266,706	\$ -	\$ -	\$ 1,266,706
Total assets not being depreciated	<u>1,266,706</u>	<u>-</u>	<u>-</u>	<u>1,266,706</u>
Capital assets being depreciated:				
Leasehold improvements	\$ 5,537	\$ -	\$ -	\$ 5,537
Building	2,171,283	-	-	2,171,283
Equipment	<u>208,131</u>	<u>-</u>	<u>-</u>	<u>208,131</u>
Total capital asset being depreciated	<u>2,384,951</u>	<u>-</u>	<u>-</u>	<u>2,384,951</u>
Less accumulated depreciation for:				
Leasehold improvements	(3,150)	(70)	-	(3,220)
Building	(4,524)	(54,282)	-	(58,806)
Equipment	<u>(167,220)</u>	<u>(14,699)</u>	<u>-</u>	<u>(181,919)</u>
Total accumulated depreciation	<u>(174,894)</u>	<u>(69,051)</u>	<u>-</u>	<u>(243,945)</u>
Total capital assets being depreciated, net	<u>2,210,057</u>	<u>(69,051)</u>	<u>-</u>	<u>2,141,006</u>
Total capital assets, net	<u>\$ 3,476,763</u>	<u>\$ (69,051)</u>	<u>\$ -</u>	<u>\$ 3,407,712</u>

Depreciation expense for the year was charged to the following programs:

Instruction	<u>\$ 69,051</u>
Total	<u>\$ 69,051</u>

Note 5 – Interfund Receivables, Payables and Transfers

Interfund transfers for the year ended June 30, 2017 are as follows:

<u>Transfers Out</u>	<u>Transfers In</u>			<u>Total</u>
	<u>General Fund</u>	<u>Special Programs Fund</u>	<u>Food Service Fund</u>	
General Fund	\$ -	\$ 148,361	\$ 13,436	\$ 161,797
Special Programs Fund	18,382	53,697	-	72,079
Total Transfers	<u>\$ 18,382</u>	<u>\$ 202,058</u>	<u>\$ 13,436</u>	<u>\$ 233,876</u>

**Klamath Falls City Schools
Klamath County, Oregon
Notes to the Financial Statements
June 30, 2017**

Note 5 – Interfund Receivables, Payables and Transfers *(continued)*

Transfers are used to 1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become 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 government 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. In the year ended June 30, 2017, the government made the following one-time transfers:

A transfer of \$13,436 from the General Fund to the Food Service Fund to provide operating funds for the Food Service Fund, as required for the National School Lunch Program State Revenue Matching.

A transfer of \$148,361 from the General Fund to the Special Programs Fund to provide for local contribution matches to various grant agreements and for the bus and garage depreciation.

A transfer of \$18,382 from the Special Programs Fund to the General Fund to provide for the general school support.

The District reports student attendance for EagleRidge to the Oregon Department of Education

The Oregon Department of Education uses this information to calculate and disperse the State School Fund support to the District. The District then disburses the portion due to EagleRidge on to it. During the fiscal year ending June 30, 2017 the District disbursed to EagleRidge State School Fund support in the amount of \$1,547,415. The effect of this transaction has not been eliminated from the government-wide financial statements as it would distort the direct costs and program revenues reported for the District and EagleRidge. The District also provides the food service program and special education programs to EagleRidge, which are operated through the District’s regular programs. The District also provided certain administrative oversight and purchasing functions.

Note 6 – Operating Leases

The District is the lessor of land and buildings under non-cancelable operating leases to other parties. The cost of the leased assets was \$6,082,818 and the carrying value was \$5,025,443.

Future minimum rental payments to be received on these facilities are as follows for the years ended June 30:

2018	\$ 6,000
2019	6,000
2020	6,000
2021	6,000
Total	<u>\$ 24,000</u>

Note 7 – Pension and Retirement Plans

**Primary Government
Defined Contribution Plan
Plan Description**

The District offers its employees a tax deferred annuity program established pursuant to Section 403(b) of the Internal Revenue Code (the Code).

Funding Policy

Contributions are made through salary reductions from participating employees up to the amounts specified in the Code. The District makes a matching contribution to the plan for select qualified employees based on the collective bargaining agreement with Klamath Falls Education Association. The plan assets are not included in the financial statements of the District. During the year ended June 30, 2017, the employees’ elected contribution and the District match was \$459,885 to the plan.

**Klamath Falls City Schools
Klamath County, Oregon
Notes to the Financial Statements
June 30, 2017**

Note 7 – Pension and Retirement Plans *(continued)*

Defined Benefit Plans

Name of the Plan:

The Oregon Public Employees Retirement System (PERS) consists of a single cost-sharing multiple-employer defined benefit plan.

Description of benefit terms:

Plan Benefits

All benefits of the PERS are established by the legislature pursuant to Oregon Revised Statute (ORS) Chapters 238 and 238A.

A. PERS Pension (Chapter 238)

The ORS Chapter 238 Defined Benefit Pension Plan is closed to new members hired on or after August 29, 2003.

1. Pension Benefits

The PERS retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary. A percentage (2.0% for police and fire employees, 1.67% for general service employees) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation is a greater benefit results.

2. Death Benefits

Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance, provided one or more of the following conditions are met:

- Member was employed by a PERS employer at the time of death
- Member died within 120 days after termination of PERS-covered employment,
- Member died as a result of injury sustained while employed in a PERS-covered job, or
- Member was on an official leave of absence from PERS-covered job at the time of death.

3. Disability Benefits

A member with 10 or more years of creditable service who becomes disabled from other than duty-connected cause may receive a non-duty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member (including PERS judge members) for disability benefits regardless of the length of PERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 (55 for police and fire members) when determining the monthly benefit.

4. Benefit Changes after Retirement

Members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in the market value of equity investments.

Under ORS 238.360 monthly benefits are adjusted annually through cost-of-living changes. The cap on the COLA in fiscal year and beyond will vary based on the amount of the annual benefit.

B. OPSRP Pension Program (OPSRP DB)

The ORS Chapter 238A Defined Benefit Pension Program provides benefits to members hired on or after August 29, 2003.

1. Pension Benefits

This portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age:

**Klamath Falls City Schools
Klamath County, Oregon
Notes to the Financial Statements
June 30, 2017**

Note 7 – Pension and Retirement Plans *(continued)*

General Service: 1.5% is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65, or age 58 with 30 years of retirement credit.

A member of the pension program becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of the five calendar years, the date the member reaches normal retirement age and, if the pension program is terminated, the date on which termination becomes effective.

2. Death Benefits

Upon death of a non-retired member, the spouse or other person who is constitutionally required to be treated in the same manner as the spouse, receives for life 50 percent of the pension that would otherwise have been paid to the deceased member.

3. Disability Benefits

A member who has accrued 10 or more years of retirement credits before the member becomes disabled or a member who becomes disabled due to job-related injury shall receive a disability benefit of 45 percent of the member's salary determined as of the last full month of employment before the disability occurred.

4. Benefit Changes After Retirement

Under ORS 238A.210 monthly benefits are adjusted annually through cost-of-living changes. The cap on the COLA in fiscal year 2015 and beyond will vary based on the amount of the annual benefit.

Contributions:

PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. This funding policy applies to the PERS Defined Benefit Plan and the Other Postemployment Benefit Plans.

Employer contribution rates during the period were based on the December 31, 2013 actuarial valuation, which became effective July 1, 2015. The State of Oregon and certain schools, community colleges, and political subdivisions have made unfunded actuarial liability payments, and their rates have been reduced.

Employer contributions for the year ended June 30, 2017 were \$3,406,810, excluding amounts to fund employer specific liabilities.

Pension Liabilities, Pension Expense, and deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the District reported a liability of \$36,174,675 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014 rolled forward to June 30, 2016. The District's portion of the net pension liability was based on the projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2016, the District's proportion was 0.26404411 percent.

For the year ended June 30, 2017, the District recognized pension expense of \$3,241,864. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**Klamath Falls City Schools
Klamath County, Oregon
Notes to the Financial Statements
June 30, 2017**

Note 7 – Pension and Retirement Plans (continued)

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ 1,311,436	\$ -
Change in assumptions	8,454,079	-
Net difference between projected and actual earnings on investments	7,831,033	-
Change in proportion share	-	2,718,359
Difference between employer contributions and proportionate share of contributions	721,351	47,334
Total (prior to post-Measurement Date (MD))	<u>18,317,899</u>	<u>2,765,693</u>
Net Deferred Outflow/(Inflow) of Resources		<u>\$ 15,552,206</u>
Contributions subsequent to the MD	\$ 3,464,477	

The deferred out flows of resources related to pensions resulting from District contributions subsequent to the measurement date is \$3,464,477 and will be recognized in pension expense in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Deferred Outflow/(Inflow)
2017	\$ 2,694,792
2018	2,694,792
2019	5,564,711
2020	4,095,615
2021	502,296
Total	<u>\$ 15,552,206</u>

Pension Plan Comprehensive Annual Financial Report (CAFR):

Oregon PERS produces an independently audited CAFR which can be found at:
http://www.oregon.gov/pers/section/Pages/section/financial_reports/financials.aspx

Actuarial Valuations:

The employer contributions rates effective July 1, 2015, through June 30, 2017, were set using entry age normal actuarial cost method. For the Tier One/Tier Two component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (2) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 20 years.

For the OPSRP Pension Program component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (a) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (b) an actuarially determined amount for funding a disability benefit component, and (c) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 16 years.

**Klamath Falls City Schools
Klamath County, Oregon
Notes to the Financial Statements
June 30, 2017**

Note 7 – Pension and Retirement Plans (continued)

Actuarial Methods and Assumptions:

Valuation Date: December 31, 2014

Measurement Date: June 30, 2016

Actuarial cost method: Entry Age Normal

Amortization method: Amortized as a level percentage of payroll; Tier One/Tier Two UAL (20 years) and OPSRP pension UAL (16 years) amortization periods are closed.

Equivalent single amortization period: 20 years

Asset valuation method: Market value of assets

Actuarial assumptions: Inflation rate: 2.50 percent (reduced from 2.75%)*; Investment rate of return: 7.50 percent (reduced from 7.75%)*; Projected salary increases: 3.50 percent (reduced from 3.75%)

*Change since prior measurement date. Effective with the December 31, 2014 actuarial valuation, assumptions were changed, including lowering the assumed investment returns to 7.50 percent and assumed inflation to 2.50 percent. The healthy mortality assumption was changed to reflect an updated mortality improvement scale for all groups.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even number years. The methods and assumptions shown above are based on the 2014 Experience Study which reviewed experience for the four-year period ending on December 31, 2014.

Long-Term Expected Rate of Return

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2013 the PERS Board reviewed long-term assumptions developed by both Milliman’s capital market assumptions team and the Oregon Investment Council’s (OIC) investments advisors. The table below shows Milliman’s assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC’s description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

Asset Class/Strategy	Assumed Asset Allocation		Target
	Low Range	High Range	
Cash	0.0%	3.0%	0.0%
Debt Securities	15.0%	25.0%	20.0%
Public Equity	32.5%	42.5%	37.5%
Private Equity	16.0%	24.0%	20.0%
Real Estate	9.5%	15.5%	12.5%
Alternative Equity	0.0%	12.5%	12.5%
Opportunity Portfolio	0.0%	3.0%	0.0%
Total			100.0%

Depletion Date Projection

GASB 68 generally requires that a blended discount rate be used to measure the Total Pension Liability (the Actuarial Accrued Liability calculated using the Individual Entry Age Normal Cost Method). The long-term expected return on plan investments may be used to discount liabilities to the extent that the plan’s Fiduciary Net Position is projected to cover benefit payments and administrative expenses. A 20-year high quality (AA/Aa or higher) municipal bond rate must be used for periods where the Fiduciary Net Position is not projected to cover benefit payments and administrative expenses. Determining the discount rate under GASB 68 will often require that the actuary perform complex projections of future benefit payments and pension plan investments. GASB 68 (paragraph 67) does allow for alternative evaluations of projected solvency, if such evaluation can reliably be made. GASB does not contemplate a specific method for making an alternative evaluation of sufficiency; it is left to professional judgment.

