

KLAMATH COUNTY TREASURER'S INVESTMENT POOL

FINANCIAL STATEMENTS

JUNE 30, 2010



Certified Public Accountants

**Klamath County Treasurer's Investment Pool
Elected and Appointed Officials
June 30, 2010**

Board of Commissioners

| <u>Name</u> | <u>Position</u> | <u>Term Expires</u> |
|---------------|-----------------|---------------------|
| John Elliott | Commissioner | January 3, 2011 |
| Al Switzer | Commissioner | January 3, 2013 |
| Cheryl Hukill | Commissioner | January 3, 2013 |

Other Elected Officials

| | | |
|--------------|-----------|-----------------|
| Michael Long | Treasurer | January 3, 2011 |
|--------------|-----------|-----------------|

Officials

| | |
|-------------|-------|
| David Groff | Legal |
|-------------|-------|

Mailing Address

Klamath County Treasurer
Government Center
305 Main Street
P.O. Box 340
Klamath Falls, Oregon 97601
Phone: (541) 883-4269 Fax: (541)883-5165
www.klamathcounty.org

**Klamath County Treasurer's Investment Pool
Index to the Financial Statement
June 30, 2010**

| | <u>Page</u> |
|---|-------------|
| Independent Auditors' Report | 1 |
| Management's Discussion and Analysis | 2 |
| Financial Statements | |
| Statements of Net Assets | 3 |
| Statements of Changes in Net Assets | 4 |
| Notes to Financial Statements | 5-9 |
| Supplementary Information | |
| Government Auditing Standards Section Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards | 10 |

FINANCIAL SECTION



824 Pine Street
Klamath Falls, OR 97601
(541) 884-4164
Fax: (541) 883-1232
A0610-51083-x

Certified Public Accountants

Independent Auditors' Report

Board of Commissioners
Klamath County Treasurer's Investment Pool

We have audited the accompanying statement of net assets of Klamath County Treasurer's Investment Pool, as of June 30, 2010, and the related statement of changes in net assets for the year then ended. These financial statements are the responsibility of Klamath County Treasurer's Investment Pool'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 Treasurer's Investment Pool, 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.

The management's discussion and analysis on page 2 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures to the management's discussion and analysis, 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 we express no opinion on it.

In accordance with *Government Auditing Standards*, we have issued our report dated July 15, 2011 on our consideration of Klamath County Treasurer's Investment Pool'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.

Certified Public Accountants

Klamath Falls, Oregon

July 15, 2011

**Klamath County Treasurer's Investment Pool
Management Discussion and Analysis
June 30, 2010**

This section presents management's discussion and analysis of Klamath County Treasurer's Investment Pool's financial performance for the fiscal year ended June 30, 2010 and should be read in conjunction with the financial statements, which follow this section.

Klamath County Treasurer's Investment Pool is a pooled investment fund that invests the assets of the County as well as the assets of various governmental entities in Klamath County that choose to invest in the Klamath County Treasurer's Investment Pool.

The investment return percentages reported in management's discussion and analysis are presented gross of management fees.

Overview of the Financial Statements

The financial statements include the statements of net assets and the statements of changes in net assets. They present the financial position of the Klamath County Treasurer's Investment Pool as of June 30, 2010 and its financial activities for the year then ended. The notes to the financial statements provide further information that is essential to a full understanding of the financial statements. The notes describe the significant accounting policies of the Klamath County Treasurer's Investment Pool and provide detailed disclosures on certain account balances. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. They are prepared in conformity with U.S. generally accepted accounting principles.

Financial Highlights

- The net assets increased approximately \$4.4 million during the year ended June 30, 2010. Total net assets were approximately \$158.9 million at June 30, 2010.
- Net investment income for fiscal year was approximately \$2.6 million. The Klamath County Treasurer's Investment Pool returned 1.7% in fiscal year 2010.
- Contributions to the Klamath County Treasurer's Investment Pool totaled approximately \$127.4 million during fiscal year.
- Distributions totaled approximately \$125.6 million during the year ended June 30, 2010.

