

**KLAMATH COUNTY EMPLOYEES' PENSION PLAN**

**FINANCIAL STATEMENTS**

**JUNE 30, 2010**



**Certified Public Accountants**

**Klamath County Employees' Pension Plan  
Index to Audit Report  
For the Year Ended June 30, 2010**

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**Klamath County Employees' Pension Plan  
Board of Trustees and Administrative Personnel  
For the Year Ended June 30, 2010**

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<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
<b>Board of Trustees</b>		
John Elliott	Commissioner	January 3, 2011
Al Switzer	Commissioner	January 3, 2013
Cheryl Hukill	Commissioner	January 3, 2013

**Administrative Personnel**

Daneen Dail	Director of Human Resources
Michael Long	County Treasurer



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A0610-51081-x

Certified Public Accountants

### Independent Auditors' Report

BOARD OF COMMISSIONERS  
KLAMATH COUNTY EMPLOYEES' PENSION PLAN

We have audited the accompanying statement of plan net assets of Klamath County Employees' Pension Plan (the Plan), as of June 30, 2010, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of Klamath County Employees' Pension Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Klamath County Employees' Pension Plan, as of June 30, 2010, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated July 15, 2011 on our consideration of Klamath County Employees' Pension Plan'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 Auditing Standards* and should be considered in assessing the results of our audit.

The schedule of funding progress and employer contributions on page 12 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

CERTIFIED PUBLIC ACCOUNTANTS

Klamath Falls, Oregon  
July 15, 2011

**Klamath County, Oregon**  
**Klamath County Employees' Pension Plan**  
**(Trust Fund of Klamath County, Oregon)**  
**Management's Discussion and Analysis**

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This section presents management's discussion and analysis of the Klamath County Employees' Retirement Plan's (the Plan) financial performance during the fiscal year that ended June 30, 2010. For more detailed information regarding the Plan's financial activities, the reader should also review the actual financial statements, including the notes and supplementary information.

**Financial Highlights**

- The Plan's assets exceed its liabilities at the close of fiscal year 2010, with \$27.6 million held in trust for pension benefits.
- Fiduciary net assets increased by \$3.6 million, or 14.8 percent, during the fiscal year as financial markets rebounded from last year's recession.
- The Plan's funding objective is to meet long-term benefit obligations. As of January 1, 2009, the date of the latest actuarial valuation, the funded ratio of the defined benefit pension plan was 72 percent. In general, this means that for every dollar of pension benefits due, the Plan has approximately \$0.72 of net assets available for payment.
- Revenues (additions to fiduciary net assets) for fiscal year 2010 were \$6.1 million, which includes member and employer contributions of \$2.9 million and net income from investment activities totaling \$3.2 million.
- Expenses (deductions from fiduciary net assets) were \$190 thousand, during the fiscal year 2010.

**Overview of the Financial Statements and Accompanying Information**

**1. Basic Financial Information**

The Plan presents financial statements as of June 30, 2010, prepared on a full accrual basis. They are:

- a. Statements of Net Assets Available for Plan Benefits,
- b. Statements of Changes in Net Assets Available for Plan Benefits, and
- c. Notes to the Financial Statements.

**2. Required Supplementary Information**

The required supplementary information consists of:

- a. Schedules of Funding Progress for Plan Benefits,
- b. Schedules of Employer Contributions for Plan Benefits, and
- c. Notes to the Required Supplementary Information.

The basic financial statements contained in this financial report are described below:

- The Statement of Net Assets reports a point-in-time snapshot of account balances at fiscal year-end. It reports the assets available for future benefit payments and any current liabilities as of the statement date. The liabilities do not include the actuarial value of future benefits. Net Assets (Assets – Liabilities = Net Assets) represent the value of assets held in trust for payment of benefits.
- The Statement of Changes in Net Assets Available for Plan Benefits reports the sources and uses of funds during the fiscal year, where Additions – Deductions = Net Increase (or Decrease) in Net Assets. This Net Increase (or Decrease) in Net Assets illustrates the change in net assets as reported in the Statement of Net Assets Available for Plan Benefits from the prior year to the current year.

