

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

**ANNUAL FINANCIAL REPORT**

**YEAR ENDED JUNE 30, 2016**

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

**DISTRICT OFFICIALS**

**YEAR ENDED JUNE 30, 2016**

Board Members

Denise Piza  
Madras, Oregon

Dani Cowdrey  
Ashwood, Oregon

Lindsay Foster-Drago  
Madras, Oregon

Marie Glenn  
Madras, Oregon

Daniel Petke  
Black Butte, Oregon

Lola Hagman  
Culver, Oregon

Toni Brown  
Madras, Oregon

Superintendent

Rick Molitor

District Office

295 S.E. Buff Street  
Madras, Oregon 97741

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

**ANNUAL FINANCIAL REPORT**

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**FINANCIAL SECTION**



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, 2016, 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.

### **Auditors' 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, 2016, 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, the Budgetary Comparison Schedules – General and Special Revenue Fund, the Schedule of Proportionate Share of the Net Pension Liability and the Schedule of Contributions 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to Management's Discussion and Analysis, the Schedule of Funding Progress, the Schedule of Proportionate Share of the Net Pension Liability and the Schedule of Contributions 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.

The Budgetary Comparison Schedules – General and Special Revenue Fund are the responsibility of management and were derived from and relate 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, Budgetary Comparison Schedules – General and Special Revenue Fund, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### *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 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 General Fund - Schedule of Expenditures by Object, the Special Revenue Fund - Schedule of Expenditures by Object, and the Supplemental Information for Oregon Department of Education, 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 December 20, 2016 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.

#### **Prior Year Information**

We previously audited the District's 2015 financial statements and in our report dated October 26, 2016, we opined the statements were presented fairly in all material respects. We are not aware of any material modifications that should be made to the comparative information for it to be consistent with the audited financial statements from which it was derived.



Brenda Bartlett, CPA

SGA Certified Public Accountants and Consultants, LLP

December 20, 2016

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2016**

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, 2016. Please read it in conjunction with the District's financial statements, which follow this Management's Discussion and Analysis.

**FINANCIAL HIGHLIGHTS**

- On June 30, 2016, the District's liabilities exceeded its assets by \$345,750.
- The District's total net position decreased by \$750,711, largely attributable to the net pension liability.
- The District's governmental funds reported an ending fund balance of \$565,729. Of this, management assigned as appropriated ending fund balance \$69,978, leaving \$495,751 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 provide 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. These statements illustrate how we financed our services in the short-term as well as what remains for future spending.

**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, 2016**

*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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2016**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Total assets, liabilities and net position at June 30, 2016 were as follows.

	June 30,	
	2016	2015
Assets		
Current and other assets	\$ 697,255	\$ 1,121,550
Capital assets, net	106,738	102,092
Total Assets	<u>803,993</u>	<u>1,223,642</u>
Deferred Outflows	<u>245,235</u>	<u>191,257</u>
Liabilities		
Current liabilities	111,176	135,000
Other liabilities	1,020,029	5,864
Total Liabilities	<u>1,131,205</u>	<u>140,864</u>
Deferred Inflows	<u>263,773</u>	<u>869,074</u>
Net Position		
Investment in capital assets	106,738	102,092
Unrestricted	(452,488)	302,869
Total Net Position	<u>\$ (345,750)</u>	<u>\$ 404,961</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2016**

The following schedule compares the revenues and expenditures for the current and previous year.

	Year Ended June 30,	
	2016	2015
Program Revenues		
Charges for services	\$ 263,315	\$ 226,819
Operating grants	4,700	14,852
General Revenues		
Property taxes	305,617	289,415
State school fund	1,238,012	1,314,353
Earnings on investments	5,148	3,694
Miscellaneous	1,131	2,980
Total Revenues	1,817,923	1,852,113
Expenses		
Instruction	210,608	106,524
Support services	2,358,026	1,064,039
Total Expenses	2,568,634	1,170,563
Change in Net Position	(750,711)	681,550
Beginning Net Position	404,961	(276,589)
Ending Net Position	\$ (345,750)	\$ 404,961

The District has \$697,255 in current assets. Approximately 12% of the costs of the District's activities are paid by property taxes; 68% 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 6% decrease in revenue for the State of Oregon State School Fund from fiscal years ending June 30, 2015 to June 30, 2016.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2016**

**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:

	Net Value	
	2016	2015
Land	\$ 16,262	\$ 16,262
Buildings and improvements	135,676	127,451
Vehicles and equipment	31,331	31,331
Less accumulated depreciation	(76,531)	(72,952)
Total capital assets	\$ 106,738	\$ 102,092

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. Unassigned fund balance measures the District's net resources available for appropriation in the next fiscal year. As of June 30, 2016, total fund balance of the governmental funds was \$565,729.