Performance during the Year Ended June 30, 2010

The Klamath County Treasurer's Investment Pool began fiscal year 2010 with net assets of \$154.5 million and ended the fiscal year with net assets of \$158.9 million, representing a 2.8% increase. The increase was due to investment performance. Net investment income for the year ended June 30, 2010 was approximately \$2.6 million. Net participant contributions (contributions less distributions) of \$1.8 million, along with net investment income of \$2.6 million caused the overall increase in net assets of \$4.4 million.

For the year ended June 30, 2010, the Klamath County Treasurer's Investment Pool returned 1.7%. The performance of the portfolio is measured against the policy benchmark of the Oregon Local Government Investment Pool and/or the 90 day US Treasury Bill yields. Klamath County Treasurer's Investment Pool exceeded these benchmarks by 115 basis points and 152 basis points, respectively. The policy benchmark provides a measure of how well the Klamath County Treasurer's Investment Pool has implemented its asset allocation plan. It assumes the actual allocation is identical to its target allocation and that all asset classes achieve index-like returns.

Other Information

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

Klamath County Treasurer's Investment Pool
Statement of Net Assets
June 30, 2010

Assets

| | |
|---------------------------|--------------------|
| Cash and cash equivalents | \$ 45,929,743 |
| Prepaid interest | 75,224 |
| Receivables: | |
| Interest and dividends | 628,437 |
| Investments | 112,387,392 |
| Total assets | <u>159,020,796</u> |

Liabilities

| | |
|-------------------|---------------|
| Accounts payable | <u>24,658</u> |
| Total liabilities | <u>24,658</u> |

Net Assets

| | |
|--------------------------------|-----------------------|
| Held in trust for participants | <u>\$ 158,996,138</u> |
|--------------------------------|-----------------------|

See accompanying notes to the financial statements

**Klamath County Treasurer's Investment Pool
Statement of Changes in Net Assets
For the Year Ended June 30, 2010**

Additions

| | |
|----------------------------|--------------------|
| Contributions: | |
| Participants | \$ 127,482,728 |
| Total contributions | <u>127,482,728</u> |
| Investment Income | |
| Interest and dividends | 4,082,250 |
| Realized/Unrealized losses | (1,445,422) |
| Investment expenses | (53,117) |
| Total Investment Income | <u>2,583,711</u> |
| Total additions | <u>130,066,439</u> |

Deductions

| | |
|---|------------------------------|
| Distribution to participants | <u>125,651,596</u> |
| Total deductions | <u>125,651,596</u> |
| Change in net assets held in trust for participants | 4,414,843 |
| Net assets - beginning | <u>154,581,295</u> |
| Net assets - ending | <u><u>\$ 158,996,138</u></u> |

See accompanying notes to the financial statements

Klamath County Treasurer's Investment Pool
Notes to Financial Statements
June 30, 2010

Note 1 – Summary of Significant Accounting Policies

Reporting Entity and Basis of Presentation

The accompanying financial statements present the investment trust data of the Klamath County Treasurer's Investment Pool. The Klamath County Treasurer's Investment Pool (the Investment Pool) is a separate accounting entity, recording all assets, liabilities, equities, revenues, and expenses related to the Investment Pool's activities. However, expenses presented for the Investment Pool may not reflect the total cost of the related activity. Other direct and indirect costs provided by the Klamath County Treasurer (the Treasurer) are not allocated to the Investment Pool. A number of local governments in Klamath County (County) participate in the Investment Pool, thus it is an external investment pool as defined in Statement No. 31 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

