

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2018

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

DISTRICT OFFICIALS

YEAR ENDED JUNE 30, 2018

Board Members

Kathleen Marston
Madras, Oregon

Dani Cowdrey
Ashwood, Oregon

Lindsay Foster-Drago, Chair
Madras, Oregon

Marie Glenn
Madras, Oregon

Daniel Petke
Black Butte, Oregon

Lola Hagman, Vice Chair
Culver, Oregon

Joan Starkel
Madras, Oregon

Superintendent

Ken Parshall

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, 2018, 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, 2018, 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 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, the 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 Supplementary Information, 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 August 24, 2018 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 2017 financial statements and in our report dated December 21, 2017, 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

August 24, 2018

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2018

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, 2018. Please read it in conjunction with the District's financial statements, which follow this Management's Discussion and Analysis.

FINANCIAL HIGHLIGHTS

- On June 30, 2018, the District's liabilities exceeded its assets by \$342,570.
- The District's total net position increased by \$7,301, largely attributable to the net pension liability.
- The District's governmental funds reported an ending fund balance of \$873,328. Of this amount \$734,897 is 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, 2018

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, 2018

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Total assets, liabilities and net position at June 30, 2018 were as follows.

	June 30,	
	2018	2017
Assets		
Current and other assets	\$ 1,020,150	\$ 852,210
Capital assets, net	99,951	103,344
Total Assets	1,120,101	955,554
Deferred Outflows	767,173	1,168,215
Liabilities		
Current liabilities	126,753	118,179
Other liabilities	1,952,437	2,135,781
Total Liabilities	2,079,190	2,253,960
Deferred Inflows	150,654	219,680
Net Position		
Investment in capital assets	99,951	103,344
Restricted	5,617	2,543
Unrestricted	(448,138)	(455,758)
Total Net Position	\$ (342,570)	\$ (349,871)

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2018

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

	Year Ended June 30,	
	2018	2017
Program Revenues		
Charges for services	\$ 258,303	\$ 282,955
Operating grants	3,751	4,452
General Revenues		
Property taxes	327,172	315,146
State school fund	1,438,897	1,328,652
Earnings on investments	16,514	8,949
Miscellaneous	3,473	4,945
Total Revenues	2,048,110	1,945,099
Expenses		
Instruction	168,758	159,431
Support services	1,870,124	1,784,832
Other uses	1,927	4,957
Total Expenses	2,040,809	1,949,220
Change in Net Position	7,301	(4,121)
Beginning Net Position	(349,871)	(345,750)
Ending Net Position	\$ (342,570)	\$ (349,871)

The District has \$1,020,150 in current assets. Approximately 16% of the costs of the District's activities are paid by property taxes; 71% of the revenue comes from the State of Oregon State School Fund with the remaining balance coming from investment income, grants, and charges for services.

The District has realized an 8% increase in revenue for the State of Oregon State School Fund from fiscal years ending June 30, 2017 to June 30, 2018.

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2018

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	
	2018	2017
Land	\$ 16,262	\$ 16,262
Buildings and improvements	135,676	135,676
Vehicles and equipment	31,330	31,330
Less accumulated depreciation	(83,317)	(79,924)
Total capital assets	<u>\$ 99,951</u>	<u>\$ 103,344</u>

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. As of June 30, 2018, total fund balance of the governmental funds was \$873,328. Approximately \$734,897 constitutes unassigned ending fund balance, which is available for spending at the District's discretion.

ENDING FUND BALANCE

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

	2018	2017	Change
General Fund	\$ 867,711	\$ 712,350	\$ 155,361
Special Revenue Fund	5,617	2,543	3,074
	<u>\$ 873,328</u>	<u>\$ 714,893</u>	<u>\$ 158,435</u>

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2018

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 \$148,594 primarily due to a reduction in support 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, 2018, the State School Fund - General Support provided 71% of the revenue for the governmental funds.