Klamath Falls City Schools
Klamath County, Oregon
Notes to the Financial Statements
June 30, 2017

Note 7 – Pension and Retirement Plans (continued)

The following circumstances justify an alternative evaluation of sufficiency for PERS:

- PERS has a formal written policy to calculate an Actuarially Determined Contribution (ADC), which is articulated in the actuarial valuation report.
- The ADC is based on a closed, layered amortization period, which means that payment of the full ADC each year will bring the plan to a 100% funded position by the end of the amortization period if future experience follows assumption.
- GASB 68 specifies that the projections regarding future solvency assume that plan assets earn the assumed rate return and there are no future changes in the plan provisions or actuarial methods and assumptions, which means that the projections would not reflect any adverse future experience which might impact the plan's funded position.

Based on these circumstances, it is our independent actuary's opinion that the detailed depletion date projections outlined in GASB 68 would clearly indicate that the Fiduciary Net Position is always projected to be sufficient to cover benefit payments and administrative expenses.

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent for the Defined Benefit Pension Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Defined Benefit Pension Plan was applied to all periods of projected benefit payments to determine the total pension liability.

Changes Subsequent to the Measurement Date

GASB 67 and GASB 68 require the Total Pension Liability to be determined based on the benefit terms in effect at the Measurement Date. Any changes to benefit terms that occurs after that date are reflected in amounts reported for the subsequent Measurement Date. However, Paragraph 80(f) of GASB 68 requires employers to briefly describe any changes between the Measurement Date and the Employer's reporting date that are expected to have a significant effect on the employer's share of the collective Net Pension Liability, along with an estimate of the resulting change, if available.

At the July 28, 2017 meeting of the PERS Board, the long-term expected rate of return was lowered from 7.5 percent to 7.2 percent. This change will be effective January 1, 2018. It is expected that this change will cause an increase in the total net pension liability.

Klamath Falls City Schools Early Retirement Defined Benefit Plan

Plan Description

The District maintains a single employer defined benefit early retirement supplemental program for its employees. This program covers all full-time certified, confidential, classified supervisors and administrative personnel of the District. The District does not issue a standalone report for this plan.

These programs have generally been established under separate collective bargaining agreements and provide provisions for early retirement after 10 years regular service and 30 years of participation in Oregon PERS (if under age 58) for certificated personnel; or at least ten consecutive service years with the District immediately preceding retirement and 30 years participation in Oregon PERS (unless age 58) for classified supervisors, confidential and administrative personnel. This optional early retirement program provides the employee with the following:

- For eligible certificated employees a monthly stipend of \$622 is provided until age 62.
- For eligible classified supervisors and confidential employees a monthly stipend of \$350 is provided until age 62.
- For eligible administrators, a monthly stipend of \$875 is provided until age 62.

Funding Policy

The benefits from this program are fully paid by the District and, consequently, no contributions by employees are required. There is no obligation on the part of the District to fund these benefits in advance. The District funds the benefits on a pay-as-you-

**Klamath Falls City Schools
Klamath County, Oregon
Notes to the Financial Statements
June 30, 2017**

Note 7 – Pension and Retirement Plans (continued)

go basis. The early retirement benefits will be paid from General Fund resources.

Annual Pension Cost and Net Pension Obligation

The District’s annual pension cost and net pension obligation to the program for the current year were as follows:

Annual required contribution	\$ 18,333
Interest on net pension obligation	30,431
Adjustment to annual required contribution	-
Annual pension cost	48,764
Contributions made	<u>(260,688)</u>
Increase in net pension obligation	(211,924)
Net pension obligation beginning of year	<u>1,135,559</u>
Net pension obligation end of year	<u>\$ 923,635</u>

The District’s annual pension cost, the percentage of annual pension cost contributed to the plan and the net pension obligation for 2017 and the two preceding years were as follows:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2014	\$ 393,094	91.0%	\$ 278,864
June 30, 2015	\$ 218,515	93.5%	\$ 198,360
June 30, 2016	\$ 236,680	115.5%	\$ 161,742
June 30, 2017	\$ 48,764	534.6%	\$ 923,635

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2014 (the date of the most recent actuarial valuation), was as follows:

Actuarial accrued liability (AAL)	\$ 923,635
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 923,635</u>
Funded Ratio (actuarial value of plan assets/AAL)	0.0%
Covered Payroll (active plan members)	\$ 12,918,237
UAAL as a percentage of covered payroll	7.1%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about the future employment and mortality trends. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to actuarial accrued liabilities for benefits.

**Klamath Falls City Schools
Klamath County, Oregon
Notes to the Financial Statements
June 30, 2017**

Note 7 – Pension and Retirement Plans *(continued)*

Actuarial Methods and Assumptions

The District’s initial valuation of the annual required contribution was determined as part of the June 30, 2014, actuarial valuation using the projected unit credit actuarial cost method. Contribution levels are comprised of two components: normal cost and amortization payment. Under this method, the expected accrued benefit for each participant at benefit commencement (reflecting future expected increases in salaries) is allocated in equal proportion over the participant’s years of service from hire to expected retirement. The normal cost is the present value of benefits expected to accrue in the current year. The present value of benefits accrued in as of the valuation date is called the accrued liability. The difference between the accrued liability and the actuarial value of plan assets is called the unfunded accrued liability. The unfunded accrued liability is being amortized as a level percentage of payroll, over an initial period of six years for this program. The actuarial assumptions included (a) 4.0% interest rate for discounting future liabilities, (b) 3.0% overall payroll growth rate, (c) early retirement rates ranging from 3.5% to 100.0%. The UAAL has a remaining amortization period of 5 years.

Component Unit

Oregon Public Employees Retirement System Defined Benefit Plan

Plan Description

See plan description above for primary government.

At June 30, 2017, EagleRidge recorded a liability of \$1,402,541 for our proportionate share of the net pension liability. The net pension liability for the plan in total was measured as of June 30, 2016 and determined by an actual valuation as of December 31, 2014.

For the year ended June 30, 2017, the district recognized a pension expense of \$80,548, our proportionate share of the total pension expense.

At June 30, 2016, we reported deferred outflows and deferred inflows of resources from the following sources related to PERS (Oregon Public Employees Retirement System) pension benefits:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ 46,402	\$ -
Change in assumptions	299,128	-
Net difference between projected and actual earnings on investments	277,083	-
Change in proportion and difference between employer contributions and proportionate share of contributions	24,356	258,241
Total (prior to post-Measurement Date (MD))	<u>646,969</u>	<u>258,241</u>
Net Deferred Outflow/(Inflow) of Resources		<u>\$ 388,728</u>
Contributions subsequent to the MD	\$ 107,041	

\$107,041 reported as deferred outflows of resources to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction to the net pension asset in the year ended June 30, 2017.

**Klamath Falls City Schools
Klamath County, Oregon
Notes to the Financial Statements
June 30, 2017**

Note 7 – Pension and Retirement Plans *(continued)*

Other amounts reported as collective deferred (inflows) outflows of resource to be recognized in pension expense:

Year ended June 30:	Deferred Outflow/(Inflow)
2018	\$ 53,367
2019	53,367
2020	156,806
2021	114,948
2022	10,240
Thereafter	-
Total	\$ 388,728

Note 8 – Postemployment Health Care and Other Benefits

Primary Government

Oregon Public Employees Retirement Health Insurance Account Defined Benefit Plan

Plan Description

As a member of Oregon Public Employees Retirement System (OPERS) the District contributes to the Retirement Health Insurance Account (RHIA) for each of its eligible employees. RHIA is a cost-sharing multiple-employer defined benefit other postemployment benefit plan administered by OPERS. RHIA pays a monthly contribution toward the cost of Medicare companion health insurance premiums of eligible retirees. Oregon Revised Statute (ORS) 238.420 established this trust fund. Authority to establish and amend the benefit provisions of RHIA reside with the Oregon Legislature. The plan is closed to new entrants after January 1, 2004. OPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Oregon Public Employees Retirement System, PO Box 23700, Tigard, OR 97281-3700.

Funding Policy

Because RHIA was created by enabling legislation (ORS 238.420), contribution requirements of the plan members and the participating employers were established and may be amended only by the Oregon Legislature. ORS require that an amount equal to \$60 dollars or the total monthly cost of Medicare companion health insurance premiums coverage, whichever is less, shall be paid from the Retirement Health Insurance Account established by the employer, and any monthly cost in excess of \$60 dollars shall be paid by the eligible retired member in the manner provided in ORS 238.410. To be eligible to receive this monthly payment toward the premium cost the member must: (1) have eight years or more of qualifying service in PERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in PERS, (2) receive both Medicare Parts A and B coverage, and (3) enroll in a PERS-sponsored health plan. A surviving spouse or dependent of a deceased PERS retiree who was eligible to receive the subsidy is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died and the member retired before May 1, 1991.

Participating school districts are contractually required to contribute to RHIA at a rate assessed each year by OPERS, and the District currently contributes 0.53% of annual covered OPERF payroll and 0.45% of OPSRP payroll. The OPERS Board of Trustees sets the employer contribution rates based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years.

**Klamath Falls City Schools
Klamath County, Oregon
Notes to the Financial Statements
June 30, 2017**

Note 8 – Postemployment Health Care and Other Benefits *(continued)*

Annual Pension Cost

The District's contributions to RHIA for the years ended June 30, 2015, 2016 and 2017 were \$32,564, \$50,529 and \$82,854, which equaled the required contributions each year.

Klamath Falls City Schools Health Care Defined Benefit Plan

Plan Description

The District provides a single-employer defined benefit postemployment health care program for certain employees who have left employment with the District. Benefits to eligible retirees, terminated employees, and their dependents are provided in accordance with various negotiated contracts and the Consolidated Omnibus Budget Reconciliation Act (COBRA). The District does not issue a standalone report for this plan.

These programs have generally been established under separate collective bargaining agreements and provide provisions for medical benefits after 10 to 15 years of regular service for classified supervisors, confidential and administrative personnel and provide benefits generally for 7 years or until the employee reaches age 65. This postemployment health benefit has been sunset ending for new participants as of June 30, 2010. Employees retiring after June 30, 2020, receive no benefit.

The District's postemployment health care plan was established in accordance with Oregon Revised Statutes (ORS) 243.303. ORS stipulated that for the purpose of establishing health care premiums, the rate must be on all plan members, including both active employees and retirees. The difference between retiree claims costs, which because of the effect of age is generally higher in comparison to all plan members, and the amount of retiree health care premiums represents the District's implicit employer contribution.

Funding Policy

Certain employees are required to pay all or a percentage of the costs of the benefits. For other employees the benefits are fully paid by the District. The District funds its share of the benefits on a pay-as-you-go basis. There is no obligation to fund these benefits in advance. The health care benefits will be paid from General Fund resources.

