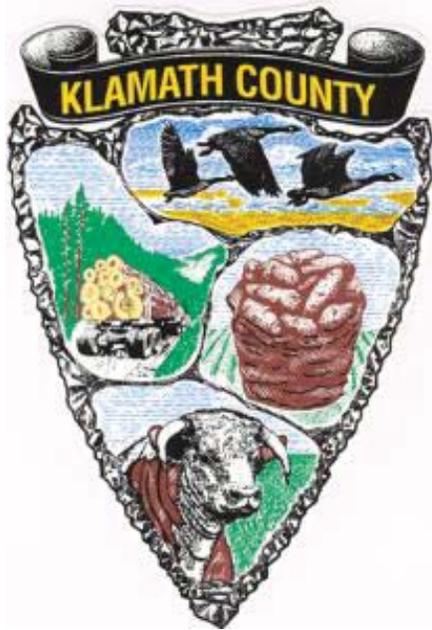


KLAMATH COUNTY, OREGON
TREASURER'S INVESTMENT POOL



FINANCIAL STATEMENTS

JUNE 30, 2013

Jason Link, Treasurer

**Klamath County Treasurer's Investment Pool
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June 30, 2013**

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**Klamath County Treasurer's Investment Pool
Elected and Appointed Officials
June 30, 2013**

Board of Commissioners

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Al Switzer/Tom Mallams	Commissioner	January 6, 2013/2017
Dennis Linthicum	Commissioner	January 4, 2015
Cheryl Hukill/Jim Bellet	Commissioner	January 6, 2013/2017

Officials

Jason Link	Treasurer & Chief Financial Officer
David Groff	Legal

Mailing Address

Klamath County Treasurer
Government Center
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Klamath Falls, Oregon 97601
Phone: (541) 851-2140 Fax: (541) 883-5165
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FINANCIAL SECTION

REPORT OF INDEPENDENT AUDITORS

Board of Commissioners
Klamath County Treasurer's Investment Pool

Report on the Financial Statements

We have audited the accompanying statement of net position and statement of changes in net position of Klamath County Treasurer's Investment Pool (the Pool), a fiduciary fund of Klamath County, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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 Pool'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.

MOSS ADAMS LLP***Opinion***

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

Emphasis of Matter

These financial statements present a fiduciary fund of Klamath County and do not purport to, and do not, present fairly the financial position of the Klamath County, Oregon, as of June 30, 2013, the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the 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 sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2013 on our consideration of the Pool's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pool's internal control over financial reporting and compliance.



James C. Lanzarotta
For Moss Adams LLP
Eugene, Oregon
December 31, 2013

**Klamath County Treasurer's Investment Pool
Management Discussion and Analysis
June 30, 2013**

As management of Klamath County Treasurer's Investment Pool, we offer readers of these financial statements this narrative overview and analysis of the financial activities of Klamath County Treasurer's Investment Pool for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements.

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.

Financial Highlights

- The net position decreased approximately \$5.1 million during the year ended June 30, 2013. Total net position was approximately \$140.7 million at June 30, 2013.
- Net investment income for fiscal year was approximately \$0.4 million. The Klamath County Treasurer's Investment Pool returned 0.37% in fiscal year 2013.
- Contributions totaled approximately \$101.9 million during fiscal year.
- Distributions totaled approximately \$107.5 million during the year.

Overview of the Financial Statements

The financial statements include the statement of net position and the statement of changes in net position. They present the financial position of the Klamath County Treasurer's Investment Pool as of June 30, 2013 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 Analysis

Comparative Financial Information:

	<u>2013</u>	<u>2012</u>
Total assets	\$ 140,696,097	\$ 145,805,177
Total liabilities	62	45
Total net position	<u>\$ 140,696,035</u>	<u>\$ 145,805,132</u>
Contributions from participants	\$ 101,919,310	\$ 106,831,653
Investment Income	430,583	873,037
Total additions	<u>102,349,893</u>	<u>107,704,690</u>
Distributions to participants	107,458,991	122,884,043
Total deductions	<u>107,458,991</u>	<u>122,884,043</u>
Change in net position	<u>\$ (5,109,098)</u>	<u>\$ (15,179,353)</u>

Performance during the Year Ended June 30, 2013

The Klamath County Treasurer's Investment Pool began fiscal year 2013 with net position of \$145.8 million and ended the fiscal year with net position of \$140.7 million, representing a 3.5% decrease. The decrease was due to the amount distributed to participants. Net investment income for the year ended June 30, 2013 was approximately \$0.4 million. Net participant distributions

**Klamath County Treasurer's Investment Pool
Management Discussion and Analysis
June 30, 2013**

(distributions less contributions) of \$5.5 million, along with net investment income of \$0.4 million caused the overall decrease in net position of \$5.1 million.

For the year ended June 30, 2013, the Klamath County Treasurer's Investment Pool returned 0.37%. 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 lagged the Oregon Local Government Investment Pool rate by 15 basis points and exceeded the 90 day US Treasury Bill yield by 34 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.