Salaries and benefits costs are expected to increase in 2018-2019 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 2018-2019 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	
	2018	2017
ASSETS		
Cash and investments	\$ 946,045	\$ 823,502
Receivables - property taxes	15,800	15,642
Receivables - intergovernmental	58,305	13,066
Capital assets		
Land	16,262	16,262
Buildings, improvements and equipment, net of \$83,317 and \$79,924 of accumulated depreciation	83,689	87,082
TOTAL ASSETS	1,120,101	955,554
DEFERRED OUTFLOW OF RESOURCES		
Pension related deferrals	529,120	982,805
Pension contributions made after measurement date	238,053	185,410
TOTAL DEFERRED OUTFLOW OF RESOURCES	767,173	1,168,215
LIABILITIES		
Accounts payable	6,107	13,879
Accrued payroll and related liabilities	120,646	104,300
Noncurrent liabilities due within more than one year		
Accrued compensated absences	2,168	2,773
Net pension liability	1,950,269	2,133,008
TOTAL LIABILITIES	2,079,190	2,253,960
DEFERRED INFLOW OF RESOURCES		
Pension related deferrals	144,975	214,001
Unearned revenue	5,679	5,679
TOTAL DEFERRED INFLOW OF RESOURCES	150,654	219,680
NET POSITION		
Net investment in capital assets	99,951	103,344
Restricted for grants	5,617	2,543
Unrestricted	(448,138)	(455,758)
TOTAL NET POSITION (DEFICIT)	\$ (342,570)	\$ (349,871)

See notes to financial statements

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018 AND SUMMARIZED INFORMATION FOR JUNE 30, 2017

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expense) Revenue and Changes in Net Position Governmental Activities	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	
				2018	2017
Governmental activities:					
Instruction	\$ 168,758	\$	\$	\$ (168,758)	\$ (159,431)
Student support services	1,286,531	258,303	3,751	(1,024,477)	(857,281)
Instructional staff support	17,661			(17,661)	(35,319)
General administration	97,941			(97,941)	(98,694)
Business support services	69,882			(69,882)	(74,579)
Central activities	398,109			(398,109)	(431,552)
Other uses	1,927			(1,927)	(4,957)
Total governmental activities	\$ 2,040,809	\$ 258,303	\$ 3,751	(1,778,755)	(1,661,813)
General revenues:					
Property taxes				327,172	315,146
State school fund				1,438,897	1,328,652
Earnings on investments				16,514	8,949
Other				3,473	4,945
Total general revenues				1,786,056	1,657,692
CHANGE IN NET POSITION				7,301	(4,121)
Net position (deficit) - beginning				(349,871)	(345,750)
Net position (deficit) - ending				\$ (342,570)	\$ (349,871)

See notes to financial statements

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2018 AND SUMMARIZED INFORMATION FOR JUNE 30, 2017

ASSETS	General	Special Revenue	Totals	
			2018	2017
Cash and investments	\$ 934,749	\$ 11,296	\$ 946,045	\$ 823,502
Receivables				
Property taxes	15,800		15,800	15,642
Intergovernmental	58,305		58,305	13,065
Due from special revenue fund				1,800
Total assets	<u>\$ 1,008,854</u>	<u>\$ 11,296</u>	<u>\$ 1,020,150</u>	<u>\$ 854,009</u>
 LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 6,107	\$	\$ 6,107	\$ 13,879
Accrued payroll liabilities	120,646		120,646	104,300
Due to general fund				1,800
Total liabilities	<u>126,753</u>	<u></u>	<u>126,753</u>	<u>119,979</u>
Deferred inflow of resources				
Unavailable property taxes	14,390		14,390	13,458
Unearned grant revenue		5,679	5,679	5,679
Total deferred inflows	<u>14,390</u>	<u>5,679</u>	<u>20,069</u>	<u>19,137</u>
Fund balance				
Assigned for:				
Appropriated ending fund balance	132,814		132,814	63,719
Restricted for grants		5,617	5,617	2,543
Unassigned	734,897		734,897	648,631
Total fund balance	<u>867,711</u>	<u>5,617</u>	<u>873,328</u>	<u>714,893</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 1,008,854</u>	<u>\$ 11,296</u>	<u>\$ 1,020,150</u>	<u>\$ 854,009</u>

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, 2018

TOTAL FUND BALANCES		\$ 873,328
Capital assets are not financial resources and therefore are not reported in the governmental funds:		
Acquisition cost	\$ 183,268	
Accumulated depreciation	<u>(83,317)</u>	99,951
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		
		14,390
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	238,053	
Deferred outflows related to pensions	529,120	
Deferred inflows related to pensions	<u>(144,975)</u>	622,198
Net pension liability is not a financial cost and therefore is not reported in the governmental funds		
		(1,950,269)
Long-term liabilities not payable in the current year are not reported as governmental fund liabilities.		
Accrued vacation payable		<u>(2,168)</u>
TOTAL NET POSITION (DEFICIT)		<u><u>\$ (342,570)</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, 2018 AND SUMMARIZED INFORMATION FOR JUNE 30, 2017