**ENDING FUND BALANCE**

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

	General Fund		Change
	2016	2015	
Assigned to:			
Appropriated ending fund balance	\$ 69,978	\$ 78,823	\$ (8,845)
Unassigned	495,751	437,296	58,455
Total fund balance	\$ 565,729	\$ 516,119	\$ 49,610

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2016**

**BUDGET VARIATIONS**

The budget is adopted by the Board at the function level. General and Special Revenue Fund expenditures were within final budgeted amounts. The general fund was under budget by \$115,147 primarily due to a reduction in instructional services.

**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, 2016, the State School Fund - General Support provided 68% of the revenue for the governmental funds.

Salaries and benefits costs are expected to increase in 2016-2017 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 2016-2017 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,**

	Governmental Activities	
	2016	2015
<b>ASSETS</b>		
Cash and investments	\$ 613,894	\$ 591,485
Receivables - property taxes	17,688	19,725
Receivables - intergovernmental	65,673	62,891
Capital assets, net of depreciation		
Land	16,262	16,262
Buildings, improvements and equipment	90,476	85,830
Net pension asset		447,449
<b>TOTAL ASSETS</b>	<u>803,993</u>	<u>1,223,642</u>
<b>DEFERRED OUTFLOWS</b>		
Pension related differences between employer contributions and proportionate share of contributions	54,722	1,291
Pension contributions made after measurement date	190,513	189,966
<b>TOTAL DEFERRED OUTFLOWS</b>	<u>245,235</u>	<u>191,257</u>
<b>LIABILITIES</b>		
Accounts payable	1,726	11,189
Accrued payroll and related liabilities	109,450	123,811
Noncurrent liabilities due within more than one year		
Accrued compensated absences payable	5,251	5,864
Net pension liability	1,014,778	
<b>TOTAL LIABILITIES</b>	<u>1,131,205</u>	<u>140,864</u>
<b>DEFERRED INFLOWS</b>		
Pension related - net difference between projected and actual earnings on investments	212,720	863,395
Changes in proportionate share	35,462	
Difference between employer contributions and employer's share of system contributions	9,912	
Unearned revenue	5,679	5,679
<b>TOTAL DEFERRED INFLOWS</b>	<u>263,773</u>	<u>869,074</u>
<b>NET POSITION</b>		
Net investment in capital assets	106,738	102,092
Unrestricted	(452,488)	302,869
<b>TOTAL NET POSITION (DEFICIT)</b>	<u>\$ (345,750)</u>	<u>\$ 404,961</u>

See notes to financial statements

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

**STATEMENT OF ACTIVITIES**

**YEAR ENDED JUNE 30, 2016 AND SUMMARIZED INFORMATION FOR JUNE 30, 2015**

<b>FUNCTIONS/PROGRAMS</b>	<u>Expenses</u>	<u>Program Revenues</u>		Net (Expense) Revenue and Changes in Net Position Governmental Activities	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>2016</u>	<u>2015</u>
Governmental activities:					
Instruction	\$ 210,608	\$	\$	\$ (210,608)	\$ (105,085)
Student support services	1,537,053	263,315	4,700	(1,269,038)	(535,211)
Instructional staff support	41,916			(41,916)	(6,087)
General administration	114,131			(114,131)	(85,946)
Business support services	88,767			(88,767)	(34,705)
Central activities	<u>576,159</u>			<u>(576,159)</u>	<u>(161,858)</u>
<b>Total governmental activities</b>	<u><u>\$ 2,568,634</u></u>	<u><u>\$ 263,315</u></u>	<u><u>\$ 4,700</u></u>	<u><u>(2,300,619)</u></u>	<u><u>(928,892)</u></u>
General revenues:					
Property taxes				305,617	289,415
State school fund				1,238,012	1,314,353
Earnings on investments				5,148	3,694
Other				<u>1,131</u>	<u>2,980</u>
<b>Total general revenues</b>				<u>1,549,908</u>	<u>1,610,442</u>
<b>CHANGE IN NET POSITION</b>				(750,711)	681,550
Net position - beginning				<u>404,961</u>	<u>(276,589)</u>
Net position (deficit) - ending				<u><u>\$ (345,750)</u></u>	<u><u>\$ 404,961</u></u>