Economic Factors

This was a year of continued depressed investment returns as the Federal Reserve Bank kept rates at or near zero for the fiscal year. June saw yields rise and credit spreads widen as investors sold out of bonds and bond funds. Unemployment remained at 7.6 percent as the labor force participation rate increased slightly. The Federal Reserve Bank has continued its quantitative easing process, but has expressed a desire to end or significantly reduce its purchases when the economy shows signs of recovery.

Requests for 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 Position
June 30, 2013

Assets

Cash and cash equivalents	\$ 43,147,387
Receivables:	
Interest and dividends	286,293
Investments	<u>97,262,417</u>
Total assets	<u>140,696,097</u>

Liabilities

Accounts payable	<u>62</u>
Total liabilities	<u>62</u>

Net Position

Held in trust for participants	<u><u>\$ 140,696,035</u></u>
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Klamath County Treasurer's Investment Pool
Statement of Changes in Net Position
For the Year Ended June 30, 2013

Additions	
Contributions:	
Participants	\$ 101,919,310
Total contributions	<u>101,919,310</u>
Investment Income	
Interest and dividends	1,887,401
Realized/Unrealized losses	(1,361,079)
Investment expenses	<u>(95,739)</u>
Total Investment Income	<u>430,583</u>
Total additions	<u>102,349,893</u>
Deductions	
Distribution to participants	<u>107,458,991</u>
Total deductions	<u>107,458,991</u>
Change in net position held in trust for participants	(5,109,098)
Net position - beginning	<u>145,805,133</u>
Net position - ending	<u>\$ 140,696,035</u>

See accompanying notes to the financial statements

Klamath County Treasurer's Investment Pool
Notes to Financial Statements
June 30, 2013

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 (SEC) 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 monthly 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.

Use of Estimates

In preparing the Investment Pool's 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.

Klamath County Treasurer's Investment Pool
Notes to Financial Statements
June 30, 2013

Note 2 – Deposits and Investments

Deposits

On June 30, 2013 the Investment Pool held \$43,147,387 book balance in deposits. Insurance and collateral requirements for deposits are established by banking regulations and Oregon law. Where balances exceed the Federal Deposit Insurance Corporation (FDIC) insurance 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, 2013, 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, 2013, the Investment Pool held \$140,696,097 in net position, \$43,147,387 of which is classified as Cash and Cash Equivalents on the Statement of Net Position. 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, 2013 holdings are shown in the schedule below.

Investment Type	Investment Maturities			
	Reported Amount (1)	Up to 93 Days	94 Days to One Year	One to Three Years
Cash and cash equivalents: (2)				
Demand deposits	\$ 19,522,165	\$ 19,522,165	\$ -	\$ -
Local government investment pool	23,625,222	23,625,222	-	-
Subtotal cash equivalents	43,147,387	43,147,387	-	-
Investments: (2)				
Cash held for investment	42,862	42,862	-	-
U.S. government issues	12,183,810	-	-	12,183,810
Agency issues	76,412,590	13,682,661	26,662,805	36,067,124
Corporate issues	8,623,154	-	2,354,924	6,268,230
Subtotal investments	97,262,416	13,725,523	29,017,729	54,519,164
Total	\$ 140,409,804	\$ 56,872,910	\$ 29,017,729	\$ 54,519,164

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

(2) Classification on Statement of Net Position

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, 2013, 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. Other investments held by the Investment Pool remain unrated.

Klamath County Treasurer's Investment Pool
Notes to Financial Statements
June 30, 2013

Note 2 – Deposits and Investments *(continued)*

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 position held in trust for participants:

Equity of internal participants	\$ 133,554,152
Equity of external participants	7,141,883
	<u>\$ 140,696,035</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 position 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 \$430,583.

Note 5 – Related Party Transaction

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 \$30,827 for the year ended June 30, 2013.

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 current year, the Investment Pool was in compliance with its two directives: (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. As of June 30, 2013 the Treasurer's Investment Pool was in compliance with Oregon Revised Statutes. Internal control documentation required by the Investment Policy statement has been prepared by the Treasurer and distributed to the County departments for use.

Note 7 – Subsequent Events

Subsequent to June 30, 2013, the Klamath County Board of Commissioners elected to modify the investment policy statement to no longer allow voluntary participation in the Investment Pool. In October of 2013, the Treasurer distributed all funds held for the benefit of participants not part of Klamath County's reporting entity (primary government and blended component units) to the participants.

GOVERNMENT AUDITING STANDARDS SECTION

REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Commissioners
Klamath County Treasurer's Investment Pool

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the accompanying statement of net position and statement of changes in net position of Klamath County Treasurer's Investment Pool (the Pool), a fiduciary fund of Klamath County, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Klamath County Treasurer's Investment Pool's basic financial statements, and have issued our report thereon dated December 31, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Pool'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 the Pool's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pool's internal control.

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

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

MOSS ADAMS_{LLP}**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Pool'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.



Eugene, Oregon
December 31, 2013