

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2014

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

ANNUAL FINANCIAL REPORT

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FINANCIAL SECTION

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

DISTRICT OFFICIALS

YEAR ENDED JUNE 30, 2014

Steve Rankin, Chair
Madras, Oregon

Board Members

Lola Hagman, Vice Chair
Culver, Oregon

Denise Piza
Madras, Oregon

Deanna Fender
Madras, Oregon

Dani Cowdrey
Ashwood, Oregon

Marti Dale
Camp Sherman, Oregon

Marie Glenn
Madras, Oregon

Superintendent

Rick Molitor

District Office

295 S.E. Buff Street
Madras, Oregon 97741



Board of Directors
Jefferson County Education Service District
Jefferson County, Oregon

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of Jefferson County Education Service District, Jefferson County, Oregon (the District), as of and for the year ended June 30, 2014, which collectively comprise the District'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Jefferson County Education Service District, Jefferson County, Oregon, as of June 30, 2014, and the respective changes in financial position and 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 the management's discussion and analysis and budgetary comparison information, as listed in the table of contents, 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 the 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Jefferson County Education Service District, Jefferson County, Oregon's basic financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The General Fund-Schedule of Expenditures by Object, Schedule of Property Tax Transactions, and Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

The supplemental information required by the Oregon Department of Education, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Report on Other Legal and Regulatory Requirements

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated November 24, 2014 on our considerations of compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of this report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

SGA CPAs & Consultants, LLP

SGA CPAs & Consultants, LLP
Bend, Oregon

November 24, 2014

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2014

Our discussion and analysis of Jefferson County Education Service District's (the District) financial performance provides an overview of the District's financial activities for the fiscal year ending June 30, 2014. Please read it in conjunction with the District's financial statements, which follow this Management's Discussion and Analysis.

FINANCIAL HIGHLIGHTS

- On June 30, 2014, the District's assets exceeded its liabilities by \$541,315.
- The District's total net position decreased by \$90,077.
- The District's governmental funds reported an ending fund balance of \$425,196. Assigned as appropriated ending fund balance was \$446,697 and there was a deficit of \$21,501 that was unassigned and available for spending at the District's discretion.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's annual report consists of a series of financial statements that show information for the District as a whole, its funds and its fiduciary responsibilities. The Statement of Net Position and the Statement of Activities provides information about the activities of the District as a whole and present a longer-term view of the District's finances. Our fund financial statements are included later in the financial report. For our governmental activities, these statements tell how we financed our services in the short-term as well as what remains for future spending. Fund statements also report the District's operations in more detail than the government-wide financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private sector business. These statements include:

The Statement of Net Position. The statement of net position presents information on all of the assets and liabilities of the District at year end. Net position is what remains after liabilities have been paid or otherwise satisfied. Over time increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2014

The Statement of Activities. The statement of activities presents information showing how the net position of the District changed over the year by tracking revenues, expenses and other transactions that increase or reduce net position. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

FUND FINANCIAL STATEMENTS

Governmental funds account for the same functions as reported as governmental activities in the government-wide financial statements. The governmental fund reporting focuses on how money flows in and out of the funds and the balances left at year-end that are available for spending. They are reported using the "modified accrual" method of accounting, which measures cash and all other financial assets that can be readily converted to cash. This information is essential for preparation of and compliance with annual budgets. We describe the relationship between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in the reconciliation following the government statements. The notes to the financial statements provide additional information that is essential to a complete understanding of the data provided in the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Total assets, liabilities and net position at June 30, 2014 were as follows:

	June 30,	
	2014	2013
Assets		
Current and other assets	\$ 585,291	\$ 619,866
Capital assets, net	108,352	114,812
Total Assets	693,643	734,678
Liabilities		
Current liabilities	142,350	99,620
Other liabilities	9,978	3,666
Total Liabilities	152,328	103,286
Net Position		
Investment in capital assets	108,352	114,812
Unrestricted	432,963	516,580
Total Net Position	\$ 541,315	\$ 631,392

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2014

The District's revenues and expenses for the fiscal year 2013-14, were as follows:

	<u>Year Ended June 30,</u>	
	<u>2014</u>	<u>2013</u>
Program Revenues		
Charges for services	\$ 213,927	\$ 364,036
Operating grants	28,253	
General Revenues		
Property taxes	279,943	276,609
State school fund	1,116,050	1,075,395
Federal grants		6,367
Earnings on investments	4,063	3,624
Miscellaneous	2,259	5,062
Total Revenues	<u>1,644,495</u>	<u>1,731,093</u>
Expenses		
Instruction	129,559	103,079
Support services	1,604,410	1,553,453
Other uses	603	491
Total Expenses	<u>1,734,572</u>	<u>1,657,023</u>
Change in Net Position	(90,077)	74,070
Beginning Net Position	631,392	557,322
Ending Net Position	<u>\$ 541,315</u>	<u>\$ 631,392</u>

The District has \$585,291 in current assets. Approximately 16% of the costs of the District's activities are paid by property taxes; 6% of the revenue comes from the State of Oregon-State School Fund with the balance coming from investment income, grants and charges for services.