See notes to financial statements

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

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**

**JUNE 30, 2016 AND SUMMARIZED INFORMATION FOR JUNE 30, 2015**

<b>ASSETS</b>	General	Special Revenue	Totals	
			2016	2015
Cash and investments	\$ 608,215	\$ 5,679	\$ 613,894	\$ 591,485
Receivables				
Property taxes	17,688		17,688	19,725
Intergovernmental	63,873	1,800	65,673	62,891
Due from special revenue fund	1,800		1,800	5,589
Total assets	\$ 691,576	\$ 7,479	\$ 699,055	\$ 679,690
 <b>LIABILITIES AND FUND BALANCES</b>				
Liabilities				
Accounts payable	\$ 1,726	\$	\$ 1,726	\$ 11,189
Accrued payroll liabilities	109,450		109,450	123,811
Due to general fund		1,800	1,800	5,589
Total liabilities	111,176	1,800	112,976	140,589
Deferred inflows				
Unavailable property taxes	14,671		14,671	17,303
Unearned grant revenue		5,679	5,679	5,679
Total deferred inflows	14,671	5,679	20,350	22,982
Fund balance				
Assigned for:				
Appropriated ending fund balance	69,978		69,978	78,823
Unassigned	495,751		495,751	437,296
Total fund balance	565,729		565,729	516,119
Total liabilities, deferred inflows and fund balance	\$ 691,576	\$ 7,479	\$ 699,055	\$ 679,690

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, 2016**

<b>TOTAL FUND BALANCES</b>		\$ 565,729
Capital assets are not financial resources and therefore are not reported in the governmental funds:		
Acquisition cost	\$ 183,269	
Accumulated depreciation	<u>(76,531)</u>	106,738
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		
		14,671
Deferred inflows and outflows of resources do not provide or use current financial resources and therefore are not included in the governmental funds:		
Pension contributions made after measurement date	245,235	
Changes in actuarial assumptions and other items related to pensions	<u>(258,094)</u>	(12,859)
Net pension liability is not a financial cost and therefore is not reported in the governmental funds		
		(1,014,778)
Long-term liabilities not payable in the current year are not reported as governmental fund liabilities.		
Accrued vacation payable		<u>(5,251)</u>
<b>TOTAL NET POSITION (DEFICIT)</b>		<u><u>\$ (345,750)</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, 2016 AND SUMMARIZED INFORMATION FOR JUNE 30, 2015**

	General	Special Revenue	Totals	
			2016	2015
<b>Revenues</b>				
Property taxes	\$ 308,248	\$	\$ 308,248	\$ 289,857
Interest	5,149		5,149	3,694
Charges for services	264,446		264,446	228,741
Private contributions				1,058
Intergovernmental revenues				
State	1,238,012		1,238,012	1,314,353
Federal	248	4,452	4,700	14,852
Total revenues	<u>1,816,103</u>	<u>4,452</u>	<u>1,820,555</u>	<u>1,852,555</u>
<b>Expenditures</b>				
Current				
Instruction	138,912		138,912	171,669
Support services	<u>1,627,581</u>	<u>4,452</u>	<u>1,632,033</u>	<u>1,589,963</u>
Total expenditures	<u>1,766,493</u>	<u>4,452</u>	<u>1,770,945</u>	<u>1,761,632</u>
Net change in fund balance	49,610		49,610	90,923
Fund balance - beginning of year	<u>516,119</u>		<u>516,119</u>	<u>425,196</u>
Fund balance - end of year	<u>\$ 565,729</u>	<u>\$</u>	<u>\$ 565,729</u>	<u>\$ 516,119</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, 2016**

**NET CHANGE IN FUND BALANCE** \$ 49,610

Amounts reported for governmental activities in the Statement of Activities 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.