The financial statements are prepared based on an economic resources focus and accrual basis of accounting in accordance with Governmental Accounting Standards Board (GASB) pronouncements. The provision of objective, consistent, and comparable information about operating costs requires a measurement focus on economic resource flows. It also requires use of the accrual basis of accounting, which recognizes economic transactions and other events when they occur rather than only when the related inflows and outflows of cash or other financial resources occur. Acquired but unused goods and services are reported as assets until they are used, thus giving important information about resources already acquired that can be used to provide future services.

- The notes to the financial statements, beginning on page 8, are an integral part of the financial statements and include additional detailed information and schedules to provide a better understanding of the financial statements. Information in the notes discloses the Plan's organization, benefits and contributions, how asset values are determined, and contingencies and commitments.

**Klamath County, Oregon**  
**Klamath County Employees' Pension Plan**  
**(Trust Fund of Klamath County, Oregon)**  
**Management's Discussion and Analysis**

In addition to the financial statements explained above, this financial report includes two additional Required Supplementary Information schedules with historical trend information and other supplementary information as described below.

- The Schedule of Funding Progress, page 12, contains actuarial information about the status of the plan from an ongoing, long-term perspective, showing whether there are sufficient assets to benefits when due. Valuation Assets in excess of Actuarial Liabilities indicate that sufficient assets have been accumulated as of the valuation date to fund the future benefits of current members and retirees.
- The Schedule of Employer Contributions, page 12, contain historical trend information regarding the value of the total annual employer contributions required to be made and the actual contributions made to meet this requirement.
- The Notes to the Required Supplementary Information, page 13, provide background information and explanatory detail to help understand the required supplementary schedules.

**Net Assets**

The condensed comparative summaries of Fiduciary Net Assets below demonstrate that the pension trust funds are primarily focused on investments and net assets (reserves).

- Improving financial markets produced positive returns on Plan investments. The net assets of the Plan increased approximately \$3.6 million, or 14.8 percent, during the year ended June 30, 2010.

**Fiduciary Net Assets, Pension**  
**As of June 30:**

	<u>2009</u>	<u>2010</u>
Cash and cash equivalents	\$ 3,333,413	\$ 3,238,407
Receivables	209,354	221,429
Investments	20,530,846	24,183,470
Liabilities	(22,820)	(24,161)
	<u>\$ 24,050,793</u>	<u>\$ 27,619,145</u>

**Plan Membership**

The table below reflects the defined benefit pension plan membership as of the beginning and end of the fiscal year.

**Changes in Plan Membership**  
**As of January 1:**

	<u>2009</u>	<u>2010</u>
Active and transferred participants	418	402
Participants with deferred benefits	57	42
Participants receiving benefits	180	206
Non-vested terminated participants with account balances	148	24
Total	<u>803</u>	<u>674</u>

**Funding Status**

The Plan's Unfunded Actuarial Liability (UAL) for pension benefits increased by \$5.6 million, going from \$5.9 million in 2008 to \$11.5 million as of January 1, 2009. The System's UAL was derived using the projected unit credit method. Investment declines through January 1, 2009, led to the lowered funding status.

**Klamath County, Oregon**  
**Klamath County Employees' Pension Plan**  
**(Trust Fund of Klamath County, Oregon)**  
**Management's Discussion and Analysis**

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**Investment Activities**

During fiscal year 2010 investments increased 10.6 percent over the prior fiscal year as the economy began recovering from the recession. Investment returns for all major asset classes were positive, and the public equity and fixed income asset classes outperformed benchmarks. Domestic and international equities increased approximately \$3.3 million. Investments in debt securities increased \$0.3 million as a result of purchases made in accordance with the Oregon Investment Council's asset allocation policy.

**Effect of Economic Factors**

The financial position of the Plan improved during the fiscal year due to strong investment returns.

The percentage of the employer's Annual Required Contribution that is funded each year may be subject to budgetary constraints.

**Contacting the System's Financial Management**

This financial report is designed to provide plan participants, the employer, citizens, taxpayers, and others with a general overview of the Plan's finances and to demonstrate the Board's oversight of the Plan. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, Klamath County, 305 Main Street, Room 121, PO Box 340, Klamath Falls, Oregon 97601.

