

# **PENSION PLAN FOR EMPLOYEES OF KLAMATH COUNTY**

**A PENSION TRUST FUND OF KLAMATH COUNTY, OREGON**



**ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED**

**JUNE 30, 2017**

Prepared by:

Finance Department

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**Pension Plan for Employees of Klamath County**  
**Annual Financial Report**  
**For the Year Ended June 30, 2017**  
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## **INTRODUCTORY SECTION**

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**Pension Plan for Employees of Klamath County  
List of Board of Trustees and Administrative Officials  
June 30, 2017**

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**Board of Trustees**

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Kelley Minty Morris	Commissioner	January 7, 2019
Donnie Boyd	Commissioner	January 5, 2021
Derrick DeGroot	Commissioner	January 5, 2021

**Administrative Officials**

Daneen Dail	Director of Human Resources
Jason Link	Treasurer & Chief Financial Officer
David Groff	County Counsel

**Professional Consultants**

Libby Moore	Independent Actuaries, Inc.
Jeff Kirtner	Hershner Hunter LLP
Jorgen Gustafson	US Bank

**Mailing Address**

Pension Plan for Employees of Klamath County  
305 Main Street  
Klamath Falls, Oregon 97601  
Phone: (541) 883-4296

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## **FINANCIAL SECTION**

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## **REPORT OF INDEPENDENT AUDITORS**

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## **Report of Independent Auditors**

Board of Commissioners  
Pension Plan for Employees of Klamath County

### **Report on the Financial Statements**

We have audited the accompanying statement of fiduciary net position, and statement of changes in fiduciary net position of Pension Plan for Employees of Klamath County (the Plan), a component unit of Klamath County, Oregon, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Plan'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 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 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Plan as of June 30, 2017, 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.

## **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 5, and schedule of changes in County's net pension liability and related ratios, schedule of county contributions, and schedule of investment returns on pages 17 through 20, 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 February 15, 2018 on our consideration of the Plan'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 Plan's internal control over financial reporting and compliance.

*Moss Adams LLP*

Medford, Oregon  
February 15, 2018





## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Pension Plan for Employees of Klamath County  
Management's Discussion and Analysis  
June 30, 2017**

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As management of the Pension Plan for Employees of Klamath County (Plan), we offer readers of the Plan's financial statements this narrative overview and analysis of the financial activities of the Plan for the fiscal year ending June 30, 2017. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements.

**Financial Highlights**

- The Plan's assets exceed its liabilities at the close of fiscal year 2017, with \$47.7 million held in trust for pension benefits.
- Fiduciary net position increased by \$4 million, or 9.1 percent, during the fiscal year.
- The Plan's funding objective is to meet long-term benefit obligations. As of January 1, 2017, the date of the latest actuarial valuation, the funded ratio of the defined benefit pension plan was 77.0 percent. In general, this means that for every dollar of pension benefits due, the Plan has approximately \$0.77 of net position available for payment.
- Revenues (additions to fiduciary net position) for fiscal year 2017 were \$7.7 million, which includes member and employer contributions of \$3.2 million and net income from investment activities totaling \$4.5 million.
- Expenses (deductions from fiduciary net position) during the fiscal year 2017 were \$3.7 million, which includes benefit payments of \$3.4 million and administrative expenses of \$0.27 million.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Plan's basic financial statements. The Plan's basic financial statements are comprised of three components: 1) fund financial statements, 2) notes to the basic financial statements and 3) required supplemental information.

**1. Fund Financial Statements**

The Plan presents financial statements, prepared on a full accrual basis. They are:

- a) Statement of Fiduciary Net Position: The Statement of Fiduciary Net Position 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 Position (Assets – Liabilities = Net Position) represent the value of assets held in trust for payment of benefits.
- b) Statement of Changes in Fiduciary Net Position: The Statement of Changes in Fiduciary Net Position reports the sources and uses of funds during the fiscal year, where Additions – Deductions = Net Increase (or Decrease) in Net Position. This Net Increase (or Decrease) in Net Position illustrates the change in net position as reported in the Statement of Fiduciary Net Position from the prior year to the current year.