Expenditures for capital assets	\$ 10,660	
Less current year depreciation	(4,485)	
Loss on disposal of capital asset	<u>(1,529)</u>	4,646

Governmental funds report the prepayment of the Unfunded Actuarial Liability (UAL) as an expenditure. However, in the Statement of Activities the cost of the prepaid expenditure is allocated over the estimated funding period. This is the amount by which the prepaid expenditure exceeded the amortization in the current year.

Governmental funds report pension contributions as expenditures.

However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expenses.	(802,949)
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Compensated absences are recognized as expenditures in the governmental funds when they are paid. In the Statement of Activities they are recognized as an expenditure when incurred.

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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.

(2,631)

**CHANGE IN NET POSITION** \$ (750,711)

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2016**

**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, 2016**

**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 and special revenue fund. The District does not maintain any non-major governmental funds.

The District reports the following major governmental funds:

- 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.
- The Special Revenue Fund accounts for revenues derived from specific grants and other earmarked revenue sources which are legally restricted to finance particular functions or activities. Principal revenue sources are federal and local grants.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2016**

**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, 2016**

**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, 2016**

**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. As of June 30, 2016, the District had no restricted or committed fund balance.

**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, 2016**

**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, 2016 were as follows:

Deposits with Financial Institutions	\$ 90,528
Jefferson County Investment Pool	436,181
Wasco County Treasurer	45
Local Government Investment Pool	87,140
Total shown on statement of net position	<u>\$ 613,894</u>

At June 30, 2016 the District held cash of \$90,528 with a bank balance of \$113,410. 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. As of June 30, 2016 the District's cash balances were covered by FDIC insurance.

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require that all bank deposits in excess of the FDIC or FSLIC insurance amounts be collateralized through the Oregon State Treasurer's Public Funds Collateralization Program. This program provides a structure for specified depositories to participate in a shared liability collateral pool.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2016**

**NOTE 2 – CASH AND INVESTMENTS - continued**

Securities pledged by individual institutions may range from 10% to 110% of public fund deposits depending on the financial institution’s level of capitalization as determined by its federal regulatory authority. The aggregate Oregon public fund collateral pledged at June 30, 2016, was \$1,425,656,743 for reported uninsured public funds of \$2,060,339,665. The custodian, Federal Home Loan Bank of Seattle, is the agent for the depository bank. The securities pledged are designated as subject to the Pledge Agreement between the depository bank, custodian bank and Office of the State Treasurer (OST) and are held for the benefit of OST on behalf of the public depositors. The District’s funds were held by financial institutions that participated in the State Treasurer’s program and were in compliance with statutory requirements.

**Investments**

As of June 30, 2016 the District held the following investments:

Investment Type	Fair Value	% of investment portfolio
Local Government Investment Pool	\$ 87,140	16.65%
Jefferson and Wasco Counties Investment Pool	436,226	83.35%
	\$ 523,366	100.00%

As a means of limiting its exposure to fair value losses arising from rising interest rates, the District’s investment policy limits investments as follows:

Investment Type	Maximum % of portfolio	Maximum length to maturity
US Treasury securities	100%	18 months
US Agency securities	100%	18 months
Banker's acceptance	25%	18 months
Repurchase agreements	25%	18 months
Certificates of deposit	25%	18 months
Local Government Investment Pool	100%	One day
State and local government securities	50%	18 months

Maturities over 18 months will be allowed following review and approval of the District’s Investment Policy by the Oregon Short Term Funds Board.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2016**

**NOTE 2 – CASH AND INVESTMENTS - continued**

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.

The District's 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. Investments in the Local Government Investment Pool and the Jefferson and Wasco County Investment Pools are not required to be rated.

**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, 2016. The reported value of the LGIP is equal to the fair value of the LGIP shares.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2016**

**NOTE 2 – CASH AND INVESTMENTS - continued**

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:

- 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, 2016 were in compliance with investment guidelines. There were no restrictions on cash or investments at June 30, 2016.

**Fair Value Measurements**

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs. The District has no investments that are measured using Level 1 or level 3 inputs.

Fair value measurements of the District's investments are as follows as of June 30, 2016:

- Local Government Investment Pool valued at \$87,140. The LGIP states in their footnotes that their investments are measured based on the latest bid prices or evaluated quotes from independent pricing vendors (Level 2 inputs).
- Jefferson and Wasco Counties Investment Pools valued at \$436,226 based on the carrying value of the investment approximating fair value (Level 2 inputs).