**Klamath County Employees' Pension Plan**  
**Statements of Net Assets Available for Plan Benefits**  
**June 30, 2010**

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**Assets**

Cash and cash equivalents	\$ 3,238,407
Receivables:	
Interest and dividends	104,672
Employer and plan member receivables	116,757
Total receivables	<u>221,429</u>
Investments, at fair value	
U.S. government obligations	1,987,427
Corporate bonds	6,273,843
Corporate stocks	9,853,448
Foreign stocks and mutual fund equity	6,068,752
Total investments	<u>24,183,470</u>
Total assets	<u>27,643,306</u>

**Liabilities**

Accounts payable	<u>24,161</u>
Total liabilities	<u>24,161</u>

**Net Assets**

Held in trust for benefits	<u>27,619,145</u>
(A schedule of funding progress for the plan is presented on page 7)	<u>\$ 27,619,145</u>

The accompanying notes are an integral part of this statement.

**Klamath County Employees' Pension Plan**  
**Statements of Changes in Net Assets Available for Plan Benefits**  
**For the Year Ended June 30, 2010**

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**Additions**

Contributions:	
Employer	\$ 1,726,112
Plan members	1,150,409
Total contributions	2,876,521
Investment income	
Net appreciation (depreciation) in fair value of investments	2,559,813
Interest	393,185
Dividends	297,813
	3,250,811
Less investment expense	31,798
Net investment income	3,219,013
Total additions	6,095,534

**Deductions**

Benefits	2,336,844
Administrative expense	190,338
Total deductions	2,527,182
<b>Net increase</b>	3,568,352
<b>Net assets held in trust for pension benefits</b>	
<b>Beginning of year</b>	24,050,793
<b>End of year</b>	\$ 27,619,145

The accompanying notes are an integral part of this statement.

**Klamath County Employees' Pension Plan**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2010**

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**Note 1 – Summary of Significant Accounting Policies**

Introduction - The Klamath County Employees' Pension Plan (Plan) is intended to provide employees of Klamath County with income in the event of retirement, death or disability. The Plan's Administrator is the County's Director of Human Resources. The Director of Human Resources is responsible for all aspects of the Plan's operations, except holding and investing plan funds. The Director cannot alter the terms, conditions or benefits of the Plan, but is responsible for making decisions regarding questions, interpretations and applications, if any. The Director of Human Resources establishes the funding policy for the Plan in consultation with the enrolled actuaries retained by the Plan. The funding policy establishes the required County contributions. All funds of the Plan are held in a trust fund for the Plan. An investment committee consisting of the Board of County Commissioners, the Director of Human Resources, and the County Finance Director are responsible for supervision of the investment of the funds.

Reporting Entity – The accompanying financial statements present the Klamath County Pension Plan, a fiduciary fund of Klamath County. The Plan has no component units.

Basis of Accounting – Klamath County Employees' Pension Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Method Used to Value Investments – Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Fair value of other securities is determined by the mean of the most recent bid and asked prices as obtained from dealers that make markets in such securities. Investments for which market quotations are not readily available are valued at their fair value as determined by the custodian under the direction of the Klamath County Employees' Pension Plan's Board of Trustees, with the assistance of a valuation service.

Use of Estimates – In preparing the funds' financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Note 2 – Plan Description, Participant Accounts, Contribution Information, and Retirement Benefits**

Membership of the plan consisted of the following at January 1, 2009, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	180
Terminated plan members entitled to but not yet receiving benefits	205
Active plan members	418
Total	803
 Number of participating employers	 1

Plan Description –The following description of the Klamath County Employees' Pension Plan is provided for general information purposes only. Participants should refer to the Plan agreement for complete information.

Qualified Klamath County employees, other than Sheriff's department personnel are participants in the Klamath County Employees' Pension Plan. The plan was established February 1, 1967 and was amended and restated September 30, 2008, including provisions through the second amendment. This plan is a single employer defined benefit pension plan to which the County makes contributions. The plan is a stand alone plan and covered under the Internal Revenue Code 401(a) and the subsequent trust document/restatement.