	General	Special Revenue	Totals	
			2018	2017
Revenues				
Property taxes	\$ 326,240	\$	\$ 326,240	\$ 316,360
Interest	16,513		16,513	8,949
Charges for services	258,303		258,303	282,955
Intergovernmental revenues				
State	1,438,897		1,438,897	1,328,652
Federal		3,751	3,751	4,452
Sale of donated land				3,300
Miscellaneous	3,475		3,475	1,645
Total revenues	<u>2,043,428</u>	<u>3,751</u>	<u>2,047,179</u>	<u>1,946,313</u>
Expenditures				
Current				
Instruction	155,374		155,374	145,497
Support services	1,727,693	3,751	1,731,444	1,646,695
Total expenditures	<u>1,883,067</u>	<u>3,751</u>	<u>1,886,818</u>	<u>1,792,192</u>
Revenues over expenditures	<u>160,361</u>		<u>160,361</u>	<u>154,121</u>
Other Financing Sources (Uses)				
Interfund transfers	(5,000)	5,000		
Mini grants		(1,926)	(1,926)	(4,957)
Total other financing sources (uses)	<u>(5,000)</u>	<u>3,074</u>	<u>(1,926)</u>	<u>(4,957)</u>
Net change in fund balance	<u>155,361</u>	<u>3,074</u>	<u>158,435</u>	<u>149,164</u>
Fund balance - beginning of year	<u>712,350</u>	<u>2,543</u>	<u>714,893</u>	<u>565,729</u>
Fund balance - end of year	<u>\$ 867,711</u>	<u>\$ 5,617</u>	<u>\$ 873,328</u>	<u>\$ 714,893</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, 2018

NET CHANGE IN FUND BALANCE	\$ 158,435
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.	
Less current year depreciation	(3,393)
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.	(149,278)
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.	605
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>932</u>
CHANGE IN NET POSITION	<u><u>\$ 7,301</u></u>

See notes to financial statements

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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. 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, 2018

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, 2018

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, 2018

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. Twelve month 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, 2018

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, 2018

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, 2018 were as follows:

Deposits with Financial Institutions	\$ 62,263
Jefferson County Investment Pool	30,301
Wasco County Treasurer	106
Local Government Investment Pool	853,375
Total shown on statement of net position	<u>\$ 946,045</u>

At June 30, 2018 the District held cash of \$62,263 with a bank balance of \$69,559. 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, 2018 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, 2018

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, 2018, was \$1,184,299,785 for reported uninsured public funds of \$2,021,333,686. 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, 2018 the District held the following investments:

Investment Type	Fair Value	% of investment portfolio
Local Government Investment Pool	\$ 853,375	96.56%
Jefferson and Wasco Counties Investment Pool	30,407	3.44%
	\$ 883,782	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, 2018

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, 2018. 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, 2018

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, 2018 were in compliance with investment guidelines. There were no restrictions on cash or investments at June 30, 2018.

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Capital assets not subject to depreciation				
Land	\$ 16,262	\$	\$	\$ 16,262
Capital assets subject to depreciation				
Building and improvements	135,676			135,676
Equipment	31,330			31,330
	<u>167,006</u>			<u>167,006</u>
Less accumulated depreciation for				
Building and improvements	48,594	3,393		51,987
Equipment	31,330			31,330
	<u>79,924</u>	<u>3,393</u>		<u>83,317</u>
Total capital assets subject to depreciation, net	<u>87,082</u>	<u>(3,393)</u>		<u>83,689</u>
Total capital assets, net	<u>\$ 103,344</u>	<u>\$ (3,393)</u>	<u>\$</u>	<u>\$ 99,951</u>

Depreciation expense of \$3,393 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)	\$ 5,744	\$ 336,829	\$ 342,573
Other adjustments		159	159
Compression loss	(188)	(8,637)	(8,825)
Levy as extended on tax rolls	<u>\$ 5,556</u>	<u>\$ 328,351</u>	<u>\$ 333,907</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, 2018