**2. Notes to the Basic Financial Statements**

The notes to the financial statements, 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.

**3. Required Supplemental Information**

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

- a) Schedule of Changes in County's Net Pension Liability and Related Ratios: The Schedule of Changes in County's Net Pension Liability and Related Ratios, contain historical trend information regarding the components of the County's net pension liability.
- b) Schedule of County Contributions: The Schedule of County Contributions, contain historical trend information on contributions made to the plan.
- c) Schedule of Investment Returns: The Schedule of Investment Returns, contains historical trend information on investment returns for plan assets.

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.

**Pension Plan for Employees of Klamath County  
Management's Discussion and Analysis  
June 30, 2017**

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**Financial Analysis**

The condensed comparative summaries below demonstrate that the pension trust funds are primarily focused on investments and net position (reserves).

Increases in the fair value of investments produced positive returns on the Plan's investments. The net position of the Plan increased approximately \$4 million, or 9.1 percent, during the year ended June 30, 2017.

	<u>2017</u>	<u>2016</u>
Total assets	\$ 47,733,965	\$ 43,717,253
Total liabilities	25,865	21,480
Total net position	<u>\$ 47,708,100</u>	<u>\$ 43,695,773</u>
Plan member contributions	\$ 812,741	\$ 803,380
Employer contributions	2,410,449	2,278,804
Net investment income	<u>4,472,509</u>	<u>330,434</u>
Total additions	<u>7,695,699</u>	<u>3,412,618</u>
Benefit payments	3,408,915	3,270,924
Administrative expenses	<u>274,456</u>	<u>271,181</u>
Total deductions	<u>3,683,371</u>	<u>3,542,105</u>
Change in net position	<u>\$ 4,012,328</u>	<u>\$ (129,487)</u>

**Plan Membership**

The table below reflects the Plan's membership as of the beginning and end of the fiscal year.

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

	<u>2017</u>	<u>2016</u>
Active and transferred participants	308	289
Participants with deferred benefits	52	55
Participants receiving benefits	318	311
Non-vested terminated participants with account balances	<u>11</u>	<u>19</u>
Total	<u>689</u>	<u>674</u>

**Funding Status**

The Plan's Unfunded Actuarial Liability (UAL) for pension benefits decreased by \$2.5 million, going from \$13.7 million in 2016 to \$11.2 million as of January 1, 2017. The Plan's UAL was derived using the entry age normal method. Investment gains through January 1, 2017, led to the decreased funding status.

**Investment Activities**

During the fiscal year 2017 investments increased over the prior fiscal year as the economy stabilized and general stock values increased.

**Effect of Economic Factors**

The financial position of the Plan increased compared to the previous year due to fair value increases and increases in dividends. The percentage of the employer's Annual Required Contribution that is funded each year may be subject to budgetary constraints.

**Pension Plan for Employees of Klamath County**  
**Management's Discussion and Analysis**  
**June 30, 2017**

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**Contacting the System's Financial Management**

This financial report is designed to provide the 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 Chief Financial Officer, Klamath County, 305 Main Street, Klamath Falls, Oregon 97601.

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## **BASIC FINANCIAL STATEMENTS**

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**Pension Plan for Employees of Klamath County**  
**Statement of Fiduciary Net Position**  
**June 30, 2017**

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<b>Assets</b>	
Cash and cash equivalents	\$ 3,075,412
Receivables:	
Employer contributions	99,131
Employee contributions	34,988
Investment income	140,667
Total receivables	<u>274,786</u>
Investments:	
Debt securities	13,747,654
Public equity securities	26,253,652
Mutual Funds	4,382,461
Total investments	<u>44,383,767</u>
Total assets	<u>47,733,965</u>
<b>Liabilities</b>	
Accounts payable	25,865
Total liabilities	<u>25,865</u>
<b>Net Position Restricted for Pensions</b>	<u>\$ 47,708,100</u>

The accompanying notes are an integral part of this statement.