**Klamath County Employees' Pension Plan**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2010**

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**Note 2 – Plan Description, Participant Accounts, Contribution Information, and Retirement Benefits** *(continued)*

All Klamath County employees are considered to be Qualified Employee except the following:

- An employee covered by the Oregon State Public Employees' Retirement System (PERS).
- An employee regularly scheduled to work 19 hours or less per week.
- An employee scheduled to work less than five months per year.
- A temporary employee as defined by Klamath County Human Resource policy.
- A leased employee on the payroll of an outside firm.

An employee begins participation in the Plan on the first day of the new month after beginning work or becoming a Qualified Employee.

For purposes of vesting, service starts on the day the first hour of service is performed for Klamath County and ends on the day of severance from service with Klamath County. Periods of service of less than a year are credited based on the number of completed months of service and are aggregated to form whole years of Service. There are no requirements to work a specific number of hours to receive service.

An hour of service means an hour for which a qualified employee is paid, or entitled to payment, for the performance of duties as a Klamath County employee.

Severance from service will occur on the earlier of the following dates:

- The date an employee retires, quits, is terminated, or dies.
- The first anniversary of the date an employee stops working for any other reason, such as vacation, holiday, sickness, leave of absence (including family leave) or layoff.

Credited service is one of the factors which determine the dollar amount of retirement benefits. Credited service includes periods of time during which participant contributions were made by the employee or paid for by Klamath County.

Periods of credited service of less than a year are counted based on completed months of credited service and are aggregated to form whole years of credited service. There are no requirements to work a specific number of hours to receive credited service.

If an employee has a severance from service and later returns to work for Klamath County, the employee will re-enter the Plan on the first day of the new month following re-hire or designation as a qualified employee. Vesting service and credited service prior to leaving employment will count after the employee is rehired unless the employee received a cash payment of the participant account for this period. If the employee did receive a cash payment, they will be treated as a new employee.

Qualified employees will receive vesting service and credited service for periods of military service to the extent required by law.

Participant Accounts - The Human Resources Department will coordinate the set-up of participant accounts with the Plan Trust for bookkeeping purposes. Participant accounts will be credited with participant contributions, County contributions and interest.

Employee contributions equal to 6% of pay are paid by employees on a mandatory salary reduction basis. In addition, the County contributes 1% of pay to employee's accounts. Contributions are accumulated with interest at 6.5% per year.

Vesting essentially refers to "ownership". Participant accounts are always 100% vested and are not forfeitable. Retirement plan benefits are 100% vested upon the completion of 5 years of service.

Retirement Dates - The Normal Retirement Date is age 62. The early retirement date is any date on or after age 55 and before the normal retirement date. The deferred retirement date is any date after the normal retirement date.

Normal Retirement Basic Benefit – The normal retirement basic benefit is a modified cash refund annuity with a monthly pension benefit for life and a contingent death benefit. Retirement benefits are calculated using a formula. Included in the formula are years of credited service and highest average pay over three consecutive years out of the last years of credited service preceding the date of determination.

**Klamath County Employees' Pension Plan**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2010**

**Note 2 – Plan Description, Participant Accounts, Contribution Information, and Retirement Benefits** *(continued)*

Early Retirement Basic Benefit - Qualified employees may retire early if they are at least age 55. If they retire and begin receiving benefits before the normal retirement date, the retirement benefits will be reduced based on the number of months that the benefit starting date precedes the normal retirement date. This reduction reflects the cost of paying retirement benefits over a longer period of time.

The early retirement basic benefit equals the normal retirement basic benefit, calculated using the years of credited service and highest average pay as of the early retirement date, and reduced by 5/12 percent for each month that the benefit starting date precedes the normal retirement date. The normal retirement date, and thus, the amount of the early retirement benefit reduction, may change depending on whether or not the employee is an ONA member.

Deferred Retirement Basic Benefit - If an employee continues to work beyond the normal retirement date, the deferred retirement basic benefit is calculated in the same manner as the normal retirement basic benefit. However, for as long as the employee works, they will continue to get additional years of credited service. Also, the highest average pay will be determined based on the 36 consecutive months out of the last 10 calendar years. The employee can start collecting their deferred retirement basic benefit when they actually retire.