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 school districts is mandatory. As of June 30, 2017 there were 920 participating employers and state agencies. PERS issues a publicly available financial report which can be obtained on their website, 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, 2017, there were 24,528 active plan members, 125,344 inactive plan members or their beneficiaries currently receiving benefits, 14,037 inactive plan members entitled to but not yet receiving benefits, for a total of 163,909 Tier One members. As of June 30, 2017, there were 37,097 active plan members, 12,234 inactive plan members or their beneficiaries currently receiving benefits, 15,692 inactive plan members entitled to but not yet receiving benefits, for a total of 65,023 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, 2017, there were 111,680 active plan members, 3,437 retired plan members or their beneficiaries currently receiving benefits, 4,215 inactive plan members entitled to but not yet receiving benefits, and 11,765 inactive plan members not eligible for refund or retirement, for a total of 131,097 OPSRP Pension Program members.

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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, 2018, the District's total payroll for all employees was \$1,063,649. Total covered payroll was \$1,021,520. 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, 2018 was 27.2% of covered annual payroll. The rate for OPSRP for the year ended June 30, 2018 was 21.87%. 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, 2018 was \$239,081. In addition, employee contributions for the year ended June 30, 2018 of \$61,286.

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

At June 30, 2017, the District's proportionate share of the overall system unfunded liability was .0145%, an increase from the prior year proportionate share of .0142%. The District reported a liability of \$1,950,269 for its proportionate share of the net pension liability as of June 30, 2018. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2014. 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. 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, 2018

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, 2018

NOTE 5 – PENSION PLAN – continued

For the year ended June 30, 2018, the District recognized pension expense of \$149,277. At June 30, 2018, 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 expected and actual experience	\$ 94,316	\$
Changes of assumptions	355,499	
Net difference between projected and actual earnings on investments	20,092	
Changes in proportionate share		144,975
Difference between employer contributions and employer's share of system contributions	59,213	
Total	\$ 529,120	\$ 144,975

The \$238,053 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 deferred inflows of resources will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	
2019	\$ 60,458
2020	218,544
2021	143,471
2022	(44,614)
2023	6,286
	\$ 384,145

Actuarial Assumptions

The total pension liability in the December 31, 2014 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, 2018

NOTE 5 – PENSION PLAN – continued

Inflation rate	2.50 percent
Salary increases	3.50 percent
COLA adjustments	Blend of 2.0% COLA & graded COLA (1.25%/.15%) in accordance with Moro decision
Investment rate of return	7.50 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 (70% male, 95% female) of the RP-2000 static combined mortality sex-district table.

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

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 5 – PENSION PLAN - continued

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 2015 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	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Core Fixed Income	8.00%	4.10%	4.00%	4.68%
Short-Term Bonds	8.00%	3.65%	361.00%	2.74%
Bank/Leveraged Loans	3.00%	5.69%	5.42%	7.82%
High Yield Bonds	1.00%	6.67%	6.20%	10.28%
Large/Mid Cap US Equities	15.75%	7.96%	6.70%	17.07%
Small Cap US Equities	1.31%	8.93%	6.99%	21.35%
Micro Cap US Equities	1.31%	9.37%	7.01%	23.72%
Developed Foreign Equities	13.13%	8.34%	6.73%	19.40%
Emerging Market Equities	4.12%	10.56%	7.25%	28.45%
Non-US Small Cap Equities	1.88%	9.01%	7.22%	20.55%
Private Equity	17.50%	11.60%	7.97%	30.00%
Real Estate (Property)	10.00%	6.48%	5.84%	12.00%
Real Estate (REITS)	2.50%	8.74%	6.69%	22.02%
Hedge Fund of Funds - Diversified	2.50%	4.94%	4.64%	8.09%
Hedge Fund - Event-driven	0.63%	7.07%	6.72%	8.90%
Timber	1.88%	6.60%	5.85%	13.00%
Farmland	1.88%	7.11%	6.37%	13.00%
Infrastructure	3.75%	8.31%	7.13%	16.50%
Commodities	1.88%	6.07%	4.58%	18.40%
Assumed Inflation - Mean			2.50%	1.85%

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 5 – PENSION PLAN – continued

Discount Rate

The discount rate used to measure the total pension liability of the Plan was 7.50 percent, remaining the same as the prior measurement date. 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 7.50 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 (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	Discount Rate	Proportionate Share of Net Pension Liability (Asset)
1% decrease	6.50%	\$ 3,323,614
Current discount rate	7.50%	1,950,269
1% increase	8.50%	801,898

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.