**Pension Plan for Employees of Klamath County  
Statement of Changes in Fiduciary Net Position  
For the Year Ended June 30, 2017**

**Additions**

Contributions:

Member contributions	\$ 812,741
Employer contributions	2,410,449
Total contributions	3,223,190

Investment income:

Interest	381,682
Dividends	554,797
Net increase in fair value of investments	3,553,334
Less investment expense	(17,304)
Net investment income	4,472,509
Total additions	7,695,699

**Deductions**

Benefit payments, including refunds of member contributions	3,408,915
Administrative expense	274,456
Total deductions	3,683,371
Net increase in net position	4,012,328

**Net position restricted for pensions**

Beginning of year	43,695,772
End of year	\$ 47,708,100

The accompanying notes are an integral part of this statement.

**Pension Plan for Employees of Klamath County**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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**Note 1 – Plan Description, Participant Accounts, Contribution Information, and Retirement Benefits**

**Introduction**

The Pension Plan for Employees of Klamath County (Plan) is intended to provide employees of Klamath County (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 Chief Financial Officer are responsible for supervision of the investment of the funds. The Plan is not registered with the Securities and Exchange Commission as an investment company.

**Plan Membership**

Membership of the Plan consisted of the following at January 1, 2017, the date of the latest actuarial valuation:

	<b>2017</b>
Active and transferred participants	308
Participants with deferred benefits	52
Participants receiving benefits	318
Non-vested terminated participants with account balances	11
Total	<b>689</b>
Number of participating employers	1

**Plan Description**

The following description of the 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 and Community Corrections department personnel with previous designations, are participants in the Plan. The Plan was established February 1, 1967 and was amended and restated December 19, 2012, including provisions through the first amendment. This plan is a single employer defined benefit pension plan to which the County makes contributions. The Plan is a standalone plan and covered under the Internal Revenue Code 401(a) and the subsequent trust document/restatement.

All Klamath County employees are considered to be a 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.

**Pension Plan for Employees of Klamath County**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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**Note 1 – Plan Description, Participant Accounts, Contribution Information, and Retirement Benefits**  
*(continued)*

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 Trustee for bookkeeping purposes. Participant accounts will be credited with participant contributions, County contributions and interest.

**Contributions**

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 which is vested immediately. Employee contributions and vested employer 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 or after attaining age 55.

Employer contributions are made in addition to the 1% at a discretionary rate set by the Board of County Commissioners. This rate was set at 16% for the year-ended June 30, 2017.

**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.

**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.

**Pension Plan for Employees of Klamath County**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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**Note 1 – Plan Description, Participant Accounts, Contribution Information, and Retirement Benefits**  
(continued)

**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 authority for establishing and amending contribution requirements and 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 2 – Summary of Significant Accounting Policies**

**Reporting Entity**

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

**Measurement Focus, Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. 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. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Short-term investments are reported at cost, which approximates fair value. 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 Plan's Board of Trustees, with the assistance of a valuation service.

**Use of Estimates**

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

**Pension Plan for Employees of Klamath County**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**Note 3 – Investments**

**Investment Policy**

The Plan's policy in regard to the allocation of invested assets is established and may be amended by the Board of Commissioners by a majority vote of its members. It is the policy of the Board of Commissioners to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad election of district asset classes. The Plan's investment policy discourages the uses of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following is the Board's adopted asset allocation policy as of June 30, 2017:

Investment Class	Range	Target	Actual	Difference	Long-Term Expected Real Rate of Return
<b>Money Market</b>	0-10%	5%	6%	1%	1.00%
<b>Equity</b>	80%	60%	58%	-2%	-
<i>Domestic</i>	74%	40%	41%	1%	8.50%
<i>International Equities</i>	5-30%	15%	14%	-1%	9.00%
<i>Hedged Equity</i>	0-10%	5%	3%	-2%	9.00%
<b>Fixed Income</b>	60%	25%	29%	4%	-
<i>Investment Grade</i>	60%	15%	29%	14%	4.00%
<i>High Yield</i>	0-10%	5%	0%	-5%	6.50%
<i>Hedged Fixed</i>	0-10%	5%	0%	-5%	7.00%
<b>Real Estate</b>	0-10%	5%	6%	1%	8.00%
<b>Commodities</b>	0-10%	5%	1%	-4%	8.00%

The Plan has been out of compliance with its investment policy statement as it relates to holding debt securities with ratings below A/A2. The investment committee recognizes the violation and has authorized the non-compliance.

