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, 2015

Prepared by:

Finance Department

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Pension Plan for Employees of Klamath County
Annual Financial Report
For the Year Ended June 30, 2015
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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, 2015

Board of Trustees

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
Todd Blickenstaff	US Bank

Mailing Address

Pension Plan for Employees of Klamath County
305 Main Street
Klamath Falls, Oregon 97601
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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
Klamath County Employees' Pension Plan

Report on the Financial Statements

We have audited the accompanying statement of plan net position available for benefits and statement of changes in plan net position available for benefits of Klamath County Employees' Pension Plan (the Plan), a component unit of Klamath County, Oregon, as of and for the year ended June 30, 2015, 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 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 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 opinions.

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, 2015, 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 15 through 17, 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 29, 2016 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

Eugene, Oregon
February 29, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Pension Plan for Employees of Klamath County
Management's Discussion and Analysis
June 30, 2015

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, 2015. 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 2015, with $43.8 million held in trust for pension benefits.
- Fiduciary net position increased by $0.7 million, or 2 percent, during the fiscal year.
- The Plan's funding objective is to meet long-term benefit obligations. As of January 1, 2015, the date of the latest actuarial valuation, the funded ratio of the defined benefit pension plan was 83.0 percent. In general, this means that for every dollar of pension benefits due, the Plan has approximately $0.83 of net position available for payment.
- Revenues (additions to fiduciary net position) for fiscal year 2015 were $4.3 million, which includes member and employer contributions of $2.9 million and net income from investment activities totaling $1.4 million.
- Expenses (deductions from fiduciary net position) during the fiscal year 2015 were $3.5 million, which includes benefit payments of $3.2 million and administrative expenses of $0.3 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.

Financial Analysis

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

Improving financial markets produced positive returns on the Plan's investments. The net position of the Plan increased approximately $0.8 million, or 2 percent, during the year ended June 30, 2015.

	2015	2014
Total assets	$ 43,846,513	$ 43,095,836
Total liabilities	21,253	18,154
Total net positon	$ 43,825,260	$ 43,077,682
Plan member contributions	$ 768,377	$ 768,324
Employer contributions	2,177,064	2,028,429
Net investment income	1,327,167	6,461,859
Total additions	4,272,608	9,258,612
Benefit payments	3,238,192	3,206,363
Administrative expenses	286,838	262,068
Total deductions	3,525,030	3,468,431
Change in net position	$ 747,578	$ 5,790,181

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:

	2015	2014
Active and transferred participants	276	284
Participants with deferred benefits	63	62
Participants receiving benefits	295	280
Non-vested terminated participants with account balances	14	13
Total	648	639

Funding Status

The Plan's Unfunded Actuarial Liability (UAL) for pension benefits decreased by $1.7 million, going from $10.3 million in 2014 to $8.6 million as of January 1, 2015. The System's UAL was derived using the entry age normal method. Investment gains through January 1, 2015, led to the decreased funding status.

Investment Activities

During the fiscal year 2015 investments increased modestly over the prior fiscal year as the economy continued to recover and general stock market rose.

Effect of Economic Factors

The financial position of the Plan remained similar to the previous year due to investment returns. The percentage of the employer's Annual Required Contribution that is funded each year may be subject to budgetary constraints.

Contacting the System's Financial Management

This financial report is designed to provide 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, 2015

Assets	
Cash and cash equivalents	$ 1,358,054
Receivables:	
Employer contributions	91,662
Employee contributions	32,352
Investment income	115,916
Total receivables	239,930
Investments:	
Debt securities	9,834,850
Public equity securities	32,413,679
Total investments	42,248,529
Total assets	43,846,513
Liabilites	
Accounts payable	21,253
Total liabilities	21,253
Net Position Restricted for Pensions	$ 43,825,260

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, 2015

Additions		
Contributions:		
Member contributions	$	768,377
Employer contributions		2,177,064
Total contributions		2,945,441
Investment income:		
Interest		311,004
Dividends		866,401
Net increase in fair value of investments		166,249
Less investment expense		(16,487)
Net investment income		1,327,167
Total additions		4,272,608
Deductions		
Benefit payments, including refunds of member contributions		3,238,192
Administrative expense		286,838
Total deductions		3,525,030
Net increase in net position		747,578
Net position restricted for pensions		
Beginning of year		43,077,682
End of year	$	43,825,260

The accompanying notes are an integral part of this statement.

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, 2015, the date of the latest actuarial valuation:

	2015
Active and transferred participants	276
Participants with deferred benefits	63
Participants receiving benefits	295
Non-vested terminated participants with account balances	14
Total	648
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.

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, 2015.

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.

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.

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, 2015:

Investment class	Minimum	Target	Maximum
Money market	0%	5%	10%
Investment grade fixed income	10%	25%	60%
Inflation protected securities	0%	0%	2%
High yield bonds	0%	0%	2%
Large capitalization equities	20%	40%	50%
Mid capitalization equities	5%	10%	20%
Small capitalization equities	5%	10%	15%
Equity sectors	0%	0%	15%
International equities	5%	10%	15%
Emerging market equities	0%	0%	5%
Real estate investment trust equities	0%	0%	5%
Commodities	0%	0%	2%
Precious metals	0%	0%	2%
Hedged mutual fund equities	0%	0%	2%
Total		100%	

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	$ 1,358,054	3%
Bonds US government	2,873,691	7%
Bonds corporate domestic	5,488,964	13%
Bonds corporate foreign	1,472,195	3%
Common stock domestic	25,813,857	59%
Common stock foreign	5,613,828	13%
Mutual funds equity	398,567	1%
Mutual funds fixed income	587,427	1%
	42,248,529	97%
	$ 43,606,583	100%

Note 3 – Investments *(continued)*

Rate of return

For the year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was 3.12 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, 2015.