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 5 – PENSION PLAN – continued

Deferred Items

Deferred inflows and outflows of resources are calculated at the Plan level and are allocated to employers based on their proportionate share. For the measurement period ended June 30, 2017, the following deferred items are reported:

- Difference between expected and actual experience
- Changes in assumptions
- Changes in employer proportion since the prior measurement date
- Difference between projected and actual investment earnings
- Difference between employer contributions and proportionate share of contributions
- Employer contributions made after the measurement date

Differences between expected and actual experience, changes in assumptions, changes in employer proportion and changes between employer contributions and proportionate share of contributions are amortized over the remaining service lives of all plan participants, including retirees, determined as of the beginning of the respective measurement period. Employers are required to recognize pension expense based on the balance of the closed period “layers” attributable to each measurement period. The average remaining service lives determined at the beginning of each measurement period are:

- Year ended June 30, 2017 – 5.3 years
- Year ended June 30, 2016 – 5.3 years
- Year ended June 30, 2015 – 5.4 years
- Year ended June 30, 2014 – 5.6 years

The net difference between projected and actual investment earnings is amortized over a five-year period.

Subsequent Events

On July 28, 2017, the PERS Board adopted a 7.20% assumed rate, with an effective date of January 1, 2018. A January 1 effective date provides equitable treatment to all members who retire in a year that a change is adopted, no matter which month they retire. The adopted assumed rate will be aligned with the new actuarial equivalency factors, which will allow for a clear effective date for all transactions that involve calculations using both the rate and AEF components.

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 6 – LONG-TERM LIABILITIES

The following summarizes long-term liability activity of the primary government for the year ended June 30, 2018:

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Due Within One Year
Governmental Activities:					
Compensated Absences	\$ 2,773	\$	\$ 605	\$ 2,168	\$

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

In 2014, the District obtained entered into an operating lease for the use of office equipment at a rate of \$223 per month. The lease is non-cancelable and payments for this lease were \$2,679 for the year ended June 30, 2018. Future minimum payments on this lease total \$2,009 for the year ended June 30, 2019.

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 71% of the District's total revenue in the year ended June 30, 2018. 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.

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 24, 2018, 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, 2018

	Original and Final Budget	Variance with Final Budget Over (Under)	Actual
Revenues			
Local			
Property taxes	\$ 321,300	\$ 4,940	\$ 326,240
Interest	7,500	9,013	16,513
Charges for service	274,895	(16,592)	258,303
Intergovernmental			
State	1,369,247	69,650	1,438,897
Other			
Sale of fixed assets		3,475	3,475
	<u>1,972,942</u>	<u>70,486</u>	<u>2,043,428</u>
Expenditures			
Current			
Instruction	156,705	(1,331)	155,374
Support services	1,864,956	(137,263)	1,727,693
Operating contingency	10,000	(10,000)	
	<u>2,031,661</u>	<u>(148,594)</u>	<u>1,883,067</u>
Revenues over (under) expenditures	<u>(58,719)</u>	<u>219,080</u>	<u>160,361</u>
Other Financing Sources (Uses)			
Interfund transfers	(5,000)		(5,000)
Net change in fund balance	<u>(63,719)</u>	<u>219,080</u>	<u>155,361</u>
Fund balance - beginning of year	<u>632,430</u>	<u>79,920</u>	<u>712,350</u>
Fund balance - end of year	<u>\$ 568,711</u>	<u>\$ 299,000</u>	<u>\$ 867,711</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, 2018

	Original and Final Budget	Variance with Final Budget Over (Under)	Actual
Revenues			
Local			
Charges for services	\$ 5,679	\$ (5,679)	\$
Intergovernmental			
Federal	4,952	(1,201)	3,751
Total revenues	10,631	(6,880)	3,751
Expenditures			
Current			
Instruction	500	(500)	
Support services	10,131	(6,380)	3,751
Total expenditures	10,631	(6,880)	3,751
Revenues over (under) expenditures	_____	_____	_____
Other Financing Sources (Uses)			
Interfund transfers	5,000		5,000
Mini grants	(5,000)	(3,074)	(1,926)
Total other financing sources (uses)	_____	(3,074)	3,074
Net change in fund balance	_____	(3,074)	3,074
Fund balance - beginning of year	2,177	(366)	2,543
Fund balance - end of year	\$ 2,177	\$ (3,440)	\$ 5,617