Annual Pension Cost and Net Pension Obligation

The District's annual Other Postemployment Benefit Obligation (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 73 and 75. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's OPEB obligation to the plan for the current year.

Annual required contribution	\$ 290,317
Interest on net OPEB obligation	285,011
Annual OPEB cost	<u>575,328</u>
Contributions made	<u>(1,218,752)</u>
Increase in net OPEB obligation	(643,424)
Net OPEB obligation beginning of year	<u>9,964,588</u>
Net OPEB obligation end of year	<u><u>\$ 9,321,164</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2017 and the two preceding years were as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (APC)</u>	<u>Percentage APC Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2015	\$ 988,350	76.0%	\$ 1,927,251
June 30, 2016	\$ 1,017,974	72.1%	\$ 2,018,464
June 30, 2017	\$ 575,328	211.8%	\$ 9,321,164

**Klamath Falls City Schools
Klamath County, Oregon
Notes to the Financial Statements
June 30, 2017**

Note 8 – Postemployment Health Care and Other Benefits *(continued)*

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2016 (the date of the most recent actuarial valuation), was as follows:

Actuarial accrued liability (AAL)	\$ 9,321,164
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 9,321,164</u>
Funded Ratio (actuarial value of plan assets/AAL)	0.0%
Covered Payroll (active plan members)	\$ 13,946,636
UAAL as a percentage of covered payroll	66.8%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about the future employment, mortality, claim cost, and health care trends. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

The annual required contribution for the current year was determined as part of the July 1, 2016, actuarial valuation using the entry age normal, level percent of salary actuarial cost method. Mortality rates were based on the RP=2000 Active/Healthy Annuitant Mortality Table for males and females, as appropriate, set back 24 months and were calculated by adjusting the rates 60% for male participants and 55% for female participants. Turnover rates were based on percentages developed for the valuation of benefits under Oregon PERS and vary by years of service. Disability rates were based on the percentages developed for the valuation of benefits under Oregon PERS and vary by employee age. Retirement rates were calculated based on age and years of service with the assumption that 100% of future retirees with district-paid medical benefits and 85% of future retirees will elect medical coverage, and 70% of retirees electing coverage will cover a spouse as well. The projection of benefits for the financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Sensitivity of the Net Other Postemployment Benefit Liability to Changes in Discount and Trend Rates

The following presents the other postemployment benefit liability (NOL), calculated using the discount rate of 3.0%, as well as what the liability would be if it was calculated using a discount rate of 1 percentage point lower (2.0%) or 1 percentage point higher (4.0%) than the current rate:

	1% Decrease 2.00%	Current Discount Rate 3.00%	1% Increase 4.00%
Total OPEB Liability	\$9,814,453	\$9,321,164	\$8,856,732

The following presents the net other postemployment benefit liability (NOL) calculated using the trend rate of 6.5% graded down to 5.0%, as well as what the liability would be if it was calculated using a trend rate 1 percentage point lower (5.5% graded down to 4.0%) or 1 percentage point higher (7.5% graded down to 6.0%) than the current rate:

	1% Decrease 5.50% Graded Down to 4.00%	Current Trend Rate 6.50% Graded Down to 5.00%	1% Increase 7.50% Graded Down to 6.00%
Total OPEB Liability	\$8,731,344	\$9,321,164	\$9,986,315

**Klamath Falls City Schools
Klamath County, Oregon
Notes to the Financial Statements
June 30, 2017**

Note 8 – Postemployment Health Care and Other Benefits *(continued)*

Component Unit

Oregon Public Employees Retirement Health Insurance Account Defined Benefit Plan

Plan Description

See plan description above for primary government.

Funding Policy

See funding policy above for primary government.

Annual Pension Cost

The District's contributions to RHIA for the years ended June 30, 2015, 2016 and 2017 were \$2,918, \$3,182 and \$3,417, which equaled the required contributions each year.

EagleRidge High School Health Care Defined Benefit Plan

Plan Description

The District provides a single-employer defined benefit postemployment health care program for employees who have left employment with EagleRidge. Benefits to eligible retirees, terminated employees, and their dependents are provided in accordance with various negotiated contracts and the Consolidated Omnibus Budget Reconciliation Act (COBRA). The District does not issue a standalone report for this plan.

Funding Policy

All employees are required to pay all costs of the benefits. The health care benefits will be paid from General Fund resources.

**Klamath Falls City Schools
Klamath County, Oregon
Notes to the Financial Statements
June 30, 2017**

Note 9 – Long-Term Liabilities

Long-term liabilities consist of the following at June 30, 2017 and 2016, respectively:

	<u>2017</u>	<u>2016</u>
Oregon Department of Energy – The District entered into an agreement with Oregon Department of Energy in fiscal year 2012 for a loan agreement of \$400,000 for small scale energy projects. Payments are due monthly installments of \$2,863 including interest at 3.5%. The debt service is paid by Special Programs Fund. Small scale energy projects totaling \$400,000 accumulated amortization \$113,764 were acquired with this capital lease.	\$282,297	\$306,314
US Bank National Association - The District passed a General Obligation Bond Levy not to exceed \$36,000,000 in November 2014 and sold the bonds in February 2015. The District entered into an agreement with US Bank National to serve as the registrar and paying agent to the bonds. The first principal payment of 1,320,000 was paid in June 2017.	34,675,940	35,995,940
Capital One Public Funding LLC The District applied to Oregon Department of Education in Fiscal year 2014 for Qualified Zone Academy Bond to finance improvements at Modoc Field, including new artificial turf field, a new weight lane track, a new scoreboard, removal of the old visitor grandstand and re-surfacing of the existing tennis courts. Financing was provided by Capital One Public Funding over a 17-year period with one annual principal payment and two annual interest payments.	1,255,000	1,340,000
Santander Leasing - The District entered into a five year lease agreement with Santander Leasing in fiscal year 2016 in the amount of \$140,666 for the purchase of a bus. Annual payments, including interest, of \$29,779 will be made in August, beginning August 2016. The debt service will be paid by the General Fund for the next four years, at an interest rate of 2.80% and the same payment amount. The bus valued at \$140,666, with accumulated depreciation of \$11,722, was acquired with the capital lease.	111,222	-

**Klamath Falls City Schools
Klamath County, Oregon
Notes to the Financial Statements
June 30, 2017**

Note 9 – Long-Term Liabilities *(continued)*

Santander Leasing - The District entered into a five year lease agreement with Santander Leasing in fiscal year 2016 in the amount of \$190,552 for the purchase of three buses. Annual payments, including interest, of \$40,340 will be made in June, beginning June 2016. The debt service will be paid by the General Fund for the next four years, at an interest rate of 2.80% and the same payment amount. Buses valued at \$190,552, with accumulated depreciation of \$22,231, were acquired with the capital lease.

114,544 150,665

US Bank Equipment Finance- The District entered into an agreement with US Bank Equipment Finance in fiscal year 2017 for a lease agreement of \$283,519 for the purchase of copiers. Payments are due monthly in monthly installments of \$5,171 including interest at 3.608%. The debt service is paid by the General Fund. Equipment totaling \$283,519, with accumulated depreciation of \$51,979, were acquired with this capital lease.

253,012 -

De Lage Landen Public Finance LLC - The District entered into an agreement with De Lage Landen Public Finance LLC in fiscal year 2014 for a lease agreement of \$160,280 for the purchase of printers and copiers. Payments are due monthly in monthly installments of \$4,693 including interest at 3.6%. The debt service is paid by the General Fund. The equipment has been traded in once the lease expired.

- 4,680

Total

\$ 36,692,015 \$37,797,599

Long-term liability activity for the year ended June 30, 2017:

	<u>Balance</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2017</u>	<u>Amounts Due</u> <u>in One Year</u>
Oregon Department of Energy	\$ 306,314	\$ -	\$ (24,017)	\$ 282,297	\$ 24,871
Capital One Public Funding LLC	1,340,000	-	(85,000)	1,255,000	85,000
US National Bank	35,995,940	-	(1,320,000)	34,675,940	1,475,000
Santander Leasing	150,665	-	(36,121)	114,544	37,133
Santander Leasing	-	140,666	(29,444)	111,222	26,665
US Bank Equipment Finance	-	283,519	(30,507)	253,012	53,813
De Lage Landen Public Finance LLC	4,680	-	(4,680)	-	-
Total	<u>\$ 37,797,599</u>	<u>\$ 424,185</u>	<u>\$ (1,529,769)</u>	<u>\$ 36,692,015</u>	<u>\$ 1,702,482</u>

The annual debt services to maturity for long-term liabilities are as follows:

<u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,702,481	\$ 1,370,800	\$ 3,073,281
2019	1,867,126	1,335,805	3,202,931
2020	2,011,901	1,292,380	3,304,281
2021	2,126,540	1,215,552	3,342,092
2022	2,239,227	1,114,785	3,354,012
2023-2027	11,088,797	4,182,392	15,271,189
2028-2032	10,750,000	2,032,150	12,782,150
2033-2037	<u>4,905,943</u>	<u>3,304,035</u>	<u>8,209,978</u>
Total	<u>\$36,692,015</u>	<u>\$15,847,899</u>	<u>\$52,539,914</u>

**Klamath Falls City Schools
Klamath County, Oregon
Notes to the Financial Statements
June 30, 2017**

Note 9 – Long-Term Liabilities *(continued)*

Component Unit

EagleRidge Long-Term Liabilities

The following is a summary of long term debt at June 30, 2016:

Loan from Washington Federal Bank dated May 29, 2016, due in monthly installments of \$11,207 bearing an interest rate of 2.86%. The note is secured by land and building and is backed by \$2,400,000 in Oregon Facilities Authority SNAP Revenue Bonds, 2016 Series A tax-exempt qualified Section 501(c)(3) The note matures on June 1, 2041 and has a balance of \$2,327,639 at year end. On June 1, 2026, June 1 2031, and June 1 2036 the interest rate will be adjusted to a rate equal to the applicable factor of .72 multiplied by the then-current Five Year Federal Home Loan Bank of Des Moines Bullet Rate, plus 1.00 percent.

The future maturity of this long-term debt is as follows for the years ending June 30:

Year	Principal	Interest	Total
2018	\$ 68,648	\$ 65,836	\$ 134,484
2019	70,637	63,387	134,024
2020	72,685	61,801	134,486
2021	74,791	59,694	134,485
2022	76,958	57,527	134,485
2023-2027	419,562	252,863	672,425
2028-2032	483,979	188,446	672,425
2033-2037	558,286	114,139	672,425
2038-2041	502,093	30,201	532,294
Total	<u>\$ 2,327,639</u>	<u>\$ 893,894</u>	<u>\$ 3,221,533</u>

Note 10 – Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District carries commercial insurance for all risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from the risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 11 – Commitments and Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the State of Oregon Department of Education. Any disallowed claims, including amounts already collected, may constitute a 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.