The District has realized a 4% increase in revenue for the State of Oregon-State School Fund from fiscal years ending June 30, 2013 to June 30, 2014.

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2014

CAPITAL ASSETS

The District's investment in capital assets includes land, buildings and improvements, vehicles and equipment. There were no major capital asset events for the year. The summary of net investment in capital assets is as follows:

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Additional information on the District's capital assets can be found in the footnotes to the basic financial statements.

FUND FINANCIAL ANALYSIS

The focus of the governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Unreserved fund balance measures the District's net resources available for appropriation in the next fiscal year. As of June 30, 2014, total fund balance of the governmental funds was \$425,196.

ENDING FUND BALANCE

The summary of ending fund balances for the major governmental funds are as follows:

	General Fund		Change
	2014	2013	
Assigned to:			
Appropriated ending fund balance	\$ 445,196	\$ 430,000	\$ 15,196
Unassigned		75,033	(75,033)
Total fund balance	<u>\$ 445,196</u>	<u>\$ 505,033</u>	<u>\$ (59,837)</u>

**JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2014

BUDGET VARIATIONS

The budget is adopted by the Board at the function level. General Fund expenditures were within final budgeted amounts.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The most significant economic factor for the District is the Oregon State School Fund. For the year ended June 30, 2014, the State School Fund-General Support provided 68% of the revenue for the governmental funds.

Salaries and benefits costs are expected to increase in 2014-2015 based on contractual obligations. Uncertainty about regional, state and national economic conditions, along with increased costs, were taken into account by the District Board and Budget Committee in preparing the budget for the 2014-2015 fiscal year.

REQUESTS FOR INFORMATION

Our financial report is designed to provide our taxpayers, parents, teachers, students, investors and creditors with an overview of the District's finances. Requests for further information regarding this report should be addressed to CFO, Jefferson County Education Service District, 295 SE Buff Street Madras, OR 97741.

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

STATEMENT OF NET POSITION

JUNE 30, 2014 AND SUMMARIZED INFORMATION FOR JUNE 30, 2013

	Governmental Activities	
	2014	2013
ASSETS		
Cash and investments	\$ 460,666	\$ 485,940
Receivables - property taxes	23,177	26,725
Receivables - intergovernmental	101,448	107,201
Capital assets, net of depreciation		
Land	16,262	16,262
Buildings, improvements and equipment	92,090	98,550
TOTAL ASSETS	693,643	734,678
LIABILITIES		
Bank overdraft		12,887
Accounts payable	33,515	27,282
Accrued payroll and related liabilities	108,835	53,317
Noncurrent liabilities due within one year		
Early retirement benefits payable		6,134
Noncurrent liabilities due within more than one year		
Accrued compensated absences payable	9,978	3,666
TOTAL LIABILITIES	152,328	103,286
NET POSITION		
Net investment in capital assets	108,352	114,812
Unrestricted	432,963	516,580
TOTAL NET POSITION	\$ 541,315	\$ 631,392

See notes to financial statements

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2014 AND SUMMARIZED INFORMATION FOR JUNE 30, 2013

FUNCTIONS/PROGRAMS	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	
				<u>2014</u>	<u>2013</u>
Governmental activities:					
Instruction	\$ 129,559	\$	\$	\$ (129,559)	\$ 52,837
Student support services	1,081,808	151,599		(930,209)	(910,276)
Instructional staff support	42,515		28,253	(14,262)	(24,459)
General administration	44,177			(44,177)	(44,679)
Business support services	56,666			(56,666)	(92,280)
Central activities	379,244	62,328		(316,916)	(273,639)
Supplemental retirement benefit	603			(603)	(491)
Total governmental activities	<u>\$ 1,734,572</u>	<u>\$ 213,927</u>	<u>\$ 28,253</u>	<u>(1,492,392)</u>	<u>(1,292,987)</u>
General revenues:					
Property taxes				279,943	276,609
State school fund - general support				1,116,050	1,075,395
Federal grants					6,367
Earnings on investments				4,063	3,624
Other				2,259	5,062
Total general revenues				<u>1,402,315</u>	<u>1,367,057</u>
CHANGE IN NET POSITION				(90,077)	74,070
Net position - beginning				<u>631,392</u>	<u>557,322</u>
Net position - ending				<u>\$ 541,315</u>	<u>\$ 631,392</u>