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

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

YEAR ENDED JUNE 30, 2018

<u>Year Ended June 30,</u>	<u>(a) Employer's proportion of the net pension liability (asset) (NPL(A))</u>	<u>(b) Employer's proportionate share of the NPL(A)</u>	<u>(c) CAL's covered payroll</u>	<u>(b/c) NPL(A) as a percentage of covered payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
2018	0.014468 %	\$ 1,950,269	\$ 1,021,520	190.9%	83.1%
2017	0.014208 %	2,133,008	961,981	221.7%	80.5%
2016	0.017675 %	1,014,776	870,784	116.5%	91.9%
2015	0.019740 %	(447,449)	825,720	-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, 2018

<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>
2018	\$ 238,053	\$ 238,053	\$	\$ 1,021,520	23.3%
2017	186,248	186,248		959,501	19.4%
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, 2018

	<u>Salaries</u>	<u>Employee Benefits</u>	<u>Purchased Services</u>	<u>Supplies and Materials</u>	<u>Other</u>	<u>Transfers</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	\$ 92,117	\$ 62,838	\$	\$ 419	\$	\$	\$ 155,374	\$	\$
Total Instruction	<u>92,117</u>	<u>62,838</u>		<u>419</u>			<u>155,374</u>	<u>156,705</u>	<u>(1,331)</u>
Support Services-Students									
Attendance and social work services	29,611	27,031	49	5,310			62,001		
Psychological services	201,431	121,589	2,035				325,055		
Speech pathology and audiology services	394,180	253,127	1,043	4,753			653,103		
Other student treatment services			13,272				13,272		
Service direction, student support services	51,492	29,094	38,800	13,546	150		133,082		
Support Services-Instructional Staff									
Instructional staff development		13,208		399			13,607		
Support Services-General Administration									
Board of Education services									
Executive administration services	43,451	13,927	25,395	3,717	6,496		92,986		
Support Services-Business									
Fiscal services	31,151	14,690	9,161	8,424	2,497		65,923		
Operation and maintenance of plant services									
Support Services-Central Activities									
Technology services	<u>219,328</u>	<u>128,578</u>	<u>958</u>	<u>19,800</u>			<u>368,664</u>		
Total Support Services	<u>970,644</u>	<u>601,244</u>	<u>90,713</u>	<u>55,949</u>	<u>9,143</u>		<u>1,727,693</u>	<u>1,864,956</u>	<u>(137,263)</u>
Other Uses									
Interfund transfers						5,000	5,000	5,000	
Contingency								10,000	(10,000)
Total expenditures	<u>\$ 1,062,761</u>	<u>\$ 664,082</u>	<u>\$ 90,713</u>	<u>\$ 56,368</u>	<u>\$ 9,143</u>	<u>\$ 5,000</u>	<u>\$ 1,888,067</u>	<u>\$ 2,036,661</u>	<u>\$ (148,594)</u>

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

SPECIAL REVENUE FUND

SCHEDULE OF EXPENDITURES BY OBJECT

YEAR ENDED JUNE 30, 2018

	<u>Salaries</u>	<u>Employee Benefits</u>	<u>Purchased Services</u>	<u>Supplies and Materials</u>	<u>Transfers</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							500	(500)
Support Services-Students								
Service direction, student support services	888					888		
Support Services-Instructional Staff								
Instructional staff development	597		2,266			2,863		
Total Support Services	1,485		2,266			3,751	10,131	(6,380)
Other Uses								
Mini grants					1,926	1,926	5,000	(3,074)
Total expenditures	\$ 1,485	\$	\$ 2,266	\$	\$ 1,926	\$ 5,677	\$ 15,631	\$ (9,954)

JEFFERSON COUNTY EDUCATION SERVICE DISTRICT
Jefferson County, Oregon

SUPPLEMENTAL INFORMATION FOR OREGON DEPARTMENT OF EDUCATION

YEAR ENDED JUNE 30, 2018

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	\$2,566
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, 2018

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	2017-18	84.027	\$ 3,751
				<u>\$ 3,751</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, 2018, and have issued our report thereon dated August 24, 2018. 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

August 24, 2018