The Investment Pool is not registered with the U.S. Securities and Exchange Commission as an investment company. The County's investment policies are governed by Oregon Revised Statutes and approved by the Oregon Short Term Fund Board. The Treasurer is the investment officer for the Investment Pool and is responsible for all funds entrusted to it. The Treasurer serves in a fiduciary capacity with respect to the management of the Investment Pool and the investment of funds for the exclusive benefit of the investment portfolio; however, the Treasurer is not subject to regulatory oversight by the SEC or other entities. The Treasurer establishes policies, procedures, and objectives of the Investment Pool, accepts deposits to the Investment Pool from participants, and buys/sells investments to optimize the total return of the investment portfolio. These funds must be invested, and the investments managed, as a prudent investor would, exercising reasonable care, skill and caution. The Oregon Revised Statutes permit securities lending transactions as well as investments in repurchase agreements and reverse repurchase agreements.

Property tax receipts for all local governments with a property tax levy are deposited in the Investment Pool; therefore, those governments are considered involuntary participants of the Investment Pool. Because the Investment Pool operates as a demand deposit account for County agency participants, the portion of the Investment Pool belonging to County (internal) participants is classified as cash and cash equivalents in the County's Annual Financial Report. The portion of the Investment Pool belonging to local government (external) participants is reported as an investment trust fund in the County's Annual Financial Report.

Basis of Accounting

These statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Investment income and expenses are segregated by the Treasurer into separate investment accounts within the Investment Pool. The fair value of investments is determined annually and is equal to market price. Trade date accounting is observed, which means that purchases and sales are recorded on the day the trade takes place with a corresponding payable or receivable from the broker.

Cash and Cash Equivalents

Investments with original maturities of three months or less are considered cash equivalents and are reported at amortized cost, which approximates fair value. Cash and Cash Equivalents also include cash in banks.

Investments

Investments with remaining maturities of less than ninety days are carried at amortized cost, provided that the fair value of these instruments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. Amortized cost approximates fair value. Investments with longer maturities are carried at fair value.

Participants' equity; distributions of interest

Participants' account balances in the Investment Pool are determined by the amount of participants' deposits, adjusted for withdrawals and distributed interest. The Investment Pool has not provided or received any legally binding guarantees with regard to balances in the Investment Pool. Interest is calculated and accrued monthly on each participant's account based on the average daily account balance. Interest is distributed monthly on the last business day of the month. If the last day of the month is a weekend or holiday, interest is accrued through the last calendar day of the month but posted on the last business day.

Klamath County Treasurer's Investment Pool
Notes to Financial Statements
June 30, 2010

Note 2 – Deposits and Investments

Deposits

On June 30, 2010 the Investment Pool held \$45,929,661 book balance in deposits. These funds are included in the Pooled Cash of the County. Insurance and collateral requirements for deposits are established by banking regulations and Oregon law. Where balances exceed the Federal Deposit Insurance (FDIC) amount of \$250,000, the balances are covered by collateral held in a multiple financial institution collateral pool (ORS 295.015) administered by the Oregon State Treasury in the Public Funds Collateralization Program (PFCP).

As of June 30, 2010, FDIC and PFCP coverage were determined by the County's overall coverage.

Custodial Credit Risk

In the case of deposits this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Investment Pool's deposit policy is in accordance with ORS 295.

Investments

On June 30, 2010, the Investment Pool held \$158,996,056 in net assets, \$45,929,661 of which are classified as Cash and Cash Equivalents on the Statement of Net Assets. The Investment Pool's portfolio rules establish the Investment Pool's permitted investments and provide guidelines for managing the various types of risk associated with these investments. The different risks will be discussed below.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Treasurer manages this risk by limiting the maturity of the investments held by the Investment Pool. The portfolio rules require that at least 50 percent of the portfolio mature within 93 days; not more than 25 percent of the portfolio may mature in over a year; and no investments may mature over three years from settlement date. The June 30, 2010 holdings are shown in the schedule below.