See notes to financial statements

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2014 AND SUMMARIZED INFORMATION FOR JUNE 30, 2013

		Totals	
ASSETS	General	2014	2013
Cash and investments	\$ 460,666	\$ 460,666	\$ 485,940
Receivables (no allowance for uncollectible accounts considered necessary):			
Property taxes	23,177	23,177	26,725
Intergovernmental	101,448	101,448	107,201
Total assets	\$ 585,291	\$ 585,291	\$ 619,866
LIABILITIES AND FUND BALANCES			
Liabilities			
Bank overdraft	\$	\$	\$ 12,887
Accounts payable	33,515	33,515	27,282
Accrued payroll liabilities	108,835	108,835	53,482
Total liabilities	142,350	142,350	93,651
Deferred inflows			
Deferred property tax collections	17,745	17,745	21,182
Fund balance			
Assigned for:			
Appropriated ending fund balance	425,196	425,196	430,000
Unassigned			75,033
Total fund balance	425,196	425,196	505,033
Total liabilities, deferred inflows and fund balance	\$ 585,291	\$ 585,291	\$ 619,866

See notes to financial statements

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

RECONCILIATION OF GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET POSITION

JUNE 30, 2014

TOTAL FUND BALANCES		\$ 425,196
Capital assets are not financial resources and therefore are not reported in the governmental funds:		
Acquisition cost	\$ 175,043	
Accumulated depreciation	<u>(66,691)</u>	108,352
A portion of the District's property taxes are collected after year-end, but are not available soon enough to pay for the current years' operations, and therefore are not reported as revenue in the governmental funds		
		17,745
Long-term liabilities not payable in the current year are not reported as governmental fund liabilities.		
Early retirement stipend		
Accrued vacation payable		<u>(9,978)</u>
TOTAL NET POSITION		<u><u>\$ 541,315</u></u>

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS**

YEAR ENDED JUNE 30, 2014 AND SUMMARIZED INFORMATION FOR JUNE 30, 2013

	<u>General</u>	<u>Totals</u>	
		<u>2014</u>	<u>2013</u>
Revenues			
Property taxes	\$ 283,380	\$ 283,380	\$ 278,489
Interest	4,063	4,063	3,624
Charges for services	216,186	216,186	369,098
Intergovernmental revenues			
State	1,116,050	1,116,050	1,075,395
Federal	28,253	28,253	6,367
	<u>1,647,932</u>	<u>1,647,932</u>	<u>1,732,973</u>
Total revenues			
Expenditures			
Current			
Instruction	129,559	129,559	103,079
Support services	1,598,210	1,598,210	1,552,850
	<u>1,727,769</u>	<u>1,727,769</u>	<u>1,655,929</u>
Total expenditures			
Net change in fund balance	(79,837)	(79,837)	77,044
Fund balance - beginning of year	<u>505,033</u>	<u>505,033</u>	<u>427,989</u>
Fund balance - end of year	<u>\$ 425,196</u>	<u>\$ 425,196</u>	<u>\$ 505,033</u>

See notes to financial statements

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2014

NET CHANGE IN FUND BALANCE	\$ (79,837)
Amounts reported for governmental activities in the <i>Statement of Activities</i> are different because:	
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current year.	
Less current year depreciation	(6,460)
Long-term liabilities not payable in the current year are not reported as governmental fund liabilities. These liabilities consist of:	
Compensated absences payable	(6,477)
Early retirement stipend	6,134
Property taxes that do not meet the measurable and available criteria are not recognized as revenue in the current year in the governmental funds. In the Statement of Activities property taxes are recognized as revenue when levied.	<u>(3,437)</u>
CHANGE IN NET POSITION	<u><u>\$ (90,077)</u></u>