The District is dependent on the State of Oregon for a substantial portion of its operating funds. Due to funding uncertainties at the State level, future funding for school districts may be reduced. The ultimate effect of this possible reduction in funding on the District's future operations is not yet determinable

Note 12 – EagleRidge Facilities

In May 2016, EagleRidge High School acquired its school facilities from EagleRidge Community Development LLC via a loan from Washington Federal in the amount of \$2,400,000 secured by the building and land. A collateral account of \$70,007 was established as possible coverage for future payments. The notice is backed by \$2,400,000 in Oregon Facilities Authority SNAP Revenue bonds, 2016 Series A tax-exempt qualified Section 501(c)(3) bonds. The current balance of the loan at June 30, 2016 is \$2,327,639 with an interest rate of 2.86%. The \$100,000 investment in EagleRidge Community Development LLC was returned

Klamath Falls City Schools
Klamath County, Oregon
Notes to the Financial Statements
June 30, 2017

Note 12 – EagleRidge Facilities *(continued)*

to them in cash and an undivided interest in the building and land. In addition, the LLC contributed to EagleRidge an interest in the building valued at \$600,000 after which EagleRidge purchased the remainder of the building and land from the LLC in the amount of \$2,400,000.

Note 13 – Other Required Individual Fund Disclosures

Generally accepted accounting principles require disclosure of certain information concerning individual funds, including over expenditure of budgeted funds by individual funds. There were no budget deviations that require disclosure.

Note 14 – Prior Period Restatements

Net Position (as reported June 30, 2016)	\$ 11,752,511
Net OPEB Liability 7/1/2016 (GASB 75)	<u>(8,919,941)</u>
Restated Beginning Net Position	<u>\$ 2,832,570</u>

Note 15 – Subsequent Events

The District evaluated subsequent events through December 15, 2017, the date these financial statements were available to be issued. There are no events that require disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

Klamath Falls City Schools
Klamath County, Oregon
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – General Fund
June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts,</u> <u>Budgetary</u> <u>Basis</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
Revenues				
Property taxes	\$ 6,305,060	\$ 6,305,060	\$ 5,699,369	\$ (605,691)
Investment earnings	62,000	62,000	144,377	82,377
Federal sources	-	-	44,179	44,179
State sources	22,115,432	22,115,432	22,719,018	603,586
Intermediate sources	770,000	770,000	880,385	110,385
Other local sources	494,850	494,850	629,382	134,532
Total revenues	<u>29,747,342</u>	<u>29,747,342</u>	<u>30,116,710</u>	<u>369,368</u>
Expenditures				
Current:				
Instruction	18,704,985	18,704,985	17,229,236	1,475,749
Support services	13,219,533	13,219,533	12,507,678	711,855
Debt Service:				
Principal	142,800	142,800	120,187	22,613
Interest and other charges	23,515	23,515	19,106	4,409
Operating contingency	1,604,542	1,604,542	-	1,604,542
Total Expenditures	<u>33,695,375</u>	<u>33,695,375</u>	<u>29,876,207</u>	<u>3,819,168</u>
Excess (deficiency) of revenues over expenditures	<u>(3,948,033)</u>	<u>(3,948,033)</u>	<u>240,503</u>	<u>4,188,536</u>
Other Financing Sources (Uses)				
Proceeds from capital leases	10,000	10,000	-	(10,000)
Proceeds from long-term debt	-	-	424,185	424,185
Transfers in	50,000	50,000	18,382	(31,618)
Transfers out	(409,000)	(409,000)	(161,797)	247,203
Total other financing sources and (uses)	<u>(349,000)</u>	<u>(349,000)</u>	<u>280,770</u>	<u>629,770</u>
Special Item				
Proceeds from sale capital assets	1,000	1,000	16,092	15,092
Net change in fund balances	(4,296,033)	(4,296,033)	537,365	4,833,398
Fund balances - beginning	4,296,033	4,296,033	6,132,645	1,836,612
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,670,010</u>	<u>\$ 6,670,010</u>

Klamath Falls City Schools
Klamath County, Oregon
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Special Programs Fund
June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Tuition	\$ 33,000	\$ 33,000	\$ 8,644	\$ (24,356)
Investment earnings	1,000	1,000	1,756	756
Federal sources	3,307,932	3,307,932	3,367,734	59,802
State sources	2,586,000	2,586,000	3,052,881	466,881
Intermediate sources	11,000	11,000	155,000	144,000
Other local sources	1,272,500	1,272,500	984,919	(287,581)
Total revenues	<u>7,211,432</u>	<u>7,211,432</u>	<u>7,570,934</u>	<u>359,502</u>
Expenditures				
Current:				
Instruction	6,489,697	6,489,697	5,583,682	906,015
Support services	2,082,282	2,082,282	1,750,799	331,483
Enterprise and community services	100,753	100,753	51,119	49,634
Facilities acquisition and construction	1,520,000	1,520,000	-	1,520,000
Debt Service:				
Principal	90,000	90,000	89,583	417
Interest and other charges	18,700	18,700	14,892	3,808
Total Expenditures	<u>10,301,432</u>	<u>10,301,432</u>	<u>7,490,075</u>	<u>2,811,357</u>
Excess (deficiency) of revenues over expenditures	<u>(3,090,000)</u>	<u>(3,090,000)</u>	<u>80,859</u>	<u>3,170,859</u>
Other Financing Sources (Uses)				
Other Uses	(125,000)	(125,000)	(4,596)	120,404
Transfers in	515,000	515,000	202,057	(312,943)
Transfers out	(170,000)	(170,000)	(72,079)	97,921
Total other financing sources and (uses)	<u>220,000</u>	<u>220,000</u>	<u>125,382</u>	<u>(94,618)</u>
Special Item				
Proceeds from sale capital assets	<u>-</u>	<u>-</u>	<u>1,099,480</u>	<u>1,099,480</u>
Net change in fund balances	(2,870,000)	(2,870,000)	1,305,721	4,175,721
Fund balances - beginning	2,870,000	2,870,000	4,043,739	1,173,739
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,349,460</u>	<u>\$ 5,349,460</u>

**Klamath Falls City Schools
Klamath County, Oregon
Required Supplementary Information
June 30, 2017**

Schedules of Funding Progress

Klamath Falls City Schools Early Retirement Defined Benefit Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Projected Unit Credit Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (ba)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll ((ba)/c)
June 30, 2010	\$ -	\$ 2,567,745	\$ 2,567,745	0.0%	\$ 18,570,343	13.8%
June 30, 2012	\$ -	\$ 2,030,818	\$ 2,030,818	0.0%	\$ 17,251,292	11.8%
June 30, 2014	\$ -	\$ 1,294,199	\$ 1,294,199	0.0%	\$ 14,271,506	9.1%
June 30, 2016	\$ -	\$ 923,635	\$ 923,635	0.0%	\$ 12,918,237	7.1%

Klamath Falls City Schools Medical Benefit Defined Benefit Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Projected Unit Credit Actuarial Accrued Liability (AAL) (b)	Unfunded AAL(UAAL) (ba)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll ((ba)/c)
June 30, 2016	\$ -	\$ 9,321,164	\$ 9,321,164	0.0%	\$ 13,946,636	66.8%

**Schedule of the Districts Proportionate Share of the Net Pension Liability
Oregon Public Employees Retirement System**

	2016	2015
District's proportion of the net liability (asset)	0.2640%	0.3113%
District's proportionate share of the net pension liability (asset)	39,639,152	17,870,973
Covered payroll	18,612,603	14,271,506
District's proportionate share as a percentage of covered payroll	212.9694%	125.2214%

**Schedule of District Contributions
Oregon Public Employees Retirement System**

	2016	2015
Statutorily required contribution	\$ 3,464,477	\$ 3,406,810
Contributions in relation to the statutorily required contribution	3,464,477	3,406,810
Annual contribution deficiency (excess)	\$ -	\$ -

OTHER SUPPLEMENTARY SCHEDULES

**Klamath Falls City Schools
Klamath County, Oregon
Balance Sheet
Other Governmental Funds
June 30, 2017**

	<u>Food Service</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Assets			
Cash and equivalents	\$ 298,079	\$ 147,490	\$ 445,569
Taxes receivable	-	168,372	168,372
Due from other funds	-	-	-
Receivable from other governments	84,763	-	84,763
Other receivables	-	-	-
Inventories	-	-	-
Prepaid expenses	-	-	-
Total assets	<u>382,842</u>	<u>315,862</u>	<u>698,704</u>
Liabilities Deferred Inflows and Fund Balances			
Liabilities:			
Accounts payable	46,854	-	46,854
Due to other funds	-	-	-
Deferred revenue	-	-	-
Other accrued expenses	-	-	-
Total liabilities	<u>46,854</u>	<u>-</u>	<u>46,854</u>
Deferred Inflows:			
Unavailable revenue - property taxes	<u>-</u>	<u>138,820</u>	<u>138,820</u>
Fund balances:			
Non-Spendable	-	-	-
Restricted	335,988	177,042	513,030
Committed	-	-	-
Assigned	-	-	-
Unassigned	-	-	-
Unreserved, reported in non-major:			
Special revenue funds	-	-	-
Capital projects funds	-	-	-
Debt service funds	-	-	-
Permanent Endowment Fund	-	-	-
Total fund balances	<u>335,988</u>	<u>177,042</u>	<u>513,030</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 382,842</u>	<u>\$ 315,862</u>	<u>\$ 698,704</u>

Klamath Falls City Schools
Klamath County, Oregon
Statement of Revenue, Expenditures and Changes in Fund Balance
Other Governmental Funds
June 30, 2017

	<u>FoodService</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Revenues			
Property taxes	\$ -	\$ 2,785,211	\$ 2,785,211
Investment earnings	-	122	122
Federal sources	1,586,038	-	1,586,038
State sources	7,475	-	7,475
Other local sources	131,707	-	131,707
Total revenues	<u>1,725,220</u>	<u>2,785,333</u>	<u>4,510,553</u>
Expenditures			
Current:			
Enterprise and community services	1,582,547	-	1,582,547
Debt Service:			
Principal	-	1,320,000	1,320,000
Interest and other charges	-	1,360,548	1,360,548
Capital Outlay	-	-	-
Total Expenditures	<u>1,582,547</u>	<u>2,680,548</u>	<u>4,263,095</u>
Excess (deficiency) of revenues over expenditures	<u>142,673</u>	<u>104,785</u>	<u>247,458</u>
Other Financing Sources (Uses)			
Proceeds from long-term debt, net	-	-	-
Proceeds from capital leases	-	-	-
Other source	-	-	-
Other use	(3,897)	-	(3,897)
Transfers in	13,436	-	13,436
Transfers out	-	-	-
Total other financing sources and (uses)	<u>9,539</u>	<u>-</u>	<u>9,539</u>
Net change in fund balances	152,212	104,785	256,997
Fund balances - beginning	183,776	-	256,033
Fund balances - ending	<u>\$ 335,988</u>	<u>\$ 177,042</u>	<u>\$ 513,030</u>

Klamath Falls City Schools
Klamath County, Oregon
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Food Service Fund
June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts,</u> <u>Budgetary</u> <u>Basis</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Federal sources	\$ 1,664,000	\$ 1,664,000	\$ 1,586,038	\$ (77,962)
State sources	6,500	6,500	7,475	975
Other local sources	124,800	124,800	131,707	6,907
Total revenues	<u>1,795,300</u>	<u>1,795,300</u>	<u>1,725,220</u>	<u>(70,080)</u>
Expenditures				
Current:				
Enterprise and community services	1,915,300	1,910,300	1,582,547	327,753
Capital Outlay	5,000	5,000	-	5,000
Total Expenditures	<u>1,920,300</u>	<u>1,915,300</u>	<u>1,582,547</u>	<u>332,753</u>
(Deficiency) of revenues over expenditures	<u>(125,000)</u>	<u>(120,000)</u>	<u>142,673</u>	<u>262,673</u>
Other Financing Sources (Uses)				
Transfers in	15,000	15,000	13,436	(1,564)
Other Uses	-	(5,000)	(3,897)	1,103
Total other financing sources and (uses)	<u>15,000</u>	<u>10,000</u>	<u>9,539</u>	<u>(461)</u>
Net change in fund balances	(110,000)	(110,000)	152,212	262,212
Fund balances - beginning	110,000	110,000	183,777	73,777
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 335,989</u>	<u>\$ 335,989</u>