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	\$ 3,075,412	6%
US Treasury securities	1,021,152	2%
US Agency securities	174,876	0%
Domestic corporate debt securities	11,247,832	24%
Foreign corporate debt securities	1,303,795	3%
Domestic common stock	19,819,602	42%
Foreign common stock	6,434,049	14%
Mutual fund equity	3,916,844	8%
Mutual fund commodities	217,455	1%
Mutual fund balanced	248,162	1%
	44,383,767	94%
	\$ 47,459,179	100%

**Pension Plan for Employees of Klamath County**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

**Rate of return**

For the year ended June 30, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was 10.35 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**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.

The table below shows the quality rating for credit risk debt securities as of June 30, 2017.

Credit Risk Debt Securities at June 30, 2017	Fair Value
AA	\$ 2,811,681
A	9,187,723
BBB	552,223
Total Subject to Credit Risk	12,551,627
U.S. Government Guaranteed Securities	1,196,027
Total Debt Securities	<u>\$13,747,654</u>
S&P Ratings	

**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.

**Pension Plan for Employees of Klamath County**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

The table below shows the debt securities by type, amount and effective weighted duration as of June 30, 2017.

Schedule of Interest Rate Risk - Effective Duration at June 30, 2017

Investment	Fair Value	Effective Weighted Duration Rate
U.S. Treasury Obligations	\$ 1,021,152	21.93
U.S. Federal Agency Debt	174,876	0.32
International Debt Securities	1,003,753	2.03
Coporate Debt Securities	11,547,873	2.64
Total Debt Securities	<u>\$13,747,654</u>	

**Note 4 – Net Pension Liability of the County**

The components of the net pension liability of the County at June 30, 2017, were as follows:

Total pension liability	\$ 58,846,978
Plan fiduciary net position	<u>(47,708,100)</u>
County's net pension liability	<u>\$ 11,138,878</u>

Plan fiduciary net position as a percentage of the total pension liability	81.07%
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This information is based on a roll-forward of the actuarial valuation as of January 1, 2017.

**Actuarial Assumptions**

The total pension liability was determined by an actuarial valuation as of January 1, 2017 and rolled forward to June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Cost method	Entry age normal
Amortization period	10 year rolling
Asset valuation	Fair value
Inflation	3.50 percent
Salary increases	Range from 3.18 percent to 8.18 percent
Investment rate of return	7.25 percent

As of January 1, 2014, the Average Market Value was set equal to the market value. Mortality rates were based on the RP2000 Mortality Table for Males and Females with no collar adjustment and combined employee and healthy annuitant experience, projected to 2018.

The actuarial assumptions used in the January 1, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2013 to December 31, 2014.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target allocation as of June 30, 2017 (see the discussion of the pension plan's investment policy) are summarized in the following table:



**Pension Plan for Employees of Klamath County**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**Note 4 – Net Pension Liability of the County (continued)**

Asset Class	Long-Term Expected Real Rate of Return
Money market	1.0%
Investment grade fixed income	2.0%
Large capitalization equities	6.0%
Mid capitalization equities	6.5%
Small capitalization equities	7.0%
International equities	7.0%

**Discount Rate**

The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that County contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of the County, calculated using the discount rate of 7.25 percent, as well as what the County's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentagepoint higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
County's net pension liability	\$ 16,521,058	\$ 11,138,878	\$ 6,526,096

**Note 5 – Fair Value Measurements**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Observable inputs are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are developed based on the best information available about the assumptions market participants would use in pricing the asset. The classification of securities within the fair value hierarchy is based upon the activity level in the market for the security type and the inputs used to determine their fair value, as follows:

- Level 1: Unadjusted quoted prices for identical instruments in active markets.
- Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.
- Level 3: Valuations derived from valuation techniques in which significant inputs are unobservable.