Plan Amendment or Termination - The County's Board of Commissioners have the right to amend or terminate the Plan at any time. No amendment may reduce employees' vested rights or change the Plan so that it would not be for the benefit of employees. If the Plan is terminated, benefits will immediately become fully vested to the extent they are funded and available funds will be allocated in the order set out below. All benefits for individuals within each priority group shall be provided for before any benefits are paid for individuals in the next lower priority group. If funds are insufficient to pay all benefits for individuals within a group, the amount available shall be allocated among the individuals within the group in proportion to their interests. The order of priority, determined as of the day before termination, shall be:

- Benefits that are in pay status.
- All other vested accrued benefits.
- All other accrued benefits.

**Note 3 – Investments**

The Plan maintains all investments in a trust fund at US Bank.

Investments are comprised of the following:

	Market	% of Total Portfolio
Money market funds	\$ 3,238,407	12%
Domestic common stocks	9,853,447	36%
Foreign stocks	4,166,302	15%
Mutual fund equity	820,073	3%
Corporate bonds	6,273,843	23%
U.S. government bonds	1,987,427	7%
Foreign issues	1,082,378	4%
	24,183,470	88%
	\$27,421,877	100%

The Plan's investments include U.S. Government securities, corporate stocks, corporate bonds, foreign stocks, mutual fund equity, and money market funds. Fair values of all investments in the Plan are based on published market prices.

**Klamath County Employees' Pension Plan**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2010**

**Note 3 – Investments** *(continued)*

Concentration of credit risk and credit risk - The Plan's investment policy limits short term investments to US Treasury bills and other obligations issued or guaranteed by the US government, certificates of deposit and bankers acceptances of the largest commercial banks in the US, or local institutions as approved by Plan trustees and administrator, and commercial paper rated A-1 or Prime-1 at the time of purchase, or if not rated, by companies having outstanding debt rated at A or better.

Fixed income investments will be comprised of a mix of securities from various fixed income sectors including, but not limited to, US Treasury and Agency securities, mortgage-backed and asset-backed securities, corporate securities, convertible bonds, and cash equivalents. Fixed income investments will be rated investment grade at the time of purchase. Except for US Treasury, Agency, or US government sponsored enterprises, no more than 5% of the market value of the portfolio may be invested in unsecured investments of any one issuer.

Equity portfolios will consist of value, core, and growth equity investment styles.

Custodial credit risk – investments - For an investment, this is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover that value of its investments or collateral securities that are in the possession of an outside party. The Plan's investment policy allows the entire investment portfolio to be held in safekeeping or the trust department of a single custodian. All investments were held by the Plan in its own name.

Interest rate risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Plan manages this risk by limiting the maturity of the investments held by fund. The investment policy states that cash equivalents will have a maturity of 13 months or less. No investment may mature in over 30 years as measured from settlement dates.

In accordance with its investment policy, the Plan maintains its investments to conform to federal, state and other legal requirements; to preserve capital and protect investment principal; to maintain sufficient liquidity to meet operating requirements; and, to diversify and attain market rates of return throughout budgetary and economic cycles.

The Plan's investment policy calls for a balanced portfolio following guidelines for minimum, target, and maximum allocations as follows:

Investment class	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Money market	0%	1%	10%
Investment grade fixed income	25%	27%	60%
Inflation protected securities	0%	6%	0%
Large capitalization equities	20%	31%	50%
Mid capitalization equities	4%	8%	14%
Small capitalization equities	2%	6%	15%
Equity sectors	0%	0%	15%
International equities	6%	16%	20%
Real estate investment trust Equities	0%	2%	8%
Commodities	0%	3%	5%
Precious metals	0%	0%	5%
Total		<u>100%</u>	