Klamath Falls City Schools
Klamath County, Oregon
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Debt Service Fund
June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property Taxes	\$ 2,650,600	\$ 2,650,600	\$ 2,785,211	\$ 134,611
Investment earnings	0	0	122	\$ 122
Total revenues	<u>2,650,600</u>	<u>2,650,600</u>	<u>2,785,333</u>	<u>134,733</u>
Expenditures				
Debt Service:				
Principal	1,320,000	1,320,000	1,320,000	-
Interest and other charges	<u>1,360,600</u>	<u>1,360,600</u>	<u>1,360,548</u>	<u>52</u>
Total Expenditures	<u>2,680,600</u>	<u>2,680,600</u>	<u>2,680,548</u>	<u>52</u>
(Deficiency) of revenues over expenditures	<u>(30,000)</u>	<u>(30,000)</u>	<u>104,785</u>	<u>134,785</u>
Net change in fund balances	(30,000)	(30,000)	104,785	134,785
Fund balances - beginning	<u>30,000</u>	<u>30,000</u>	<u>72,257</u>	<u>42,257</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 177,042</u>	<u>\$ 177,042</u>

Klamath Falls City Schools
Klamath County, Oregon
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Capital Projects Fund
June 30, 2017

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Investment earnings	\$ 135,250	\$ 135,250	\$ 242,721	\$ 107,471
State sources	-	-	1,500,000	1,500,000
Other local sources	1,000	1,000	2,000	1,000
Total revenues	<u>136,250</u>	<u>136,250</u>	<u>1,744,721</u>	<u>1,608,471</u>
Expenditures				
Capital Outlay	<u>28,387,415</u>	<u>28,387,415</u>	<u>13,198,448</u>	<u>15,188,967</u>
Total Expenditures	<u>28,387,415</u>	<u>28,387,415</u>	<u>13,198,448</u>	<u>15,188,967</u>
(Deficiency) of revenues over expenditures	<u>(28,251,165)</u>	<u>(28,251,165)</u>	<u>(11,453,727)</u>	<u>16,797,438</u>
Other Financing Sources (Uses)				
Transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources and (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(28,251,165)	(28,251,165)	(11,453,727)	16,797,438
Fund balances - beginning	<u>28,251,165</u>	<u>28,251,165</u>	<u>26,792,946</u>	<u>(1,458,219)</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,339,219</u>	<u>\$ 15,339,219</u>

SUPPLEMENTAL INFORMATION, 2016-2017

School District Business Managers and Auditors:

This page is a required part of your annual audited financial statements. Please make sure it is included.

Parts A is needed for computing Oregon’s full allocation for ESEA, Title I & other Federal Funds for Education.

A. Energy Bill for Heating - **All Funds:**

Please enter your expenditures for electricity & heating fuel for these Functions & Objects.

	Objects 325 & 326
Function 2540	\$340,290
Function 2550	\$\$-

B. Replacement of Equipment – **General Fund:**

Include all General Fund expenditures in object 542, except for the following exclusions:

Exclude these functions:

- 1113, 1122 & 1132
- 1140
- 1300
- 1400

- Co-curricular Activities
- Pre-Kindergarten
- Continuing Education
- Summer School

Exclude these functions:

- 4150 Construction
- 2550 Pupil Transportation
- 3100 Food Service
- 3300 Community Services

	\$-
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Klamath Falls City Schools
Klamath County, Oregon
June 30, 2017

2016 - 17 DISTRICT AUDIT REVENUES SUMMARY

Revenue from Local Sources

	Fund 100	Fund 200	Fund 300	Fund 400	Fund 500	Fund 600	Fund 700
110 Ad Valorem Taxes Levied by District	\$ 5,648,233	\$ -	\$ 2,785,211	\$ -	\$ -	\$ -	\$ -
1120 Local Option Ad Valorem Taxes Levied by District	\$ 51,136	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1130 Construction Excise Tax	\$ 67,550	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1190 Penalties and Interest on Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1200 Revenue from Local Governmental Units Other Than Districts	\$ 3,157	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1311 Regular Day School Tuition - From Individuals	\$ -	\$ 7,679	\$ -	\$ -	\$ -	\$ -	\$ -
1312 Regular Day School Tuition - Other Dist Within State	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1313 Regular Day School Tuition - Other Districts Outside	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1320 Adult/Continuing Education Tuition	\$ -	\$ 965	\$ -	\$ -	\$ -	\$ -	\$ -
1330 Summer School Tuition	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1411 Transportation Fees - From Individuals	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1412 Transportation Fees - Other Dist Within State	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1413 Transportation Fees - Other Districts Outside	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1420 Summer School Transportation Fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1500 Earnings on Investments	\$ 144,377	\$ 1,756	\$ 122	\$ 242,721	\$ -	\$ -	\$ -
1600 Food Service	\$ -	\$ 122,313	\$ -	\$ -	\$ -	\$ -	\$ -
1700 Extracurricular Activities	\$ -	\$ 498,984	\$ -	\$ -	\$ -	\$ -	\$ -
1800 Community Services Activities	\$ -	\$ 21,147	\$ -	\$ -	\$ -	\$ -	\$ -
1910 Rentals	\$ 50,130	\$ 28,189	\$ -	\$ -	\$ -	\$ -	\$ -
1920 Contributions and Donations From Private Sources	\$ 88,908	\$ 76,029	\$ -	\$ 2,000	\$ -	\$ -	\$ -
1930 Rental or Lease Payments From Private Contractors	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1940 Services Provided Other Local Education Agencies	\$ -	\$ 108,636	\$ -	\$ -	\$ -	\$ -	\$ -
1950 Textbook Sales and Rentals	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1960 Recovery of Prior Years' Expenditure	\$ (419)	\$ 4,075	\$ -	\$ -	\$ -	\$ -	\$ -
1970 Services Provided Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1980 Fees Charged to Grants	\$ 253,110	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1990 Miscellaneous	\$ 166,946	\$ 257,255	\$ -	\$ -	\$ -	\$ -	\$ -
Total Revenue from Local Sources	\$ 6,473,128	\$ 1,127,028	\$ 2,785,333	\$ 244,721	\$ -	\$ -	\$ -

Revenue from Intermediate Sources

	Fund 100	Fund 200	Fund 300	Fund 400	Fund 500	Fund 600	Fund 700
2101 County School Funds	\$ 17,282	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2102 General ESD Revenue	\$ 836,058	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2103 Excess ESD Local Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2105 Natural Gas, Oil, and Mineral Receipts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2110 Intermediate "T" Tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2199 Other Intermediate Sources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2200 Restricted Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2800 Revenue in Lieu of Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2900 Revenue for/on Behalf of the District	\$ 27,044	\$ 155,000	\$ -	\$ -	\$ -	\$ -	\$ -
Total Revenue from Intermediate Sources	\$ 880,384	\$ 155,000	\$ -	\$ -	\$ -	\$ -	\$ -

Revenue from State Sources

	Fund 100	Fund 200	Fund 300	Fund 400	Fund 500	Fund 600	Fund 700
3101 State School Fund - General Support	\$ 22,311,918	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3102 State School Fund - School Lunch Match	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3103 Common School Fund	\$ 364,617	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3104 State Managed County Timber	\$ 38,321	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3106 State School Fund - Accrual	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3199 Other Unrestricted Grants-in-Aid	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3204 Driver Education	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3222 State School Fund (SSF) Transportation Equipment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3299 Other Restricted Grants-in-Aid	\$ 4,163	\$ 3,060,356	\$ -	\$ 1,500,000	\$ -	\$ -	\$ -
3800 Revenue in Lieu of Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3900 Revenue for/on Behalf of the District	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Revenue from State Sources	\$ 22,719,019	\$ 3,060,356	\$ -	\$ 1,500,000	\$ -	\$ -	\$ -

Revenue from Federal Sources

	Fund 100	Fund 200	Fund 300	Fund 400	Fund 500	Fund 600	Fund 700
4100 Unrestricted Revenue Direct From the Federal Government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4200 Unrestricted Revenue From the Federal Government Through the State	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4300 Restricted Revenue From the Federal Government	\$ -	\$ 45,340	\$ -	\$ -	\$ -	\$ -	\$ -
4500 Restricted Revenue From the Federal Government Through the State	\$ -	\$ 4,518,952	\$ -	\$ -	\$ -	\$ -	\$ -
4700 Grants-In-Aid From the Federal Government Through Other Intermediate Agencies	\$ -	\$ 285,271	\$ -	\$ -	\$ -	\$ -	\$ -
4801 Federal Forest Fees	\$ 44,179	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4802 Impact Aid to School Districts for Operation (PL874)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4803 Coos Bay Wagon Road Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4899 Other Revenue in Lieu of Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4900 Revenue for/on Behalf of the District	\$ -	\$ 104,209	\$ -	\$ -	\$ -	\$ -	\$ -
Total Revenue from Federal Sources	\$ 44,179	\$ 4,953,772	\$ -	\$ -	\$ -	\$ -	\$ -

Revenue from Other Sources

	Fund 100	Fund 200	Fund 300	Fund 400	Fund 500	Fund 600	Fund 700
5100 Long Term Debt Financing Sources	\$ 424,185	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5200 Interfund Transfers	\$ 18,382	\$ 215,493	\$ -	\$ -	\$ -	\$ -	\$ -
5300 Sale of or Compensation for Loss of Fixed Assets	\$ 16,092	\$ 1,099,480	\$ -	\$ -	\$ -	\$ -	\$ -
5400 Resources - Beginning Fund Balance	\$ 6,132,646	\$ 4,227,515	\$ 72,257	\$ 26,792,946	\$ -	\$ -	\$ -
Total Revenue from Other Sources	\$ 6,591,305	\$ 5,542,488	\$ 72,257	\$ 26,792,946	\$ -	\$ -	\$ -

Grand Totals

Grand Totals	\$ 36,708,015	\$ 14,838,644	\$ 2,857,590	\$ 28,537,667	\$ -	\$ -	\$ -
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Klamath Falls City Schools Klamath County, Oregon June 30, 2017