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2014

	Original Budget	Original and Final Budget	Variance with Final Budget Over (Under)	Budget Basis	Adjustments	GAAP Basis
Revenues						
Local						
Property taxes	\$ 261,500	\$ 261,500	\$ 21,880	\$ 283,380	\$	\$ 283,380
Interest	3,100	3,100	963	4,063		4,063
Charges for service	202,793	202,793	13,393	216,186		216,186
Intergovernmental						
State	1,156,760	1,194,760	(78,710)	1,116,050		1,116,050
Federal			28,253	28,253		28,253
Total revenues	1,624,153	1,662,153	(14,221)	1,647,932		1,647,932
Expenditures						
Current						
Instruction	113,531	143,531	(13,972)	129,559		129,559
Support services	1,647,306	1,710,306	(112,096)	1,598,210		1,598,210
Operating contingency	293,316	238,316	(238,316)			
Total expenditures	2,054,153	2,092,153	(364,384)	1,727,769		1,727,769
Excess (deficiency) of revenues over (under) expenditures	(430,000)	(430,000)	350,163	(79,837)		(79,837)
Fund balance - beginning of year	430,000	430,000	75,033	505,033		505,033
Fund balance - end of year	\$	\$	\$ 425,196	\$ 425,196	\$	\$ 425,196

The adjustments column represents differences between Budget and GAAP bases of accounting. Oregon local budget law requires budgeting at the functional level, whereas GAAP requires additional classifications into capital outlay.

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Jefferson County Education Service District (District) was organized under provisions of Oregon Statutes pursuant to ORS Chapter 334 and provides support services to school age children in Jefferson County. The school districts served by the District include Ashwood School District #8, Black Butte School District #41, Culver School District #4 and Jefferson County School District #509J.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the U.S. (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

The District qualifies as a primary government because it has a separately elected governing body, is a legally separate entity, and is fiscally independent. There are various governmental agencies and special service districts which provide service within the District's boundaries. The District is not financially accountable for any of these entities, and therefore, none of them are considered component units or included in these basic financial statements.

Control of the District is vested in its Board of Directors, who are elected to office by voters within the district. The chief administrative officer is the Superintendent.

Basis of Presentation

Government-wide Financial Statements

The government-wide financial statements report information on all financial activities of the government. There was no interfund activity during the year. Governmental activities are financed primarily through taxes, intergovernmental revenues and charges for services and are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District has neither business-type activities nor fiduciary-type activities.

The statement of activities presents a comparison between direct expenses and program revenues for each of its functions/programs. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Net position is reported as restricted when the constraints placed on use are either externally restricted, imposed by creditors (such as through grantors, contributors or laws) or through constitutional provisions or enabling legislation.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-wide 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 a liability is incurred, regardless of the timing of related cash flows. Non-exchange transactions, in which the District receives value without giving equal value in exchange, include property taxes, grants, entitlements and donations. On the accrual basis of accounting, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental fund types are presented using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year end.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. The fund financial statements provide information about the District's general fund. The District does not maintain any non-major governmental funds.

The District reports one major governmental fund. The General Fund is the District's operating fund. It accounts for all financial resources of the District. Principal revenue sources are local property taxes and state school support.

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Assets, Liabilities and Net Assets

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, the State Treasurer's Investment Pool and cash in the Jefferson County Investment Pool.

State statutes authorize the District to invest in general obligations of the U.S. Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, commercial paper and the State Treasurer's Investment Pool (Oregon Short-Term Fund), among others.

Receivables and Payables

Property taxes are levied and become a lien on July 1. Collection dates are November 15, February 15 and May 15 following the lien date. Discounts are allowed if the amount due is received by November 15 or February 15. Taxes unpaid and outstanding on May 16 are considered delinquent.

Tax revenue is considered received when in the hands of the county as the intermediary collecting agency. Revenue is recorded when the tax collections are available to finance operations of the current period. Uncollected property taxes are shown on the balance sheet as receivables. In the fund financial statement, collections within sixty days subsequent to year-end are recognized as revenue. The remaining balance of taxes receivable is recorded as deferred inflow because it is not deemed available to finance operations of the current period.

In the government wide statements, all property tax receivable are recognized as revenue. Uncollected taxes are deemed to be substantially collectible or recoverable through liens; therefore, no allowance for uncollectible taxes has been established. All property taxes receivable are due from property owners within the District.

Accounts and other receivables are comprised primarily of unreimbursed expenditures due from constituent districts.

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Capital Assets

Capital assets are recorded at original or estimated original cost. The District defines capital assets as assets with an initial cost of more than \$5,000 and useful life extending beyond a single reporting period. Maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	40 years
Equipment	5 to 10 years

Retirement Plans

Substantially all of the District's employees are participants in the State of Oregon Public Employees Retirement System (PERS). Contributions to PERS are made on a current basis as required by the plan and are charged as expenditures.