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2016**

**NOTE 3 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital assets not subject to depreciation				
Land	\$ 16,262	\$	\$	\$ 16,262
Capital assets subject to depreciation				
Building and improvements	127,451	10,660	2,435	135,676
Equipment	31,331			31,331
	<u>158,782</u>	<u>10,660</u>	<u>2,435</u>	<u>167,007</u>
Less accumulated depreciation for				
Building and improvements	42,918	3,187	905	45,200
Equipment	30,034	1,297		31,331
	<u>72,952</u>	<u>4,484</u>	<u>905</u>	<u>76,531</u>
Total capital assets subject to depreciation, net	<u>85,830</u>	<u>6,176</u>	<u>1,530</u>	<u>90,476</u>
Total capital assets, net	<u>\$ 102,092</u>	<u>\$ 6,176</u>	<u>\$ 1,530</u>	<u>\$ 106,738</u>

Depreciation expense of \$4,484 for the year was charged to student support services.

**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)	\$ 5,475	\$ 316,885	\$ 322,360
Other adjustments		162	162
Compression loss	(189)	(10,588)	(10,777)
Levy as extended on tax rolls	<u>\$ 5,286</u>	<u>\$ 306,459</u>	<u>\$ 311,745</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.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2016**

**NOTE 5 – PENSION PLAN**

**Plan Description**

The District contributes to the Oregon Public Employees Retirement System (PERS) which is a cost sharing multiple employer defined benefit pension plan. Plan assets may be used to pay the benefits of the employees of any employer that provides pensions through the plan. Participation by schools districts is mandatory. As of June 30, 2015 there were 919 participating employers and state agencies. PERS issues a publicly available financial report which can be obtained on their website, [www.oregon.gov/PERS](http://www.oregon.gov/PERS).

PERS is administered in accordance with Oregon Revised Statutes (ORS) Chapter 238, Chapter 238A, and Internal Revenue Code Section 401(a). The Oregon Legislature has delegated authority to the Public Employees Retirement Board (Board) to administer and manage the System. All members of the Board are appointed by the governor and confirmed by the state Senate. The governor designates the chairperson. One member must be a public employer manager or a local elected official, one member must be a union-represented public employee or retiree, and three members must have experience in business management, pension management, or investing.

The 1995 Legislature enacted Chapter 654, Section 3, Oregon Laws 1995, which has been codified into ORS 238.435. This legislation created a second tier of benefits for those who established membership on or after January 1, 1996. The second tier does not have the Tier One assumed earnings rate guarantee and has a higher normal retirement age of 60, compared to 58 for Tier One. As of June 30, 2015, there were 35,542 active plan members, 119,865 inactive plan members or their beneficiaries currently receiving benefits, 15,847 inactive plan members entitled to but not yet receiving benefits, and 10 inactive plan members not eligible for refund or retirement, for a total of 168,264 Tier One members. As of June 30, 2015, there were 41,275 active plan members, 9,447 inactive plan members or their beneficiaries currently receiving benefits, 15,400 inactive plan members entitled to but not yet receiving benefits, and 753 inactive plan members not eligible for refund or retirement, for a total of 68,318 Tier Two members in the System.

The 2003 Legislature enacted HB 2020, codified as ORS 238A, which created the Oregon Public Service Retirement Plan (OPSRP). OPSRP consists of the Pension Program (defined benefit), which is part of the Plan and the Individual Account Program, which is reported as a separate plan in PERS financial statements. Membership includes public employees hired on or after August 29, 2003. As of June 30, 2015, there were 94,773 active plan members, 1,751 inactive plan members or their beneficiaries currently receiving benefits, 4,227 inactive plan members entitled to but not yet receiving benefits, and 8,549 inactive plan members not eligible for refund or retirement, for a total of 109,300 OPSRP Pension Program members.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2016**

**NOTE 5 – PENSION PLAN - continued**

Beginning January 1, 2004, PERS active Tier One and Tier Two members became members of the Individual Account Program (IAP) of OPSRP. PERS members retain their existing Plan accounts, but member contributions are now deposited into the member's IAP account, not into the member's Defined Benefit Plan account. Accounts are credited with earnings and losses net of administrative expenses. OPSRP is part of PERS and is administered by the Board. The PERS Board is directed to adopt any rules necessary to administer OPSRP, and such rules are to be considered part of the plan for IRS purposes.