2016 - 17 DISTRICT AUDIT EXPENDITURE SUMMARY

Fund: General - 100

Instruction Expenditures

	Totals	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
1111 Primary, K-5 or K-6	\$ 6,182,388	\$ 3,715,136	\$ 1,986,862	\$ 167,584	\$ 312,776	\$ -	\$ -	\$ -
1113 Elementary Extracurricular	\$ 17,089	\$ 6,096	\$ 966	\$ -	\$ 9,997	\$ -	\$ -	\$ -
1121 Middle/Junior High Programs	\$ 2,894,953	\$ 1,748,245	\$ 983,825	\$ 32,764	\$ 130,119	\$ -	\$ -	\$ -
1122 Middle/Junior High School Extracurricular	\$ 36,215	\$ 19,122	\$ 5,684	\$ 10,200	\$ 1,209	\$ -	\$ -	\$ -
1131 High School Programs	\$ 2,991,928	\$ 1,852,664	\$ 1,026,997	\$ 31,496	\$ 79,946	\$ -	\$ 825	\$ -
1132 High School Extracurricular	\$ 496,084	\$ 325,163	\$ 110,000	\$ 41,254	\$ 18,982	\$ -	\$ 965	\$ -
1140 Pre-Kindergarten Programs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1210 Programs for the Talented and Gifted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1220 Restrictive Programs For Students with Disabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1250 Less Restrictive Programs For Students with Disabilities	\$ 2,127,578	\$ 1,261,679	\$ 814,348	\$ 17,037	\$ 34,514	\$ -	\$ -	\$ -
1260 Treatment and Rehabilitation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1271 Remediation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1272 Title I	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1280 Alternative Education	\$ 1,929,324	\$ 195,511	\$ 89,434	\$ 1,634,812	\$ 9,567	\$ -	\$ -	\$ -
1291 English Second Language Programs	\$ 408,889	\$ 256,789	\$ 144,911	\$ 3,350	\$ 3,839	\$ -	\$ -	\$ -
1292 Teen Parent Program	\$ 144,852	\$ 74,259	\$ 66,793	\$ 602	\$ 2,973	\$ -	\$ 225	\$ -
1293 Migrant Education	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1294 Youth Corrections Education	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1299 Other Programs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1300 Adult/Continuing Education Programs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1400 Summer School Programs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Instruction Expenditures	\$ 17,229,240	\$ 9,454,664	\$ 5,229,910	\$ 1,939,039	\$ 603,922	\$ -	\$ 1,645	\$ -

Support Services Expenditures

	Totals	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
2110 Attendance and Social Work Services	\$ 397,143	\$ 221,810	\$ 142,565	\$ 28,800	\$ 3,373	\$ -	\$ 995	\$ -
2120 Guidance Services	\$ 564,849	\$ 241,643	\$ 104,633	\$ 217,720	\$ 833	\$ -	\$ -	\$ -
2130 Health Services	\$ 171,840	\$ 102,495	\$ 64,051	\$ 1,057	\$ 4,237	\$ -	\$ -	\$ -
2140 Psychological Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2150 Speech Pathology and Audiology Services	\$ 345,755	\$ 186,258	\$ 101,625	\$ 49,215	\$ 7,632	\$ -	\$ 1,025	\$ -
2160 Other Student Treatment Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2190 Service Direction, Student Support Services	\$ 586,209	\$ 358,426	\$ 199,142	\$ 15,183	\$ 12,063	\$ -	\$ 1,395	\$ -
2210 Improvement of Instruction Services	\$ 28,914	\$ 5,375	\$ 2,394	\$ 20,675	\$ 470	\$ -	\$ -	\$ -
2220 Educational Media Services	\$ 142,361	\$ 69,581	\$ 55,479	\$ 8,788	\$ 8,503	\$ -	\$ -	\$ -
2230 Assessment & Testing	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2240 Instructional Staff Development	\$ 54,941	\$ 30,251	\$ 9,725	\$ 9,668	\$ 5,297	\$ -	\$ -	\$ -
2310 Board of Education Services	\$ 32,062	\$ -	\$ -	\$ 22,135	\$ 2,470	\$ -	\$ 7,457	\$ -
2320 Executive Administration Services	\$ 340,202	\$ 211,835	\$ 115,833	\$ 5,717	\$ 5,382	\$ -	\$ 1,435	\$ -
2410 Office of the Principal Services	\$ 1,770,144	\$ 1,086,981	\$ 660,772	\$ 15,924	\$ 773	\$ -	\$ 5,694	\$ -
2490 Other Support Services - School Administration	\$ 497,767	\$ 299,854	\$ 183,130	\$ 2,634	\$ 9,995	\$ -	\$ 2,154	\$ -
2510 Direction of Business Support Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2520 Fiscal Services	\$ 614,773	\$ 308,334	\$ 169,520	\$ 61,209	\$ 4,100	\$ -	\$ 71,610	\$ -
2540 Operation and Maintenance of Plant Services	\$ 3,049,325	\$ 1,203,682	\$ 793,872	\$ 606,530	\$ 153,637	\$ 116,507	\$ 175,097	\$ -
2550 Student Transportation Services	\$ 1,660,841	\$ 789,926	\$ 415,649	\$ 84,035	\$ 200,450	\$ 140,666	\$ 30,115	\$ -
2570 Internal Services	\$ 328,453	\$ -	\$ -	\$ 34,467	\$ 10,467	\$ 283,519	\$ -	\$ -
2610 Direction of Central Support Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2620 Planning, Research, Development, Evaluation Services, Grant Writing and Statistical Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2630 Information Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2640 Staff Services	\$ 75,812	\$ 16,940	\$ 1,378	\$ 52,401	\$ 3,963	\$ -	\$ 1,130	\$ -
2660 Technology Services	\$ 846,773	\$ 362,841	\$ 239,710	\$ 190,332	\$ 53,890	\$ -	\$ -	\$ -
2670 Records Management Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2690 Other Support Services - Central	\$ 100,022	\$ -	\$ -	\$ 100,022	\$ -	\$ -	\$ -	\$ -
2700 Supplemental Retirement Program	\$ 899,494	\$ 222,028	\$ 677,466	\$ -	\$ -	\$ -	\$ -	\$ -
Total Support Services Expenditures	\$ 12,507,680	\$ 5,718,260	\$ 3,936,964	\$ 1,526,522	\$ 487,535	\$ 540,692	\$ 297,707	\$ -

Enterprise and Community Services Expenditures

	Totals	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
3100 Food Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3200 Other Enterprise Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3300 Community Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3500 Custody and Care of Children Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Enterprise and Community Services Expenditures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Facilities Acquisition and Construction Expenditures

	Totals	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
4110 Service Area Direction	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4120 Site Acquisition and Development Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4150 Building Acquisition, Construction, and Improvement Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4180 Other Capital Items	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4190 Other Facilities Construction Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Facilities Acquisition and Construction Expenditures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Other Uses Expenditures

	Totals	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
5100 Debt Service	\$ 139,293	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 139,293	\$ -
5300 Transfers of Funds	\$ 161,797	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 161,797
5300 Apportionment of Funds by ESD	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5400 PERSUAL Bond Lump Sum	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Other Uses Expenditures	\$ 301,090	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 139,293	\$ 161,797

Grand Total

	Totals	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
Grand Total	\$ 30,038,010	\$ 15,172,924	\$ 9,166,874	\$ 3,465,621	\$ 1,091,457	\$ 540,692	\$ 438,645	\$ 161,797

**Klamath Falls City Schools
Klamath County, Oregon
June 30, 2017**

2016 - 17 DISTRICT AUDIT EXPENDITURE SUMMARY

Fund: Special Revenue - 200

	Totals	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
Instruction Expenditures								
1111 Primary, K-5 or K-6	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1113 Elementary Extracurricular	\$ 143,588	\$ -	\$ -	\$ -	\$ 143,588	\$ -	\$ -	\$ -
1121 Middle/Junior High Programs	\$ 54,163	\$ -	\$ -	\$ -	\$ 54,163	\$ -	\$ -	\$ -
1122 Middle/Junior High School Extracurricular	\$ 44,649	\$ -	\$ -	\$ -	\$ 44,649	\$ -	\$ -	\$ -
1131 High School Programs	\$ 11,838	\$ 1,041	\$ 86	\$ -	\$ 10,711	\$ -	\$ -	\$ -
1132 High School Extracurricular	\$ 325,008	\$ -	\$ -	\$ -	\$ 324,981	\$ -	\$ 27	\$ -
1140 Pre-Kindergrarten Programs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1210 Programs for the Talented and Gifted	\$ 28,356	\$ -	\$ -	\$ 28,356	\$ -	\$ -	\$ -	\$ -
1220 Restrictive Programs for Students with Disabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1250 Less Restrictive Programs for Students with Disabilities	\$ 566,495	\$ 349,871	\$ 201,457	\$ 2,855	\$ 11,891	\$ -	\$ 421	\$ -
1260 Treatment and Habilitation	\$ 2,055,859	\$ 1,059,400	\$ 612,877	\$ 221,363	\$ 38,883	\$ 25,193	\$ 108,143	\$ -
1271 Remediation	\$ 315,068	\$ 187,206	\$ 35,470	\$ 68,828	\$ 23,564	\$ -	\$ -	\$ -
1272 Title I	\$ 794,542	\$ 492,370	\$ 213,963	\$ -	\$ 88,209	\$ -	\$ -	\$ -
1280 Alternative Education	\$ 163,231	\$ 104,644	\$ 49,964	\$ 367	\$ 8,256	\$ -	\$ -	\$ -
1291 English/Second Language Programs	\$ 63,737	\$ -	\$ -	\$ -	\$ 63,737	\$ -	\$ -	\$ -
1292 Teen Parent Program	\$ 16,443	\$ 5,795	\$ 585	\$ 2,867	\$ 7,196	\$ -	\$ -	\$ -
1293 Migrant Education	\$ 9,785	\$ 5,724	\$ 1,908	\$ -	\$ 2,153	\$ -	\$ -	\$ -
1294 Youth Corrections Education	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1299 Other Programs	\$ 747,201	\$ 327,326	\$ 190,485	\$ 120,014	\$ 63,971	\$ 11,788	\$ 33,617	\$ -
1300 Adult/Continuing Education Programs	\$ 207,364	\$ 117,612	\$ 73,888	\$ 3,990	\$ 11,874	\$ -	\$ -	\$ -
1400 Summer School Programs	\$ 36,355	\$ 19,846	\$ 6,434	\$ 4,108	\$ 5,967	\$ -	\$ -	\$ -
Total Instruction Expenditures	\$ 5,583,682	\$ 2,670,835	\$ 1,377,117	\$ 452,748	\$ 903,793	\$ 36,981	\$ 142,208	\$ -
Support Services Expenditures								
2110 Attendance and Social Work Services	\$ 85,080	\$ 14,231	\$ 1,163	\$ 68,554	\$ 1,132	\$ -	\$ -	\$ -
2120 Guidance Services	\$ 81,253	\$ 4,451	\$ 1,402	\$ 75,400	\$ -	\$ -	\$ -	\$ -
2130 Health Services	\$ 600	\$ -	\$ -	\$ 600	\$ -	\$ -	\$ -	\$ -
2140 Psychological Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2150 Speech Pathology and Audiology Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2160 Other Student Treatment Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2190 Service Director, Student Support Services	\$ 4,000	\$ 2,310	\$ 838	\$ 872	\$ -	\$ -	\$ -	\$ -
2210 Improvement of Instruction Services	\$ 344,536	\$ 128,888	\$ 48,588	\$ 159,774	\$ 7,286	\$ -	\$ -	\$ -
2220 Educational Media Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2230 Assessment & Testing	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2240 Instructional Staff Development	\$ 870,064	\$ 460,312	\$ 198,756	\$ 173,281	\$ 37,715	\$ -	\$ -	\$ -
2310 Board of Education Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2320 Executive Administration Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2410 Office of the Principal Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2490 Other Support Services - School Administration	\$ 193,507	\$ 118,924	\$ 57,701	\$ 12,146	\$ 4,736	\$ -	\$ -	\$ -
2510 Director of Business Support Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2520 Fiscal Services	\$ 110,950	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 110,950	\$ -
2540 Operation and Maintenance of Plant Services	\$ 34,468	\$ -	\$ -	\$ 29,665	\$ 4,803	\$ -	\$ -	\$ -
2550 Student Transportation Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2570 Internal Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2610 Director of Central Support Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2630 Planning, Research, Development, Evaluation Services, Grant Writing and Statistical Services	\$ 6,000	\$ -	\$ -	\$ -	\$ 6,000	\$ -	\$ -	\$ -
2630 Information Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2640 Staff Services	\$ 20,323	\$ 4,200	\$ 1,456	\$ 309	\$ 14,358	\$ -	\$ -	\$ -
2660 Technology Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2670 Records Management Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2690 Other Support Services - Central	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2700 Supplemental Retirement Program	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Support Services Expenditures	\$ 1,750,801	\$ 733,316	\$ 309,904	\$ 520,601	\$ 76,030	\$ -	\$ 110,950	\$ -
Enterprise and Community Services Expenditures								
3100 Food Services	\$ 1,593,762	\$ 424,837	\$ 250,630	\$ 805,713	\$ 112,548	\$ -	\$ 44	\$ -
3300 Other Enterprise Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3300 Community Services	\$ 39,904	\$ 6,730	\$ 1,770	\$ 17,460	\$ 13,924	\$ -	\$ -	\$ -
3800 Custody and Care of Children Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Enterprise and Community Services Expenditures	\$ 1,633,666	\$ 431,567	\$ 252,399	\$ 823,173	\$ 126,472	\$ -	\$ 44	\$ -
Facilities Acquisition and Construction Expenditures								
4110 Service Area Director	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4120 Site Acquisition and Development Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4150 Building Acquisition, Construction, and Improvement Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4180 Other Capital Items	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4190 Other Facilities Construction Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Facilities Acquisition and Construction Expenditures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Uses Expenditures								
5100 Debt Service	\$ 104,475	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 104,475	\$ -
5300 Transfers of Funds	\$ 72,079	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 72,079
5300 Apportionment of Funds by ESD	\$ 8,493	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,493
5400 PERSONAL Bond/Imp/Sm	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Other Uses Expenditures	\$ 185,047	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 104,475	\$ 80,572
Grand Total	\$ 9,153,196	\$ 3,835,738	\$ 1,939,411	\$ 1,796,522	\$ 1,105,295	\$ 36,981	\$ 357,677	\$ 80,572