Schedule of Investment Maturities

| <u>Investment Type</u> | <u>Investment Maturities</u> | | | |
|-------------------------------------|--------------------------------|----------------------|--------------------------------|-------------------------------|
| | <u>Reported Amount (1)</u> | <u>Up to 93 Days</u> | <u>94 Days to One Year</u> | <u>One to Three Years</u> |
| Cash and cash equivalents: (2) | | | | |
| Demand deposits | \$ 6,721,240 | \$ 6,721,240 | \$ - | \$ - |
| Money market accounts | 12,100,258 | 12,100,176 | - | - |
| Local government investment pool | 27,108,245 | 27,108,245 | - | - |
| Subtotal cash equivalents | <u>45,929,743</u> | <u>45,929,661</u> | <u>-</u> | <u>-</u> |
| Investments: (2) | | | | |
| U.S. treasury and agency securities | 81,732,832 | 1,003,130 | 16,390,709 | 64,338,993 |
| Corporate indebtedness | 22,654,560 | 675,986 | 13,172,745 | 8,805,829 |
| Time certificates of deposit | 8,000,000 | 5,000,000 | 3,000,000 | - |
| Subtotal investments | <u>112,387,392</u> | <u>6,679,116</u> | <u>32,563,454</u> | <u>73,144,822</u> |
| Total | <u>\$158,317,135</u> | <u>\$ 52,608,777</u> | <u>\$32,563,454</u> | <u>\$73,144,822</u> |

(1) Reported amount is a combination of amortized cost and fair value. See Note 1

(2) Classification on Statement of Net Assets

Klamath County Treasurer's Investment Pool
Notes to Financial Statements
June 30, 2010

Note 2 – Deposits and Investments (continued)

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. As of June 30, 2010, the Investment Pool's investments in the U.S. government agencies and securities were rated Aaa/AAA by Standards & Poor's and Moody's investors' services. The Investment Pool's investment in commercial papers rated F-1 by Fitch ratings. Other investments held by the Investment Pool remain unrated.

Custodial credit risk

For an investment, this is the risk that, in the event of the failure of the counterparty, the Investment Pool will not be able to recover that value of its investments or collateral securities that are in the possession of an outside party. The Investment Pool's investment policy limits the percentage of the investment portfolio that may be kept held in safekeeping or the trust department of any financial institution, regardless of the dealer from whom the investment was purchased to 33% of the portfolio. At year-end no institutions held more than 25% of the Investment Pool's portfolio in its safekeeping or trust departments. All investments were held by the County in its own name. Time certificates of deposit are not exposed to custodial credit risk, as they are covered by FDIC and PFCP collateralization.

Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. With exception of U.S. Securities or U.S. Agency Securities and authorized pools, no more than 33% of the total portfolio of the Investment Pool is allowed to invest in a single security type or with a single financial institution.

Note 3 – Equity of Internal and External Participants

Net assets held in trust for participants:

| | |
|---------------------------------|-----------------------|
| Equity of internal participants | \$ 135,706,615 |
| Equity of external participants | <u>23,289,523</u> |
| | <u>\$ 158,996,138</u> |

Participation in the Klamath County Treasurer's Investment Pool by the various authorized agencies is on a voluntary basis except as presented in Note 1 for property taxes. In accordance with the trust agreement and ORS 294.035 through 294.048, ORS 294.125 through 294.155, ORS 294.810, and other applicable statutes, net assets are held in trust for the Investment Pool's participants.

Note 4 – Investment Income

Investment income includes dividends and realized/unrealized gains and losses on underlying securities held by the Treasurer in the Investment Pool. The Investment Pool experienced net investment income totaling \$2,636,828.

Note 5 – Management Fees

In accordance with the Investment Policy, the Treasurer may deduct 5% of investment income for administration and portfolio management. The fee is deducted from investment income before distribution to participants. Fees charged to the Investment Pool totaled \$132,581 for the year ended June 30, 2010.