**REQUIRED SUPPLEMENTARY INFORMATION**

**Klamath County Employees' Pension Plan  
Required Supplementary Information  
For the Year Ended June 30, 2010**

Klamath County Employees' Pension Plan  
Schedule of Funding Progress  
(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability (AAL) - Entry Age ( b )	Unfunded AAL (UAAL) ( b - a )	Funded Ratio ( a / b )	Covered Payroll ( c )	UAAL as a Percentage of Covered Payroll ( ( b - a ) / c )
1/1/2004	24,266	26,280	2,014	92%	14,271	14%
1/1/2005	25,581	28,582	3,001	90%	14,318	21%
1/1/2006	26,672	30,940	4,268	86%	16,052	27%
1/1/2007	28,648	33,522	4,874	85%	16,298	30%
1/1/2008	31,523	37,481	5,958	84%	15,532	38%
1/1/2009	29,158	40,678	11,520	72%	16,576	69%

Klamath County Employees' Pension Plan  
Schedule of Employer Contributions  
(in thousands)

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2003	\$ 786,723	100%
2004	789,054	100%
2005	783,306	100%
2006	886,487	100%
2007	914,630	100%
2008	1,002,306	100%

**Klamath County Employees' Pension Plan**  
**Notes to Required Supplementary Information**  
**For the Year Ended June 30, 2010**

**Funded Status and Funding Progress**

The funded status of the plan as of January 1, 2009, the most recent actuarial valuation date, is as follows (dollar amounts in thousands):

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability (AAL) Entry Age ( b )	Unfunded AAL (UAAL) ( b - a )	Funded Ratio ( a / b )	Covered Payroll ( c )	UAAL as Percentage of Covered Payroll ( ( b - a ) / c )
1/1/2009	29,158	40,678	11,520	72%	16,576	69%

The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Additional information as of the latest actuarial valuation follows:

- Actuarial cost method – Because the aggregate cost method does not identify or separately amortize unfunded actuarial liabilities, information about the plan’s funded status and funding progress must be disclosed using the entry age actuarial cost method, which is intended to serve as a surrogate for the funded status and funding progress of the plan. For this purpose, the entry age accrued liability has been calculated by allocating benefits on a level percent of payroll from entry age to assumed exit age, where entry age was set equal to date of participation.
- Amortization method – Liabilities and contributions are computed using the level percent of compensation aggregate funding method. The objective under this method is to fund all participants’ benefits under the plan as payments which are level as a percentage of the group’s aggregate compensation, starting at the valuation date and continuing until their assumed dates of retirement, termination, disability and death. The method does not distinguish between benefits credited for past and future service, nor between liabilities created before and after the introduction of the funding method.
- Asset valuation method – The actuarial value of assets is based on a five-year smoothed market value. The method is described below:
  - The actuarial value of assets will equal the market value of assets with investment gains subtracted and losses added, as follows:
    - 4/5 of prior year’s gain or loss
    - 3/5 of the second preceding year’s gain or loss
    - 2/5 of the third preceding year’s gain or loss
    - 1/5 of the fourth preceding year’s gain or loss
  - Investment gain or loss amounts are calculated based on the expected return on the market value.
  - The actuarial value of assets will be adjusted to be no greater than 120 percent and no less than 80 percent of the fair market value.
- Actuarial assumptions:
  - *Investment rate of return* – The investment rate of return is 7.25% compounded annually.
  - *Projected salary increases* – The projected salary increase rates range from 3.18% to 8.18%.
  - *Cost of living adjustments* – There are no cost of living adjustments.

**GOVERNMENT AUDITING STANDARDS SECTION**



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Certified Public Accountants

**Report on Compliance and Internal Control Over Financial Reporting  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards**

Board of Commissioners  
Klamath County Employees' Pension Plan

We have audited the basic financial statements of Klamath County Employees' Pension Plan as of and for the year ended June 30, 2010 and have issued our report thereon dated July 15, 2011. 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.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered Klamath County Employees' Pension Plan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Klamath County Employees' Pension Plan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Klamath County Employees' Pension Plan's internal control over financial reporting.

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

Our consideration of the 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 that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Klamath County Employees' Pension Plan's financial statements are free of 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.

This report is intended solely for the information and use of management, the Klamath County Board of Commissioners, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Molatore, Scroggin, Peterson, & Co. LLP

Andrew E. Peterson, CPA  
Klamath Falls, Oregon  
July 15, 2011