Compensated Absences

The majority of District personnel work under an annual contract based on the number of work days in each year. Employees under such contracts have no vested vacation pay benefits. Classified employees are allowed to vest vacation days. At year end, two classified employees had vested vacation pay benefits. Sick pay does not vest.

Fund Equity

The District reports fund balance in accordance with *GASB No 54, Fund Balance Reporting and Governmental Fund Type Definitions*. As a result, in the fund financial statements governmental funds are categorized by the nature of the resources within the fund. The District reports fund balance using the following categories:

Nonspendable fund balance indicates the portion of fund equity that cannot be spent as it is not in a spendable form, such as inventories and prepaid expenditures.

Restricted fund balance indicates the portion of fund equity which is externally restricted by creditors, grantors or law.

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Committed fund balance indicates the portion of fund equity which the board of directors, the highest level of authority, has placed formal constraints on through resolution or board policy. These commitments can only be overturned by a like action.

Assigned fund balance indicates the portion of fund equity which the District intends to use for specific purposes imposed by management. The authority for management to assign resource for specific purposes is granted by the board of directors.

Unassigned fund balance indicates the portion of general fund equity which is available for budgeting in future periods.

When an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. Further, when the components of unrestricted net fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Budgetary Information

Annual budgets, as required by state statutes, are adopted on the modified accrual basis of accounting for all governmental funds. The budget is prepared by fund, function and activity. The budget document includes actual information on the past two years, current year budget information, as well as requested appropriation and estimated revenues for the ensuing fiscal year.

The proposed budget is presented by the budget officer to the budget committee. Public meetings are held by the budget committee. The budget committee may make changes to the original document. The budget committee approves the budget document to be submitted to the governing body of the District. Once the budget document is received by the governing body, they hold a public hearing on a date as published. After the public hearing, the governing body gives consideration to matters discussed and makes amendments to the budget document prior to adoption. However, state statutes do not allow the governing body to increase estimated expenditures for each fund by more than ten percent. The amount of the total ad valorem taxes to be certified by the county for levy for all funds shall not exceed the amount presented by the budget committee unless the budget document is republished and another public hearing is held.

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

The governing body is then required by state statutes to adopt the budget, make appropriations, and certify the levy of ad valorem taxes for each fund. Except for the allowance of appropriation transfers, expenditures can not exceed appropriations. The level of control for appropriations is exercised at the program level. The program level consists of instruction, support services and operating contingency. Unexpected additional resources may be added to the budget through the use of a supplemental budget and appropriations ordinance. Original and supplemental budgets may be modified by the use of appropriation transfers between the levels of control. Such transfers require approval by the governing body. All appropriations lapse at the end of the District's fiscal year.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2014 were as follows:

Deposits with Financial Institutions	\$ 203,757
Jefferson County Investment Pool	150,207
Wasco County Treasurer	33
Oregon Short-Term Fund	<u>106,669</u>
 Total shown on statement of net position	 <u><u>\$ 460,666</u></u>

Deposits with financial institutions include bank demand deposits. The total of such deposits per the bank statements is \$215,593 as of June 30, 2014. Oregon Revised Statute Chapter 295 requires that bank depositories pledge collateral against any public fund deposits in excess of deposit insurance amounts. This provides additional protection for public funds in the event of a bank loss. The Office of the State Treasurer maintains a list of financial institutions in which deposits in excess of deposit insurance limits can be held. With respect to collateral requirements of ORS 295, the District was in compliance throughout the year ended June 30, 2014.

Custodial credit risk is the risk that, in the event of failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. None of the investments above are held in safekeeping by a financial institution counterparty.

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

NOTE 2 – CASH AND INVESTMENTS - continued

The District's investment policy, which adheres to State of Oregon law, is to limit its investments to the following: Issuers within Oregon must be rated "A" or better by Standard and Poor's or Moody's Investors Service, issuers not in Oregon must be rated AA/Aa or better. There is no credit rating available for the Local Government Investment Pool (LGIP) and the Jefferson County Investment Pool.

Investments – External Investment Pools

State of Oregon statutes restrict the types of investments in which the District may invest. Authorized investments include obligations of the United States Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, time certificates of deposit, certain commercial paper, and the LGIP.

The LGIP is one of five asset classes approved for the investment of State of Oregon (State) funds. A number of local governments in Oregon as well as all State agencies participate in the LGIP, thus it is an external investment pool as defined in Statement No. 31 of the Government Accounting Standards Board, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

The LGIP is not registered with the U.S. Securities and Exchange Commission as an investment company. The State's investment policies are governed by the Oregon Revised Statutes and the Oregon Investment Council (Council). The State Treasurer is the investment officer for the Council and is responsible for all funds in the State Treasury. These funds must be invested, and the investments managed, as a prudent investor would, exercising reasonable care, skill and caution.