For the year ended June 30, 2016, the District's total payroll for all employees was \$961,981. Total covered payroll was \$961,981. Covered payroll refers to all compensation paid by the District to active employees covered by PERS.

**Contributions**

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, 2016 was 22.33% of covered annual payroll. The rate for OPSRP for the year ended June 30, 2016 was 17.64%. 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 year ended June 30, 2016 was \$190,513. In addition, employee contributions for the year ended June 30, 2016 of \$57,773.

**Pension Assets, Pension Income, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions**

At June 30, 2016, the District reported a liability of \$1,014,778 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013. Update procedures were used to roll forward the total pension liability to the measurement date.

The basis for the employer's proportion is actuarially determined by comparing the employer's projected long-term contribution effort to the Plan with the total projected long-term contribution effort of all employers. No change has been made to the District's proportionate share since the prior measurement date. The rate for every employer has at least two major components; Normal Cost Rate and Unfunded Actuarial Liability (UAL) Rate.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2016**

**NOTE 5 – PENSION PLAN – continued**

The projected long-term contribution effort is estimated by projecting the present value of all future Normal Cost Rate Contributions (PVFNC). The PVFNC represents the portion of the projected long-term contribution effort related to future service.

An employer's PVFNC depends on both the Normal Cost Rates charged on the employer's payrolls, and on the underlying demographics of the respective payrolls. For PERS funding, employers have three different payrolls, each with a different Normal Cost Rate:

- Tier 1/Tier 2 payroll
- OPSRP General Service payroll
- OPSRP Police & Fire payroll

A UAL exists when Plan assets are less than the actuarial liability as measured by the Plan's actuarial funding valuations. UAL can arise in a biennium when an event such as experience differing from the assumptions used in the actuarial valuation occurs. An amortization schedule is established to eliminate the UAL that arises in a given biennium over a fixed period of time if future experience follows assumption. The UAL Rate is the upcoming year's component of the cumulative amortization schedules, stated as a percent of payroll. The UAL represents the portion of the projected long-term contribution effort related to past service. The projected long-term contribution effort is equal to the sum of the PVFNC and the UAL.

After the employer's projected long-term contribution effort is calculated, that amount is reduced by the value of the employer's supplemental lump-sum payments, known as side accounts, transition surpluses and pre-SLGRP (State and Local Government Rate Pool) surpluses. Side accounts decrease the employer's projected long-term contribution effort because side accounts are effectively pre-paid contributions.

The employer's projected long-term contribution effort does not include contributions toward the current value of transition liabilities and pre-SLGRP (State and Local Government Rate Pool) liabilities, which PERS has determined meet the definition of separately financed employer liabilities.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2016**

**NOTE 5 – PENSION PLAN – continued**

For the year ended June 30, 2016, the District recognized pension expense of \$802,945. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between projected and actual investment earnings	\$ 54,722	\$
Net difference between projected and actual earnings on investments		212,720
Changes in proportionate share		35,462
Difference between employer contributions and employer's share of system contributions		9,912
Total	\$ 54,722	\$ 258,094

The \$190,513 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	
2017	\$ (99,319)
2018	(99,319)
2019	(99,319)
2020	93,831
2021	755
	\$ (203,371)

**Actuarial Assumptions**

The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2016**

**NOTE 5 – PENSION PLAN – continued**

Inflation rate	2.75 percent
Salary increases	Blend of 2.0% COLA & graded COLA (1.25%/.15%) in accordance with Moro decision
Investment rate of return	7.75 percent

Mortality rates were based on the RP-2000 sex-distinct, generational per Scale AA, with collar adjustments and set-backs as described in the valuation. Active members' mortality rates are a percentage of healthy retiree rates that vary by group. Disabled retirees' mortality rates are a percentage (65% male, 90% female) of the RP-2000 static combined mortality sex-district table.

The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study for 2014, published September 2015.