Note 6 – Compliance

The purpose of the adoption of an investment policy is to set forth the overall investment philosophy of the Investment Pool as defined by the Board of Commissioners. For this purpose the policy of the County is identical to that of the Investment Pool. During the fiscal year 2010, there have been certain discrepancies between the investment policies adopted by the board of Commissioners, Oregon Revised Statutes surrounding the operation of the Investment Pool, and the operations of the Investment Pool. These discrepancies are outlined below:

1. Oregon Revised Statute (ORS) 294.125 states that the custodial officer of any county may after having obtained a written order from the governing body of the county and that order is recorded in the minutes of the governing body, invest surplus

Klamath County Treasurer's Investment Pool
Notes to Financial Statements
June 30, 2010

Note 6 – Compliance *(continued)*

funds in accordance with ORS 294.035. ORS 294.135(a) states that the custodial officer may make investments having a maturity longer than 18 months when the governing body of the county has adopted a written investment policy that, prior to adoption, was submitted to the Oregon Short Term Fund Board for review and comment to the governing body, that includes guidelines concerning maximum investment maturity dates and that provides by its terms for re-adoption not less than annually. Klamath County Investment Policy also states that the policy will be re-adopted annually even if there are no changes.

- a. The Investment Pool has a significant number of investments with maturities greater than 18 months. The investment policy was adopted on July 5, 2005 and has not been re-adopted as of June 30, 2010.
2. ORS 294.125 states that no custodial officer of any political subdivision of this state may accept for investment or invest the funds of any other political subdivision of this state, except as provided in ORS 294.035. ORS 294.035 states that the custodial officer may invest funds of other political subdivisions, but only after obtaining from the governing body of the county, municipality, political subdivision or school district a written order that has been entered in the minutes of the governing body.
 - a. The Investment Pool currently has significant amounts of other political subdivision's funds in custody. There are no written orders from other political subdivisions allowing the County Treasurer to invest such funds.
3. ORS 294.155 states that (1) the custodial officer for a local government that holds and invests funds on behalf of another government unit shall at least once a year submit an audited report to that government unit for which funds are invested. An audit report shall be submitted to the local governmental unit or units within 30 days after receipt of the audit report by the custodial officer's governing body. (2) The custodial officer shall prepare a report not less than monthly to each county, municipality, school district and other political subdivision the segregated funds of which the custodial officer is then investing, as to changes made in the investments of the funds of that body during the preceding month. If requested by that body, the custodial officer shall furnish to it details on the investment transactions for its fund. The custodial officer shall also provide copies of any investment policy which has been adopted to the custodial officer's governing body upon request.
 - a. The Investment Pool has not followed ORS 294.155 regarding the audit of the investments that it holds for other municipalities, and reports of the segregated funds were not timely during the latter part of fiscal year 2010.
4. Klamath County Investment Policy states that the County Treasurer shall maintain a system of written internal controls which shall be reviewed and tested by the independent auditor annually.
 - a. Internal controls over investments are not followed as written. The internal controls in place exist primarily in the knowledge of the County Treasurer with no cross training or other backup.

GOVERNMENT AUDITING STANDARDS SECTION



824 Pine Street
Klamath Falls, OR 97601
(541) 884-4164
Fax: (541) 883-1232

Certified Public Accountants

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

Klamath County Board of Commissioners
Klamath County Treasurer's Investment Pool

We have audited the basic financial statements of Klamath County Treasurer's Investment Pool 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 Treasurer's Investment Pool'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 Treasurer's Investment Pool's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Klamath County Treasurer's Investment Pool'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 Treasurer's Investment Pool'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 did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of Klamath County Treasurer's Investment Pool in a separate letter dated July 15, 2011.

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

Molatore, Scroggin, Peterson & Co. LLP.

A handwritten signature in blue ink, reading 'Andrew E. Peterson', is written over a horizontal line.

Andrew E. Peterson, Partner

July 15, 2011