Investments in the LGIP are further governed by portfolio guidelines issued by the Oregon Short-Term Fund Board, which establish diversification percentages and specify the types and maturities of investments. The portfolio guidelines permit securities lending transactions as well as investments in repurchase agreements and reverse repurchase agreements. The LGIP was in compliance with all portfolio guidelines at June 30, 2014. The reported value of the LGIP is equal to the fair value of the LGIP shares.

In addition, the District voluntarily participates in an external investment pool through the Jefferson County Treasurer. The reported value of the pool is the same as the fair value of the pool shares. The fund is not registered with the U.S. Securities and Exchange Commission as an investment company. The County's investment policies follow investment guidance of Oregon Revised Statutes (ORS 294.035 through 294.046) and more specifically provides that the Jefferson County Investment Pool shall be limited to:

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

NOTE 2 – CASH AND INVESTMENTS - continued

- a. Legally issued obligations of the United States, the agencies and Instruments of the United States or enterprises sponsored by the United States' government.
- b. Time deposit open accounts, certificates of deposit and savings accounts in banks, mutual savings banks and savings and loan associations which maintain a head office or branch in Oregon.
- c. Governmental Repurchase Agreements, fully collateralized, not to exceed 30 days.
- d. Bankers' Acceptance that are guaranteed by an Oregon financial institution.
- e. LGIP.

Investments held by the County Treasurer at June 30, 2014 were in compliance with investment guidelines. There were no restrictions on cash or investments at June 30, 2014.

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital assets not subject to depreciation				
Land	\$ 16,262	\$	\$	\$ 16,262
Capital assets subject to depreciation				
Building and improvements	127,451			127,451
Equipment	31,331			31,331
	<u>158,782</u>			<u>158,782</u>
Less accumulated depreciation for				
Building and improvements	36,544	3,187		39,731
Equipment	23,688	3,273		26,961
	<u>60,232</u>	<u>6,460</u>		<u>66,692</u>
Total capital assets subject to depreciation, net	<u>98,550</u>	<u>(6,460)</u>		<u>92,090</u>
Total capital assets, net	<u>\$ 114,812</u>	<u>\$ (6,460)</u>	<u>\$</u>	<u>\$ 108,352</u>

Depreciation expense of \$6,460 for the year was charged to student support services.

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

NOTE 4 - TAX COLLECTIONS

The levies, as extended on the tax rolls, are summarized as follows:

	Wasco County	Jefferson County	Total
Levy per notice of levy (.2398/\$1,000)	\$ 4,885	\$ 291,240	\$ 296,125
Other adjustments		73	73
Compression loss	(159)	(11,774)	(11,933)
	<u>\$ 4,726</u>	<u>\$ 279,539</u>	<u>\$ 284,265</u>
Levy as extended on tax rolls	<u>\$ 4,726</u>	<u>\$ 279,539</u>	<u>\$ 284,265</u>

Unpaid taxes become subject to foreclosure four years after they become a lien on the property. Tax collections and foreclosure are the responsibility of the County Tax Collector.

NOTE 5 – PENSION PLAN

Plan Description

Jefferson County Education Service District is participating in the State of Oregon Public Employees Retirement System (PERS), a cost-sharing, multiple-employer defined benefit pension plan administered by PERS. PERS is a defined benefit pension plan that provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and their beneficiaries. Benefits are established by state statute. In 2003, a successor plan for PERS was created. The Oregon Public Service Retirement Plan (OPSRP) was effective for all new employees hired on or after August 29, 2003 and applies to any inactive PERS members who return to employment following a six month or greater break in service. The new plan consists of a defined benefit program (the “Pension Program”) and a defined contribution portion (the Individual Account Program or IAP). The Pension Program portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated by a formula for members who attain normal retirement age. The formula takes into account final average salary, years of service and a factor based on the type of service.

Beginning January 1, 2004, all PERS member contributions go into the IAP portion of OPSRP. PERS members retain their existing PERS accounts, but any future member contributions are deposited into the member’s IAP, not the member’s PERS account. Those employees who had established a PERS membership prior to creation of OPSRP will be members of both the PERS and OPSRP system as long as they remain in covered employment. The plan accounts for its activity on an accrual basis and includes 881 participating employers.