Klamath Falls City Schools Klamath County, Oregon June 30, 2017

2016 - 17 DISTRICT AUDIT EXPENDITURE SUMMARY

Fund: Debt Service - 300

		Totals	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
Instruction Expenditures									
1111 Primary, K5or K6		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1113 Elementary Extracurricular		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1121 Middle/ Junior High Programs		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1122 Middle/ Junior High School Extracurricular		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1131 High School Programs		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1132 High School Extracurricular		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1140 Pre-Kindergarten Programs		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1210 Programs for the Talented and Gifted		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1220 Restrictive Programs for Students with Disabilities		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1250 Less Restrictive Programs for Students with Disabilities		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1260 Treatment and Habilitation		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1271 Remediation		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1272 Title I		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1280 Alternative Education		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1291 English Second Language Programs		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1292 Teen Parent Program		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1293 Migrant Education		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1294 Youth Corrections Education		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1299 Other Programs		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1300 Adult/ Continuing Education Programs		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1400 Summer School Programs		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Instruction Expenditures		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Support Services Expenditures									
2110 Attendance and Social Work Services		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2120 Guidance Services		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2130 Health Services		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2140 Psychological Services		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2150 Speech Pathology and Audiology Services		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2160 Other Student Treatment Services		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2190 Service Direction, Student Support Services		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2210 Improvement of Instruction Services		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2220 Educational Media Services		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2230 Assessment & Testing		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2240 Instructional Staff Development		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2310 Board of Education Services		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2320 Executive Administration Services		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2410 Office of the Principal Services		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2490 Other Support Services - School Administration		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2510 Direction of Business Support Services		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2520 Fiscal Services		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2540 Operation and Maintenance of Plant Services		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2550 Student Trans & Transportation Services		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2570 Internal Services		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2610 Direction of Central Support Services		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2620 Planning, Research, Development, Evaluation Services, Grant Writing and Statistical Services		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2630 Information Services		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2640 Staff Services		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2660 Technology Services		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2670 Records Management Services		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2690 Other Support Services - Central		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2700 Supplemental Retirement Program		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Support Services Expenditures		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Enterprise and Community Services Expenditures									
3100 Food Services		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3200 Other Enterprise Services		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3300 Community Services		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3500 Custody and Care of Children Services		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Enterprise and Community Services Expenditures		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Facilities Acquisition and Construction Expenditures									
4110 Service Area Direction		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4120 Site Acquisition and Development Services		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4150 Building Acquisition, Construction, and Improvement Services		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4180 Other Capital Items		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4190 Other Facilities Construction Services		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Facilities Acquisition and Construction Expenditures		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Uses Expenditures									
5100 Debt Service		\$ 2,680,548	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,680,548	\$ -
5300 Transfers of Funds		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5300 Apportionment of Funds by ESD		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5400 PERSUAL Bond Lump Sum		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Other Uses Expenditures		\$ 2,680,548	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,680,548	\$ -
Grand Total		\$ 2,680,548	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,680,548	\$ -

Klamath Falls City Schools Klamath County, Oregon June 30, 2017

2016 - 17 DISTRICT AUDIT EXPENDITURE SUMMARY

Fund: Capital Projects - 400

	Totals	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
Instruction Expenditures								
1111 Primary, K-5 or K-6	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1113 Elementary Extracurricular	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1121 Middle/Junior High Programs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1122 Middle/Junior High School Extracurricular	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1131 High School Programs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1132 High School Extracurricular	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1140 Pre-Kindergarten Programs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1210 Programs for the Talented and Gifted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1220 Restrictive Programs for Students with Disabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1250 Less Restrictive Programs for Students with Disabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1260 Treatment and Habilitation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1271 Remediation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1272 Title I	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1280 Alternative Education	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1291 English Second Language Programs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1292 Teen Parent Program	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1293 Migrant Education	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1294 Youth Corrections Education	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1299 Other Programs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1300 Adult/Continuing Education Programs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1400 Summer School Programs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Instruction Expenditures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Support Services Expenditures								
2110 Attendance and Social Work Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2120 Guidance Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2130 Health Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2140 Psychological Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2150 Speech Pathology and Audiology Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2160 Other Student Treatment Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2190 Service Direction, Student Support Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2210 Improvement of Instruction Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2220 Educational Media Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2230 Assessment & Testing	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2240 Instructional Staff Development	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2310 Board of Education Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2320 Executive Administration Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2410 Office of the Principal Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2490 Other Support Services - School Administration	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2510 Direction of Business Support Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2520 Fiscal Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2540 Operation and Maintenance of Plant Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2590 Student Transportation Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2570 Internal Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2610 Direction of Central Support Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2620 Planning, Research, Development, Evaluation Services, Grant Writing and Statistical Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2630 Information Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2640 Staff Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2660 Technology Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2670 Records Management Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2690 Other Support Services - Central	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2700 Supplemental Retirement Program	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Support Services Expenditures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Enterprise and Community Services Expenditures								
3100 Food Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3300 Other Enterprise Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3300 Community Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3800 Custody and Care of Children Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Enterprise and Community Services Expenditures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Facilities Acquisition and Construction Expenditures								
4110 Service Area Direction	\$ 128,212	\$ 80,918	\$ 33,811	\$ 10,740	\$ 622	\$ -	\$ 2,121	\$ -
4120 Site Acquisition and Development Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4150 Building Acquisition, Construction, and Improvement Services	\$ 13,070,236	\$ -	\$ -	\$ -	\$ 30,371	\$ 12,996,983	\$ 42,882	\$ -
4180 Other Capital Items	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4190 Other Facilities Construction Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Facilities Acquisition and Construction Expenditures	\$ 13,198,448	\$ 80,918	\$ 33,811	\$ 10,740	\$ 30,993	\$ 12,996,983	\$ 45,003	\$ -
Other Uses Expenditures								
5100 Debt Service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5300 Transfers of Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5300 Apportionment of Funds by ESD	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5400 PERSUAL Bond Lump Sum	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Other Uses Expenditures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Grand Total	\$ 13,198,448	\$ 80,918	\$ 33,811	\$ 10,740	\$ 30,993	\$ 12,996,983	\$ 45,003	\$ -

GOVERNMENT AUDITING STANDARDS SECTION



**Report 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*
Independent Auditors' Report**

Directors and Superintendent
Klamath Falls City Schools
Klamath County, Oregon
Klamath Falls, Oregon

We have audited, 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, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Klamath Falls City Schools Klamath County, Oregon as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Klamath Falls City Schools Klamath County, Oregon's basic financial statements, and have issued our report thereon dated December 15, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Klamath Falls City Schools Klamath County, Oregon'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 Klamath Falls City Schools Klamath County, Oregon's internal control. Accordingly, we do not express an opinion on the effectiveness of Klamath Falls City Schools Klamath County, Oregon'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 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 Klamath Falls City Schools Klamath County, Oregon'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.

Molatore, Scroggin, Peterson & CO. LLP



Andrew E. Peterson
Klamath Falls, Oregon
December 15, 2017

**Report on Compliance for Each Major Program;
Report on Internal Control over Compliance; and
Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance
Independent Auditors' Report**

Directors and Superintendent
Klamath Falls City Schools
Klamath County, Oregon
Klamath Falls, OREGON

Compliance

We have audited Klamath Falls City Schools', Klamath County, Oregon, (the District), compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct material effect on each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards general accepted in the United States of America; standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

The District's basic financial statements include the operations of EagleRidge High School (EagleRidge). Our audit, described below, did not include the operations of EagleRidge because we did not perform an audit of compliance for EagleRidge.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the District's compliance.

Opinion

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the

Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

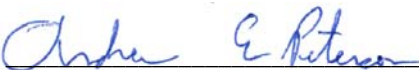
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the District as of and for the year ended June 30, 2017; and have issued our report thereon dated December 15, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance) and is not a required part of the basic financial statements. Such information 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. The information has been subjected to the auditing procedures applied in the audit of the 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 expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Molatore, Scroggin, Peterson & Co. LLP



Andrew E. Peterson

Klamath Falls, Oregon
December 15, 2017

**Klamath Falls City Schools
Klamath County, Oregon
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017**

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Are any material weaknesses identified?	___ Yes	✓ No
Are any significant deficiencies identified not considered to be material weaknesses?	___ Yes	✓ None Reported
Is any noncompliance material to financial statements noted?	___ Yes	✓ No

Federal Awards

Type of auditor's report issued on compliance for major programs: Unmodified

Internal control over major programs:

Are any material weaknesses identified?	___ Yes	✓ No
Are any significant deficiencies identified not considered to be material weaknesses?	___ Yes	✓ None Reported
Are any audit findings disclosed that are required to be reported in accordance with Uniform Guidance	___ Yes	✓ No

Identification of major programs:

CFDA Number(s) and Name of Federal Program or Cluster

84.010 Title I – Grants to Local Education Agencies	
84.367 Supporting Effective Instruction State Grants	

Enter the dollar threshold used to distinguish between Type A and Type B programs:	\$750,000	
Is the auditee qualified as a low-risk auditee?	✓ Yes	□ No

Section II: Financial Statement Findings

No material weaknesses relating to the audit of the basic financial statements were noted.

Section III: Federal Awards Findings

None.