**Pension Plan for Employees of Klamath County**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**Note 5 – Fair Value Measurements** *(continued)*

Fair values of assets of the District measured on a recurring basis at June 30, 2017, are as follows:

	<b>Fair Value Measurements Using</b>			
	<b>June 30, 2017</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Investments by fair value level</b>				
Debt securities				
U.S. Treasury securities	\$ 1,021,152	\$ 1,021,152	\$ -	-
U.S. Agency securities	174,876	-	174,876	-
Corporate bonds	12,551,627	-	12,551,627	-
Total debt securities	<u>13,747,655</u>	<u>1,021,152</u>	<u>12,726,503</u>	<u>-</u>
Equity securities				
Basic materials	552,160	552,160	-	-
Business services	439,875	439,875	-	-
Communications	1,053,776	1,053,776	-	-
Consumer goods	5,202,837	5,202,837	-	-
Energy	477,773	477,773	-	-
Environmental	101,780	101,780	-	-
Financial	3,613,143	3,613,143	-	-
Health	3,291,424	3,291,424	-	-
Industrial	3,106,379	3,106,379	-	-
Insurance	539,882	539,882	-	-
Real Estate	469,561	469,561	-	-
Restaurants	165,445	165,445	-	-
Technology	5,204,182	5,204,182	-	-
Transportation	383,952	383,952	-	-
Travel and entertainment	563,123	563,123	-	-
Utilities	1,088,359	1,088,359	-	-
Total equity securities	<u>26,253,651</u>	<u>26,253,651</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	<u>40,001,306</u>	<u>27,274,803</u>	<u>\$ 12,726,503</u>	<u>\$ -</u>
<b>Investments measured at the net asset value (NAV)</b>				
Mutual Funds				
Commodities	217,455	217,455		
Common stocks	3,916,844	3,916,844		
Balanced funds	248,162	248,162		
Total investments measured at the NAV	<u>4,382,461</u>	<u>4,382,461</u>		
Total investments measured at fair value	<u>\$ 44,383,767</u>	<u>\$ 31,657,264</u>		

**Pension Plan for Employees of Klamath County**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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**Note 5 – Fair Value Measurements** *(continued)*

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Commercial and residential mortgage-backed securities classified in Level 3 are valued using discounted cash flow techniques. Collateralized debt obligations classified in Level 3 are valued using consensus pricing. The valuation method for investments measured at net asset value (NAV) per share (or its equivalent) is presented on the bottom of the preceding table.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**Pension Plan for Employees of Klamath County**  
**Schedule of Changes in County's Net Pension Liability and Related Ratios**  
**Last 10 Fiscal Years**