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

NOTE 5 – PENSION PLAN - continued

Both PERS plans provide retirement and disability benefits, post-employment benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries.

Both PERS and OPSRP are administered by the Oregon Public Employees Retirement Board (OPERB). Oregon PERS issues a publicly available financial report that includes financial statements and required supplementary information for Oregon PERS. That report may be obtained by writing to Oregon PERS at PO Box 23700, Tigard, OR 97281-3700, by calling (503) 598-7377, or by accessing the PERS website at <http://oregon.gov/PERS/>.

Funding Policy

PERS members are required to contribute 6% of their salary and the employer makes contributions at an actuarially determined rate as adopted by the PERS Board. The rate for Tier I and Tier II for the year ended June 30, 2014 was 22.29% of covered annual payroll. The rate for OPSRP for the year ended June 30, 2014 was 20.29%. The contribution requirements of plan members are established by state statute. The employer contribution is set and may be amended by the Retirement Board. The District's contributions to Oregon PERS for the years ended June 30, 2014, 2013 and 2012 were \$189,456, \$164,450 and \$147,154, respectively. Because all PERS employers are required by law to submit the contributions adopted by the Retirement Board, and employer contributions are calculated in conformance with the standards of GASB Statement 27, there is no Net Pension Obligation. The contributions actually made are equivalent to the Annual Pension Cost.

In addition, employee contributions for the years ended June 30, 2014, 2013 and 2012 of \$52,648, \$55,181 and \$46,505, respectively, were paid by the District under terms of employment contracts.

NOTE 6 – LONG-TERM LIABILITIES

The following summarizes long-term liability activity of the primary government for the year ended June 30, 2014:

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2014	Due Within One Year
Governmental Activities:					
Compensated Absences	\$ 3,666	\$ 6,312	\$	\$ 9,978	\$

For governmental activities, compensated absences are liquidated by the general fund.

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

NOTE 7 – PROGRAMS FUNDED FROM OUTSIDE SOURCES

Reimbursement claims under federal and state program grants may be subject to further audit and adjustment by grantor agencies. Disallowed claims could become a liability of the General Fund. Any such amounts are not expected to be significant.

NOTE 8 – OPERATING LEASE

The District has entered into an operating lease for office equipment which is cancellable and subject to annual appropriations. For the reporting period, payments were \$2,296 for this lease. The lease supports governmental activities.

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District carries commercial insurance for risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Insurance coverage has not changed significantly from prior years.

NOTE 10 – ECONOMIC DEPENDENCY

The District's revenue is comprised substantially of funds received from the State of Oregon State School Fund, which comprised of 68% of the District's total revenue in the year ended June 30, 2014. The amount of revenue the District receives from the State School Fund is based on student attendance reported from the school districts serviced by the District and the level of funding allocated to education in the State of Oregon budget.

NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 24, 2014, the date on which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

GENERAL FUND

The General Fund accounts for the financial resources of the District which are not accounted for in any other fund. The principal revenues are local property taxes and state school support. The primary purpose of expenditures is for general education.

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT NO. 15

Jefferson County, Oregon

GENERAL FUND

SCHEDULE OF EXPENDITURES BY OBJECT

YEAR ENDED JUNE 30, 2014

	<u>Salaries</u>	<u>Employee Benefits</u>	<u>Purchased Services</u>	<u>Supplies and Materials</u>	<u>Other</u>	<u>Total</u>	<u>Original and Final Budget</u>	<u>Variance with Final Budget Over (Under)</u>
Expenditures								
Instruction-Special Programs								
Students with disabilities	\$ 82,711	\$ 45,553	\$ 619	\$ 676	\$	\$ 129,559	\$	\$
Total Instruction	82,711	45,553	619	676		129,559	143,531	(13,972)
Support Services-Students								
Attendance and social work services	\$ 10,081	\$ 3,697	\$	\$ 54	\$ 5,846	\$ 19,678	\$	\$
Psychological services	205,626	131,518	3,497	5,090		345,731		
Speech pathology and audiology services	381,401	250,141	10,817	4,171		646,530		
Service direction, student support services	20,648	7,818	34,757	197	228	63,648		
Support Services-Instructional Staff								
Instructional staff development	5,958	14,304	22,253			42,515		
Support Services-General Administration								
Board of Education services			12,308	297	5,558	18,163		
Executive administration services	19,050	6,965				26,015		
Support Services-Business								
Fiscal services	12,250	5,700	16,461	172	1,747	36,330		
Operation and maintenance of plant services			11,722	3,281	5,333	20,336		
Support Services-Central Activities								
Grant writing			7,500			7,500		
Technology services	208,228	110,079	1,230	45,490		365,027		
Supplemental Retirement Program	6,134	603				6,737		
Total Support Services	869,376	530,825	120,545	58,752	18,712	1,598,210	1,710,306	(112,096)
Contingency								
							238,316	(238,316)
Total expenditures	\$ 952,087	\$ 576,378	\$ 121,164	\$ 59,428	\$ 18,712	\$ 1,727,769	\$ 2,092,153	\$ (364,384)