**Klamath Falls City Schools
Klamath County, Oregon
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2017**

Finding 2016-001:

Federal program: CDFA 10.555 National School Lunch Program

Pass-Through Entity: Oregon Department of Education

Award Number: N/A

Compliance Requirements: Reporting

Type of Finding: Compliance

Criteria: The District is required to verify income of households selected by the State of Oregon. The District requests from the households on the report to verify their income. If the income verification is not received back by the district the student(s) in that household are removed from free and reduced lunch program. If there is a change in income then the District needs to evaluate if the change in income will change the status of the student(s) in that household. If there is a change in status then this must be indicated on the report.

Condition: We examined the income verification report to determine if the report was correct.

Questioned Costs: None

Context: The number of students on the report was incorrect and the status of some students that should have changed did not change on the report.

Cause: The individual responsible for the report is new to the position and didn't know that there was a report to be done. Usually the individual is given three weeks to complete the report but in 2015 they were only given two weeks.

Effect: The reporting for National School Lunch Program was incorrect.

Recommendation: The entity program staff and management should ensure that the report is updated with the correct information before it is submitted to the state.

Responsible Official's Response and Corrective Action Planned: Management of Klamath Falls City Schools Klamath County, Oregon concurs with the audit finding. The individual responsible for the report understands that the report was incorrect and has taken corrective action to ensure the report is correct going forward.

Planned Implementation Date of Corrective Action: Corrected

Person Responsible for Corrective Action: Individual responsible for the report.

**Klamath Falls City Schools
Klamath County, Oregon
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017**

Federal Grantor/Pass Through Grantor/ Program Title	Grant Fund	Federal CFDA Number	Grant Period	Original Program or grant amount	Receivable/ (Deferred Revenue) June 30, 2016	Cash Received	Expenditures	Receivable/ (Deferred Revenue) June 30, 2017
US. DEPARTMENT OF EDUCATION								
Direct Federal Grants:								
Indian Education - Grants to Local Education Agencies		84.060	07/01/2016-06/30/2017	45,340	9,573	50,180	45,340	4,733
			Total	45,340	9,573	50,180	45,340	4,733
Passed through Douglas Education Service District:								
Special Education Cluster from Douglas Education								
Special Education - Grants to States		84.027	07/01/2016-06/30/2017	-	-	137,290	167,639	30,350
			Total	-	-	137,290	167,639	30,350
Special Education - Preschool Grants		84.173	07/01/2016-06/30/2017	-	-	29,780	33,654	3,874
			Total	-	-	29,780	33,654	3,874
Total Special Education Cluster from Douglas Education				-	-	167,069	201,293.01	34,224
Special Education - Grants for Infants and Families		84.181	07/01/2016-06/30/2017	-	-	71,570	83,978	12,408
			Total	-	-	71,570	83,978	12,408
Passed through Klamath Community College:								
Adult Education - Basic Grants to States		84.002	07/01/2015-06/30/2016	-	66,415	66,415	-	-
			Total	-	66,415	66,415	-	-
Passed through Oregon State Department of Education:								
Title I - Grants to Local Educational Agencies (*)	41203	84.010	07/01/2016-09/30/2017	46,702	-	25,287	31,046	5,759
	36562		07/01/2015-09-30-2016	50,981	(1,075)	21,043	22,116	-
	36004		07/01/2015-09/30/2016	1,340,369	166,357	626,519	460,162	-
	41088		07/01/2016-09/30/2017	1,478,514		830,031	1,070,421	240,390
	41823		07/01/2016-09/30/2017	37,972		33,574	33,574	
	37536		07/01/2015-09/30/2016	39,971	2,640	17,947	15,307	
			Total	2,994,509	167,922	1,554,401	1,632,627	246,149
Title I - Program for Neglected and Delinquent Children	38520	84.013	07/01/2015-06/30/2016	34,307	34,307	34,307	-	-
	42095		07/01/2016-06/30/2017	32,989	-	-	32,989	32,989
			Total	67,296	34,307	34,307	32,989	32,989
Special Education Cluster from Oregon Department of Education								
Special Education - Grants to States	42057	84.027	07/01/2016-06/30/2017	3,222		646	3,222	2,576
	41540		07/01/2016-09/30/2018	640,617		407,881	550,926	143,045
	36886		07/01/2015-09/30/2017	637,140	38,024	38,024	-	-
	40867		07/01/2016-06/30/2017	3,343		2,471	3,343	872
	35768		07/01/2015-06/30-2016	900	45	45	-	-
	41974		07/01/2016-06/30/2017	900		900	900	-
	42677		10/01/2106-09/30/2017	7,957		6,376	7,957	1,581
	38353		10/01/2015-09/30/2016	7,957	60	6,137	6,077	-
	38495		07/01/2015-06/30/2016	30,607	26,204	26,204		
	42072		07/01/2016-06/30/2017	21,156			21,156	21,156
	38960		07/01/2015-06/30/2016	5,502	3,843	3,843	-	-
			Total	1,359,301	68,176	492,526	593,581	169,230
Special Education - Preschool Grants	37192	84.173	07/01/2015-09/30/2017	4,498	-	281	700	419
			Total	4,498	-	281	700	419
Total Special Education from Oregon Department of Education				1,363,799	68,176	492,807	594,280	169,649
Total Special Education from All Sources				1,363,799	68,176	659,877	795,573	203,872
21st Century Community Learning Centers	36386	84.287	07/01/2015-09/30/2017	507,063	43,554	404,021	386,005	25,538
			Total	507,063	43,554	404,021	386,005	25,538
Rural Education	42550	84.358	07/01/2016-09/30/2017	65,082		47,287	47,287	-
	37762		07/01/2015-09/30/2016	59,648	18,850	19,253	403	-
			Total	124,730	18,850	66,540	47,690	-
English Language Acquisition Grants	41771	84.365	07/01/2016-09/30/2017	13,267		2,672	2,742	70
	36335		07/01/2015-09/30/2016	14,659	1,596	8,257	6,661	-
			Total	27,926	1,596	10,929	9,403	70

**Klamath Falls City Schools
Klamath County, Oregon
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017**

Federal Grantor/Pass Through Grantor/ Program Title	Grant Fund	Federal CFDA Number	Grant Period	Original Program or grant amount	Receivable/ (Deferred Revenue) June 30, 2016	Cash Received	Expenditures	Receivable/ (Deferred Revenue) June 30, 2017
U.S. DEPARTMENT OF EDUCATION								
Passed through Oregon State Department of Education:								
Supporting Effective Instruction State Grants (*)	41343	84.367	07/01/2016-09/30/2017	229,174		163,112	211,206	48,094
	36201		07/01/2015-09/30/2016	232,245	54,776	61,779	7,003	
			Total	461,419	54,776	224,891	218,209	48,094
School Improvement Grants	43333	84.377	01/01/2017-09/30/2017	25,000	-	12,051	12,051	-
			Total	25,000	-	12,051	12,051	-
Child Care CCDF Discretionary	n/a	93.575	07/01/2016-06/30/2017	-	2,315	14,665	12,350	-
					2,315	14,665	12,350	-
Total U.S. Department of Education				5,617,082	467,485	3,169,847	3,276,216	573,853
U.S. DEPARTMENT OF AGRICULTURE								
Passed Through Oregon Department of Education:								
Child Nutrition Cluster								
School Breakfast Program		10.553	07/01/2016-06/30/2017	-	26,429	456,989	457,595	27,035
			Total	-	26,429	456,989	457,595	27,035
National School Lunch Program		10.555	07/01/2016-06/30/2017	-	52,751	898,269	899,601	54,083
			Total	-	52,751	898,269	899,601	54,083
Total Child Nutrition Cluster				-	79,180	1,355,257	1,357,196	81,119
Child and Adult Care Food Program		10.558	07/01/2016-06/30/2017	-	81	134,932	134,905	55
			Total	-	81	134,932	134,905	55
Commodity Supplemental Food Program		10.565	07/01/2016-06/30/2017	-	-	95,954	95,954	-
			Total	-	-	95,954	95,954	-
Passed through Klamath County, Oregon:								
Schools and Road Grants		10.665	07/01/2016-06/30/2017	-	-	44,179	44,179	-
			Total	-	-	44,179	44,179	-
Total U.S. Department of Agriculture				-	79,261	1,630,322	1,632,235	81,173
TOTALS				5,617,082	546,746	4,800,170	4,908,450	655,027
RECONCILIATION TO REVENUE:								
Cash Receipts per Schedule Above				4,800,170				
Grants Receivable/Deferred Revenue Beginning of Year				(546,746)				
Grants Receivable/Deferred Revenue End of Year				655,027				
Federal Revenue Recognized				4,908,450				
*major program								

Klamath Falls City Schools
Klamath County, Oregon
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Note 1 Summary of Significant Accounting Policies

Basis of Presentation

The Schedule of Expenditures of Federal Awards is presented on the modified accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of the Uniform Guidance; therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Indirect Cost Rate

The District does not use the 10% de minimis indirect cost rate as allowed by the Uniform Guidance.

Federal Financial Assistance

Pursuant to Uniform Guidance, federal financial assistance is defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance or direct appropriations. Accordingly, non-monetary federal assistance, including federal surplus property, is included in federal financial assistance and, federal cash assistance to individuals. Solicited contracts between the state and federal government for which the federal government procures tangible goods or services are not considered to be federal financial assistance.

Major Programs

Uniform Guidance establishes criteria to be used in defining major federal financial assistance programs. Major programs for the District are those programs selected for testing by the auditor using a risk-assessment model, as well as certain minimum expenditure requirements, as outlined in Uniform Guidance. Programs with similar requirements may be grouped into a cluster for testing purposes.

Reporting Entity

The reporting entity is fully described in notes to the financial statements. The Schedule includes all federal programs administered by the District for the year ended June 30, 2017.

AUDIT COMMENTS SECTION



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

Directors and Superintendent
Klamath Falls City Schools
Klamath County, Oregon
Klamath Falls, Oregon

We have audited the basic financial statements of the Klamath Falls City Schools, Klamath County, Oregon (the District) as of and for the year ended June 30, 2017, and have issued our report thereon dated December 15, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State.

Internal Control Structure

In accordance with *Government Auditing Standards*, we have issued our report dated December 15, 2017, on our consideration of the District's internal control over financial reporting. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and not to provide an opinion on the internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

We noted certain other matters that we reported to management of the District, in a separate letter dated December 15, 2017.

Compliance


As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules OAR 162-10-0000 to 162-10-0330, as set forth below, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

- The accounting records and related internal control structure.
- The use of various depositories to secure the deposit of public funds.
- The requirements relating to debt.
- The requirements relating to the preparation, adoption and execution of the annual budget for fiscal year 2017 and the preparation and adoption of the annual budget for fiscal year 2018.
- The requirements relating to insurance and fidelity bond coverage.
- The appropriate laws, rules and regulations pertaining to programs funded wholly or partially by other government agencies.
- The requirements pertaining to the investment of public funds.
- The requirements pertaining to the awarding of public contracts and the construction of public improvements.
- The requirements pertaining to the district's calculation and reporting of the factors used to compute the State School Fund distribution.

However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State.

This report is intended solely for the information and use of the District's management, Board of Directors and the State of Oregon, Secretary of State, Audits Division and is not intended to be and should not be used by anyone other than those specified parties.

Molatore, Scroggin, Peterson & Co. LLP

A handwritten signature in blue ink that reads "Andrew E. Peterson". The signature is written in a cursive style and is positioned above a horizontal line.

Andrew E. Peterson, Partner

Klamath Falls, Oregon
December 15, 2017