**Long-Term Expected Rate of Return**

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2013 the PERS Board reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

Asset Class	Target Allocation	Long term expected real rate of return
Cash	0.0%	0.0%
Debt securities	20.0%	4.4%
Public equity	37.5%	22.3%
Private equity	20.0%	26.2%
Real estate	12.5%	11.2%
Alternative equity	10.0%	6.3%
Opportunity portfolio	0.0%	21.5%

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2016**

**NOTE 5 – PENSION PLAN – continued**

**Discount Rate**

The discount rate used to measure the total pension liability of the Plan was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the 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 Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	Discount Rate	Proportionate Share of Net Pension Liability (Asset)
1% decrease	<u>6.75%</u>	<u>\$ 2,449,125</u>
Current discount rate	7.75%	1,014,778
1% increase	8.75%	(194,003)

**Plan Fiduciary Net Position**

Detailed information about PERS’s fiduciary net position is available in the separately issued Oregon Public Employees’ Retirement Plan financial report.

**Deferred Items**

Deferred items are calculated at the Plan level and are allocated to employers based on their proportionate share. For the measurement period ended June 30, 2015, the following deferred items are reported:

- Difference between expected and actual experience, amortized over 5.4 years.
- Net difference between projected and actual earnings, amortized over a closed five-year period.
- Difference between employer contributions and proportionate share of contributions, amortized over 5.4 years.
- Employer contributions made after the measurement date.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2016**

**NOTE 6 – LONG-TERM LIABILITIES**

The following summarizes long-term liability activity of the primary government for the year ended June 30, 2016:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
Governmental Activities:					
Compensated Absences	\$ 5,864	\$	\$ 613	\$ 5,251	\$

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

**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 \$2,678 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.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2016**

**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, 2016. 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 December 20, 2016, the date on which the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

**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, 2016**

	Original Budget	Original and Final Budget	Variance with Final Budget Over (Under)	Actual
<b>Revenues</b>				
Local				
Property taxes	\$ 283,000	\$ 283,000	\$ 25,248	\$ 308,248
Interest	3,000	3,000	2,149	5,149
Charges for service	233,965	233,965	30,481	264,446
Intergovernmental				
State	1,282,852	1,282,852	(44,840)	1,238,012
Federal			248	248
Total revenues	<u>1,802,817</u>	<u>1,802,817</u>	<u>13,286</u>	<u>1,816,103</u>
<b>Expenditures</b>				
Current				
Instruction	196,375	196,375	(57,463)	138,912
Support services	1,675,265	1,675,265	(47,684)	1,627,581
Operating contingency	10,000	10,000	(10,000)	
Total expenditures	<u>1,881,640</u>	<u>1,881,640</u>	<u>(115,147)</u>	<u>1,766,493</u>
Excess (deficiency) of revenues over (under) expenditures	(78,823)	(78,823)	128,433	49,610
Fund balance - beginning of year	<u>379,000</u>	<u>379,000</u>	<u>137,119</u>	<u>516,119</u>
Fund balance - end of year	<u><u>\$ 300,177</u></u>	<u><u>\$ 300,177</u></u>	<u><u>\$ 265,552</u></u>	<u><u>\$ 565,729</u></u>

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

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**SPECIAL REVENUE FUND**

**YEAR ENDED JUNE 30, 2016**

	<u>Original Budget</u>	<u>Original and Final Budget</u>	<u>Variance with Final Budget Over (Under)</u>	<u>Actual</u>
<b>Revenues</b>				
Local				
Private contributions	\$ 6,737	\$ 11,737	\$ (11,737)	\$
Intergovernmental				
State	5,000	5,000	(5,000)	
Federal	5,452	5,452	(1,000)	4,452
Total revenues	<u>17,189</u>	<u>22,189</u>	<u>(17,737)</u>	<u>4,452</u>
<b>Expenditures</b>				
Current				
Instruction	1,000	1,000	(1,000)	
Support services	16,189	21,189	(16,737)	4,452
Total expenditures	<u>17,189</u>	<u>22,189</u>	<u>(17,737)</u>	<u>4,452</u>
Excess (deficiency) of revenues over (under) expenditures				
Fund balance - beginning of year				
Fund balance - end of year	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

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

**SCHEDULE OF THE PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY (ASSET)**

**YEAR ENDED JUNE 30, 2016**

<u>Year Ended June 30,</u>	(a) Employer's proportion of the net pension liability (asset) (NPL(A))	(b) Employer's proportionate share of the NPL(A)	(c) CAL's covered payroll	(b/c) NPL(A) as a percentage of covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2016	0.017675 %	\$ 1,014,776	\$ 961,981	105.5%	91.9%
2015	0.019740 %	(447,449)	870,784	-51.4%	103.6%
2014	0.019740 %	1,007,360	825,720	112.0%	92.0%

(A) The amounts presented for each fiscal year were actuarial determined at 12/31 and rolled forward to the measurement date.