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

SCHEDULE OF PROPERTY TAX TRANSACTIONS

YEAR ENDED JUNE 30, 2014

Tax Year	Beginning Receivable and 2013-14 Levy	Adjustments	Interest (Discount)	Collections	Ending Receivable
Jefferson County					
2013-14	\$ 279,539	\$ (219)	\$ (6,780)	\$ 262,551	\$ 9,989
2012-13	11,957	(42)	521	6,437	5,999
2011-12	6,991	(21)	608	3,624	3,954
2010-11	4,816	(9)	792	3,331	2,268
2009-10	2,046	(9)	726	2,608	155
2008-09	199	(12)	37	110	114
2007-08	108	(11)	5	13	89
Prior	199	(21)		3	175
Total Jefferson County	305,855	(344)	(4,091)	278,677	22,743
Wasco County					
2013-14	4,726	(8)	(112)	4,406	200
2012-13	215		7	101	121
2011-12	100	(1)	6	35	70
2010-11	68		11	50	29
2009-10	17		3	13	7
2008-09	5		1	1	5
2007-08	1			1	
Prior	3			1	2
Total Wasco County	5,135	(9)	(84)	4,608	434
Total all counties	\$ 310,990	\$ (353)	\$ (4,175)	283,285	\$ 23,177
Less taxes accrued June 30, 2013				(5,543)	
Add taxes accrued June 30, 2014				5,432	
Adjustments-various				206	
Total tax revenue				\$ 283,380	
			Current	\$ 268,437	
			Prior	14,943	
				\$ 283,380	

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

SUPPLEMENTAL INFORMATION FOR OREGON DEPARTMENT OF EDUCATION

YEAR ENDED JUNE 30, 2014

Item A: Total expenditures for electricity and heating fuel (gas, oil and coal) for the following two functions, for all funds, were as follows:

<u>Function</u>	
2540	\$ 3,379
2550	\$ -0-

Item B: General Fund expenditures for replacement of equipment (Object 542) for all functions were \$0.

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2014

Federal Grantor Pass through Grantor	Program Title	Grant Period	CFDA Number	Expenditures
<u>U.S. Department of Education</u>				
Passed through State Department of Education				
	Special Education-Grants to States-SG 18281	2013-14	84.027	\$ 5,352
	ALDER grant (ARRA)	2013-14	84.384	<u>22,901</u>
				<u>\$ 28,253</u>

Notes to Schedule:

1. The District follows the modified accrual basis of accounting in preparing this schedule. This method is consistent with preparation of the District's financial statements.
2. No amounts listed above were provided to sub-recipients.

**INDEPENDENT AUDITORS' REPORT
REQUIRED BY OREGON STATE REGULATIONS**



INDEPENDENT AUDITORS' REPORT
REQUIRED BY OREGON STATE REGULATIONS

Board of Directors
Jefferson County Education Service District
Jefferson County, Oregon

We have audited the basic financial statements of Jefferson County Education Service District, Jefferson County, Oregon (the District) as of and for the year ended June 30, 2014, and have issued our report thereon dated November 24, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial statements 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.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to the following:

Deposit of public funds with financial institutions (ORS Chapter 295).

Budgets legally required (ORS Chapter 294).

Insurance and fidelity bonds in force or required by law.

Authorized investment of surplus funds (ORS Chapter 294).

INDEPENDENT AUDITORS' REPORT
REQUIRED BY OREGON STATE REGULATIONS - continued

In connection with our testing nothing came to our attention that caused us to believe the District was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations.

OAR 162-10-0230 Internal Control

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

We noted matters involving the internal control structure and its operation that we consider to be material weaknesses under standards established by the American Institute of Certified Public Accountants, which are noted in our letter to the Board of Directors dated November 24, 2014.

This report is intended solely for the information and use of the board of directors/council members/commissioners and management of the District and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.

SGA CPAs & Consultants, LLP

SGA CPAs & Consultants, LLP

November 24, 2014