	June 30,									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
<b>Total pension liability</b>										
Service cost	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,213,767	\$ 1,069,962	\$ 945,495	\$ 1,136,495
Interest	-	-	-	-	-	-	4,115,974	3,800,190	3,759,725	3,785,926
Changes of benefit terms	-	-	-	-	-	-	-	538,813	-	-
Differences between expected and actual experience	-	-	-	-	-	-	(419,894)	(100,481)	(938,886)	(1,856,897)
Changes of assumptions	-	-	-	-	-	-	-	2,228,516	-	-
Benefit payments, including refunds of member contributions	-	-	-	-	-	-	(3,408,900)	(3,270,392)	(3,238,193)	(3,194,816)
<b>Net change in total pension liability</b>	-	-	-	-	-	-	1,500,947	4,266,608	528,141	(129,292)
<b>Total pension liability - beginning</b>	58,846,978	58,846,978	58,846,978	58,846,978	58,846,978	58,846,978	57,346,031	53,079,425	52,551,284	52,680,576
<b>Total pension liability - ending (a)</b>	<u>\$ 58,846,978</u>	<u>\$ 58,846,978</u>	<u>\$ 58,846,978</u>	<u>\$ 58,846,978</u>	<u>\$ 58,846,978</u>	<u>\$ 58,846,978</u>	<u>\$ 58,846,978</u>	<u>\$ 57,346,033</u>	<u>\$ 53,079,425</u>	<u>\$ 52,551,284</u>
<b>Plan fiduciary net position</b>										
Contributions - employer	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,410,449	\$ 2,364,729	\$ 2,169,384	\$ 2,007,537
Contributions - member	-	-	-	-	-	-	812,741	833,707	767,519	763,633
Net investment income	-	-	-	-	-	-	4,472,509	330,434	1,327,168	6,463,578
Benefit payments, including refunds of member contributions	-	-	-	-	-	-	(3,408,915)	(3,270,392)	(3,238,193)	(3,194,816)
Administrative expense	-	-	-	-	-	-	(274,456)	(285,204)	(283,739)	(275,193)
Other	-	-	-	-	-	-	-	-	-	-
<b>Net change in plan fiduciary net position</b>	-	-	-	-	-	-	4,012,328	(26,726)	742,139	5,764,739
<b>Plan fiduciary net position- beginning</b>	47,708,100	47,708,100	47,708,100	47,708,100	47,708,100	47,708,100	43,695,772	43,722,499	42,980,360	37,215,621
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 47,708,100</u>	<u>\$ 47,708,100</u>	<u>\$ 47,708,100</u>	<u>\$ 47,708,100</u>	<u>\$ 47,708,100</u>	<u>\$ 47,708,100</u>	<u>\$ 47,708,100</u>	<u>\$ 43,695,773</u>	<u>\$ 43,722,499</u>	<u>\$ 42,980,360</u>
<b>County's net pension liability - ending (a) - (b)</b>	<u>\$ 11,138,878</u>	<u>\$ 11,138,878</u>	<u>\$ 11,138,878</u>	<u>\$ 11,138,878</u>	<u>\$ 11,138,878</u>	<u>\$ 11,138,878</u>	<u>\$ 11,138,878</u>	<u>\$ 13,650,260</u>	<u>\$ 9,356,926</u>	<u>\$ 9,570,924</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	81.07%	76.20%	82.20%	81.61%
<b>Covered-employee payroll</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,535,488	\$ 13,360,762	\$ 13,191,331	\$ 12,693,405
<b>County's net pension liability as a percentage of covered-employee payroll</b>	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	82.29%	102.17%	70.93%	75.40%

**Pension Plan for Employees of Klamath County  
Schedule of County Contributions  
Last 10 Fiscal Years**

	June 30,									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,763,674	\$ 2,100,312	\$ 2,353,724	\$ 2,036,022
Contributions in relation to the actuarially determined contribution	-	-	-	-	-	-	2,408,717	2,273,067	2,169,384	2,007,537
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (645,043)</u>	<u>\$ (172,755)</u>	<u>\$ 184,340</u>	<u>\$ 28,485</u>
Covered-employee payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,535,488	\$ 13,360,762	\$ 13,191,331	\$ 12,693,405
Contribution as a percentage of covered - employee payroll	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	17.80%	17.01%	16.45%	15.82%



**Pension Plan for Employees of Klamath County  
Schedule of Investment Returns  
Last 10 Fiscal Years**

	June 30,									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	10.35%	0.76%	3.12%	17.63%

**Pension Plan for Employees of Klamath County**  
**Notes to Required Supplemental Information**  
**For the Year Ended June 30, 2017**

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**Note 1 – Employee Retirement Pension Benefits**

Valuation date – Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Cost method	Entry age normal
Amortization period	10 year rolling
Asset valuation	Fair value
Inflation	3.50 percent
Salary increases	Range from 3.18 percent to 8.18 percent
Investment rate of return	7.25 percent

**GOVERNMENT AUDITING STANDARDS SECTION**

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## **Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Board of Commissioners  
Pension Plan for Employees of Klamath County

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 fiduciary net position, and statement of changes in fiduciary net position of Pension Plan for Employees of Klamath County (the Plan), a component unit of Klamath County, Oregon, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements, and have issued our report thereon dated February 15, 2018.

### **Internal Control over Financial Reporting**

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



### **Compliance and Other Matters**

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

*Mass Adams LLP*

Medford, Oregon  
February 15, 2018

