

KLAMATH COUNTY TREASURER'S INVESTMENT POOL

FINANCIAL STATEMENTS

JUNE 30, 2012



Certified Public Accountants

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June 30, 2012**

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**Klamath County Treasurer's Investment Pool
Elected and Appointed Officials
June 30, 2012**

Board of Commissioners

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Al Switzer	Commissioner	January 6, 2013
Dennis Linthicum	Commissioner	January 4, 2015
Cheryl Hukill	Commissioner	January 6, 2013

Officials

Jason Link	Treasurer & Chief Financial Officer
David Groff	Legal

Mailing Address

Klamath County Treasurer
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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, 2012, 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, 2012, 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 January 18, 2013 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.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Certified Public Accountants

Klamath Falls, Oregon
January 18, 2013

**Klamath County Treasurer's Investment Pool
Management Discussion and Analysis
June 30, 2012**

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, 2012 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, 2012 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 decreased approximately \$15.2 million during the year ended June 30, 2012. Total net assets were approximately \$145.8 million at June 30, 2012.
- Net investment income for fiscal year was approximately \$0.9 million. The Klamath County Treasurer's Investment Pool returned 0.6% in fiscal year 2012.
- Contributions to the Klamath County Treasurer's Investment Pool totaled approximately \$106.8 million during fiscal year.
- Distributions totaled approximately \$122.9 million during the year ended June 30, 2012.

Performance during the Year Ended June 30, 2012

The Klamath County Treasurer's Investment Pool began fiscal year 2012 with net assets of \$161.0 million and ended the fiscal year with net assets of \$145.8 million, representing a 9.4% decrease. The decrease was due to the amount distributed to participants. Net investment income for the year ended June 30, 2012 was approximately \$0.9 million. Net participant distributions (distributions less contributions) of \$16.1 million, along with net investment income of \$0.9 million caused the overall decrease in net assets of \$15.2 million.

For the year ended June 30, 2012, the Klamath County Treasurer's Investment Pool returned 0.6%. 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 matched the Oregon Local Government Investment Pool rate and exceeded the 90 day US Treasury Bill yield by 52 basis points. 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, 2012

Assets

Cash and cash equivalents	\$ 29,299,234
Receivables:	
Interest and dividends	440,581
Investments	<u>116,065,362</u>
Total assets	<u>145,805,177</u>

Liabilities

Accounts payable	<u>45</u>
Total liabilities	<u>45</u>

Net Assets

Held in trust for participants	<u><u>\$ 145,805,131</u></u>
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Klamath County Treasurer's Investment Pool
Statement of Changes in Net Assets
For the Year Ended June 30, 2012

Additions	
Contributions:	
Participants	\$ 106,831,653
Total contributions	<u>106,831,653</u>
Investment Income	
Interest and dividends	2,736,462
Realized/Unrealized losses	(1,744,406)
Investment expenses	(119,019)
Total Investment Income	<u>873,037</u>
Total additions	<u>107,704,690</u>
Deductions	
Distribution to participants	122,884,043
Total deductions	<u>122,884,043</u>
Change in net assets held in trust for participants	(15,179,353)
Net assets - beginning, as restated	<u>160,984,484</u>
Net assets - ending	<u><u>\$ 145,805,131</u></u>

See accompanying notes to the financial statements

Klamath County Treasurer's Investment Pool
Notes to Financial Statements
June 30, 2012

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.

Note 2 – Deposits and Investments

Deposits

On June 30, 2012 the Investment Pool held \$29,299,234 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

Klamath County Treasurer's Investment Pool
Notes to Financial Statements
June 30, 2012

Note 2 – Deposits and Investments *(continued)*

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, 2012, 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, 2012, the Investment Pool held \$145,805,131 in net assets, \$29,299,234 of which is 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 35 percent of the portfolio mature within 90 days; not more than 30 percent of the portfolio may mature in over a year; and no investments may mature over three years from settlement date. The June 30, 2012 holdings are shown in the schedule below.

Schedule of Investment Maturities

Investment Type	Investment Maturities				
	Reported Amount (1)	Up to 93 Days	94 Days to One Year	One to Three Years	Over 3 Years
Cash and cash equivalents: (2)					
Demand deposits	\$ 12,121,687	\$ 12,121,687	\$ -	\$ -	\$ -
Local government investment pool	17,177,547	17,177,547	-	-	-
Subtotal cash equivalents	<u>29,299,234</u>	<u>29,299,234</u>	<u>-</u>	<u>-</u>	<u>-</u>
Investments: (2)					
U.S. government issues	99,970,884	2,002,640	21,329,213	76,639,031	-
Corporate issues	14,064,898	1,003,920	10,593,170	2,467,808	-
Foreign issues	2,029,580	-	-	2,029,580	-
Subtotal investments	<u>116,065,362</u>	<u>3,006,560</u>	<u>31,922,383</u>	<u>81,136,419</u>	<u>-</u>
Total	<u>\$ 145,364,596</u>	<u>\$ 32,305,794</u>	<u>\$ 31,922,383</u>	<u>\$ 81,136,419</u>	<u>\$ -</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, 2012

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, 2012, 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	\$ 137,291,577
Equity of external participants	8,513,554
	<u>\$ 145,805,131</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 \$992,056.

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 by the Treasurer were \$57,012 for the year ended June 30, 2012.

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. In the prior year, the Investment Pool was out of compliance in two areas: (1) ORS 294.125 and the Investment Policy requiring the policy to be adopted annually and (2) the Investment Policy requires there to be documentation of internal controls over the Treasurer's Pool. During the fiscal year 2012, the County Treasurer left office and a new Treasurer was appointed in March of 2012. As of June 30, 2012 the Treasurer's Investment Pool was in compliance with Oregon Revised Statutes. The new Treasurer is developing the internal control documentation required by the Investment Policy.

GOVERNMENT AUDITING STANDARDS SECTION



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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, 2012, and have issued our report thereon dated January 18, 2013. 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

Management of Klamath County Treasurer's Investment Pool is responsible for establishing and maintaining effective 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 over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

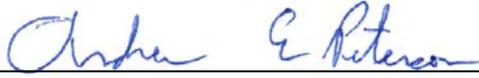
Compliance and Other Matters

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 January 18, 2013.

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

Andrew E. Peterson, Partner
January 18, 2013