Credit Risk Debt Securities at June 30, 2015	Fair Value
AA	$ 1,399,755
A	5,467,811
BBB	93,593
Total Subject to Credit Risk	6,961,159
U.S. Government Guaranteed Securities	2,873,691
Total Debt Securities	$ 9,834,850
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.

Note 3 – Investments *(continued)*

The table below shows the debt securities by type, amount and effective weighted duration as of June 30, 2015.

Schedule of Interest Rate Risk - Effective Duration at June 30, 2015

Investment	Fair Value	Effective Weighted Duration Rate
U.S. Treasury Obigations	$ 980,090	23.47
U.S. Federal Agency Mortgage Securities	189,816	3.82
U.S. Federal Agency Debt	1,703,785	2.60
International Debt Securities	1,472,195	2.58
Coporate Debt Securities	5,488,964	3.61
Total Debt Securities	$ 9,834,850	

Note 4 – Net Pension Liability of the County

The components of the net pension liability of the County at June 30, 2015, were as follows:

Total pension liability	$ 53,079,425
Plan fiduciary net position	(43,722,489)
County's net pension liability	$ 9,356,936
Plan fiduciary net position as a percentage of the total pension liability	82.37%

This information is based on a roll-forward of the actuarial valuation as of January 1, 2015.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2015 and rolled forward to June 30, 2015, 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, 2015, 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, 2015 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, 2015 (see the discussion of the pension plan's investment policy) are summarized in the following table:

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	$ 14,129,970	$ 9,356,926	$ 5,235,261

Note 5 – Funded Status and Funding Progress

The funded status of the Plan as of January 1, 2015, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b - a) / c)
1/1/2015	43,707,374	52,374,314	8,666,940	83%	12,940,000	67%

Pension costs of the Plan as of the January 1, 2015, the most recent actuarial valuation date, is as follows:

Fiscal Year Ending	Annual Pension Cost	Amount Contributed	Percentage of Annual Pension Cost Contributed	Net Pension Obligation	Annual Required Contribution (ARC)	Percentage of ARC Contributed
6/30/2015	$ 2,554,613	$ 2,169,384	85%	$ 1,647,048	$ 2,353,724	92%
6/30/2014	$ 1,968,750	$ 2,007,537	102%	$ 1,261,819	$ 2,036,022	99%
6/30/2013	1,948,112	1,618,431	83%	1,300,606	2,012,946	80%

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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

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total pension liability										
Service cost	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 945,495	$ 1,136,495
Interest	-	-	-	-	-	-	-	-	3,759,725	3,785,926
Changes of benefit terms	-	-	-	-	-	-	-	-	-	-
Differences between expected and actual experience	-	-	-	-	-	-	-	-	(938,886)	(1,856,897)
Changes of assumptions	-	-	-	-	-	-	-	-	-	-
Benefit payments, including refunds of member contributions	-	-	-	-	-	-	-	-	(3,238,193)	(3,194,816)
Net change in total pension liability	-	-	-	-	-	-	-	-	528,141	(129,292)
Total pension liability - beginning	-	-	-	-	-	-	-	-	52,551,284	52,680,576
Total pension liability - ending (a)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 53,079,425	$ 52,551,284
Plan fiduciary net position										
Contributions - employer	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,169,384	$ 2,007,537
Contributions - member	-	-	-	-	-	-	-	-	767,519	763,633
Net investment income	-	-	-	-	-	-	-	-	1,327,158	6,463,578
Benefit payments, including refunds of member contributions	-	-	-	-	-	-	-	-	(3,238,193)	(3,194,816)
Administrative expense	-	-	-	-	-	-	-	-	(283,739)	(275,193)
Other	-	-	-	-	-	-	-	-	-	-
Net change in plan fiduciary net position	-	-	-	-	-	-	-	-	742,129	5,764,739
Plan fiduciary net position- beginning	-	-	-	-	-	-	-	-	42,980,360	37,215,621
Plan fiduciary net position - ending (b)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 43,722,489	$ 42,980,360
County's net pension liability - ending (a) - (b)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 9,356,936	$ 9,570,924
Plan fiduciary net position as a percentage of the total pension liability	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	82.37%	81.79%
Covered-employee payroll	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 13,191,331	$ 12,693,405
County's net pension liability as a percentage of covered - employee payroll	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	70.93%	75.40%

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

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,353,724	$ 2,036,022
Contributions in relation to the actuarially determined contribution	-	-	-	-	-	-	-	-	2,169,384	2,007,537
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 184,340	$ 28,485
Covered-employee payroll	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 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%	0.00%	0.00%	16.45%	15.82%

Notes to Schedule

Valuation date: January 1, 2015

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:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years
Asset valuation method	5-year smoothing market
Inflation	3.5%
Salary increases	4.5% average, including inflation
Investment rate of return	7.25%, net of pension plan investment expense, including inflation
Retirement age	In the 2014 actuarial valuation, expected retirement ages of plan members were adjusted to more closely reflect actual experience.
Mortality	In the 2014 actuarial valuation, assumed life expectancies were adjusted as a result of adopting the RP2000 Healthy Annuitant Mortality Table.

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

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

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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
Klamath County Employees' Pension Plan

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 plan net position, and statement of changes in plan net position of Klamath County Employees' Pension Plan (the Plan), a component unit of Klamath County, Oregon, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Klamath County Employees' Pension Plan's basic financial statements, and have issued our report thereon dated February 29, 2016.

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.

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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.

Moss Adams, LLP

Eugene, Oregon
February 29, 2016