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

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

**SCHEDULE OF CONTRIBUTIONS**

**YEAR ENDED JUNE 30, 2016**

<u>Year Ended June 30,</u>	<u>Statutorily required contribution</u>	<u>Contributions in relation to the statutorily required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>Employer's covered payroll</u>	<u>Contributions as a percent of covered payroll</u>
2016	\$ 190,513	\$ 190,513	\$	\$ 961,981	19.8%
2015	189,966	189,966		870,784	21.8%
2014	189,456	189,456		825,720	22.9%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

**SUPPLEMENTARY INFORMATION**

**JEFFERSON COUNTY EDUCATION SERVICE DISTRICT NO. 15**

Jefferson County, Oregon

**GENERAL FUND**

**SCHEDULE OF EXPENDITURES BY OBJECT**

**YEAR ENDED JUNE 30, 2016**

	<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	\$ 93,944	\$ 44,337	\$	\$ 631	\$	\$ 138,912	\$	\$
Total Instruction	<u>93,944</u>	<u>44,337</u>		<u>631</u>		<u>138,912</u>	<u>196,375</u>	<u>(57,463)</u>
Support Services-Students								
Attendance and social work services	26,180	24,091	52			50,323		
Psychological services	186,367	106,461	2,721	4,023		299,572		
Speech pathology and audiology services	309,610	203,462	47,024	3,989	171	564,256		
Other student treatment services			15,464			15,464		
Service direction, student support services	49,617	26,018	30,130	12,827		118,592		
Support Services-Instructional Staff								
Instructional staff development	900	23,964				24,864		
Support Services-General Administration								
Board of Education services			17,607	2,582	9,547	29,736		
Executive administration services	33,962	16,325	5,883	2,155		58,325		
Support Services-Business								
Fiscal services	21,448	10,294	15,204	5,589	1,222	53,757		
Operation and maintenance of plant services			16,291	394	1,868	18,553		
Support Services-Central Activities								
Technology services	<u>240,751</u>	<u>129,103</u>	<u>1,387</u>	<u>22,897</u>		<u>394,138</u>		
Total Support Services	<u>868,835</u>	<u>539,718</u>	<u>151,763</u>	<u>54,456</u>	<u>12,808</u>	<u>1,627,580</u>	<u>1,675,265</u>	<u>(47,685)</u>
Contingency								
							<u>10,000</u>	<u>(10,000)</u>
Total expenditures	<u>\$ 962,779</u>	<u>\$ 584,055</u>	<u>\$ 151,763</u>	<u>\$ 55,087</u>	<u>\$ 12,808</u>	<u>\$ 1,766,492</u>	<u>\$ 1,881,640</u>	<u>\$ (115,148)</u>

**JEFFERSON COUNTY EDUCATION SERVICE DISTRICT NO. 15**  
**Jefferson County, Oregon**

**SPECIAL REVENUE FUND**

**SCHEDULE OF EXPENDITURES BY OBJECT**

**YEAR ENDED JUNE 30, 2016**

	<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	\$	\$	\$	\$	\$	\$	\$	\$
Total Instruction							1,000	(1,000)
Support Services-Students								
Service direction, student support services	811					811		
Support Services-Instructional Staff								
Instructional staff development	989		2,652			3,641		
Total Support Services	1,800		2,652			4,452	16,189	(11,737)
Total expenditures	\$ 1,800	\$	\$ 2,652	\$	\$	\$ 4,452	\$ 17,189	\$ (12,737)

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

**SUPPLEMENTAL INFORMATION FOR OREGON DEPARTMENT OF EDUCATION**

**YEAR ENDED JUNE 30, 2016**

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	\$2,751
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, 2016**

Federal Grantor Pass through Grantor	Program Title	Grant Period	CFDA Number	Expenditures
<b><u>U.S. Department of Education</u></b> Passed through State Department of Education				
	Special Education-Grants to States-SG 18281	2015-16	84.027	\$ 4,700
				<u>\$ 4,700</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, 2016, and have issued our report thereon dated December 20, 2016. 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.

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.

*Brenda Bartlett*

Brenda Bartlett, CPA  
SGA Certified Public Accountants & Consultants, LLP

December 20, 2016