

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

Financial Statements
and Supplementary Information

Year Ended June 30, 2019

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

TABLE OF CONTENTS

| | <u>Page</u> |
|--|--------------------|
| OFFICIALS OF THE DISTRICT | i |
| FINANCIAL SECTION: | |
| INDEPENDENT AUDITOR’S REPORT | 1 |
| MANAGEMENT’S DISCUSSION AND ANALYSIS | 4 |
| BASIC FINANCIAL STATEMENTS: | |
| GOVERNMENT-WIDE FINANCIAL STATEMENTS: | |
| Statement of Net Position | 10 |
| Statement of Activities | 11 |
| FUND FINANCIAL STATEMENTS: | |
| Balance Sheet – Governmental Funds | 12 |
| Reconciliation of Governmental Funds Balance Sheet to Statement of Net Position | 13 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds | 14 |
| Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to Statement of Activities | 15 |
| Statements of Revenues, Expenditures, and Change in Fund Balance – Budget and Actual: | |
| General Fund | 16 |
| Food Services Fund | 17 |
| Special Revenue Fund | 18 |
| NOTES TO BASIC FINANCIAL STATEMENTS | 19 |
| REQUIRED SUPPLEMENTARY INFORMATION: | |
| Schedule of the Proportionate Share of Net Pension Liability (Asset) Oregon Public Employees Retirement System | 42 |
| Schedule of Pension Contributions Oregon Public Employees Retirement System | 43 |
| Schedule of the Proportionate Share of Net OPEB Liability (Asset) Oregon Public Employees Retirement System | 44 |
| Schedule of OPEB Contributions Oregon Public Employees Retirement System | 45 |
| Schedule of Changes in Total OPEB Liability and Related Ratios Implicit Rate Subsidy | 46 |
| Notes to Required Supplementary Information | 47 |

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

TABLE OF CONTENTS

| | <u>Page</u> |
|--|--------------------|
| OTHER SUPPLEMENTARY INFORMATION: | |
| Schedules of Revenues, Expenditures, Other Funding Sources and Change in Fund Balance – Budget and Actual: | |
| Debt Service Fund | 48 |
| Capital Projects Fund | 49 |
| Schedule of Changes in Assets and Liabilities – Agency Fund | 50 |
| Supplemental Information as Required by the Oregon Department of Education | 51 |
| Measure 5 Taxable Value and Top 25 Taxpayers | 52 |
| SINGLE AUDIT SECTION: | |
| Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 53 |
| Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance | 55 |
| Schedule of Expenditures of Federal Awards | 57 |
| Schedule of Findings and Questioned Costs | 59 |
| Corrective Action Report | 62 |
| INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH OREGON STATE REGULATIONS | 63 |

NORTH MARION SCHOOL DISTRICT No. 15

Marion County, Oregon

OFFICIALS OF THE DISTRICT

YEAR ENDED JUNE 30, 2019

BOARD OF DIRECTORS

| <u>Name</u> | <u>Position</u> | <u>Term Expires</u> |
|--|-----------------|---------------------|
| Heidi Torian 14685 Lloyds Lane Aurora, OR 97002 | Chair | June 30, 2021 |
| Bill Graupp 14629 Ehlen Rd. NE Aurora, OR 97002 | Vice-Chair | June 30, 2021 |
| Glenn Holum 11712 Broadacres Rd NE Hubbard, OR 97032 | Director | June 30, 2021 |
| Scott Mills 21314 Liberty St Aurora, OR 97002 | Director | June 30, 2019 |
| Crystal Rostocil 3427 4th St. Hubbard, OR 97032 | Director | June 30, 2022 |
| Jason Sahlin 21011 Main St NE Aurora, OR 97002 | Director | June 30, 2021 |
| Ricardo Verastegui PO Box 482 Hubbard, OR 97032 | Director | June 30, 2022 |

DISTRICT ADMINISTRATION

Ginger Redlinger Superintendent/Clerk
Linda Murray Business Manager/Deputy Clerk

SCHOOL DISTRICT MAILING ADDRESS

20256 Grim Rd. NE
Aurora, OR 97002

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT



Talbot, Korvola
& Warwick, LLP

4800 Meadows Road, Suite 200
Lake Oswego, OR 97035

P 503.274.2849
F 503.274.2853

www.tkw.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
North Marion School District No. 15
Aurora, Oregon

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and each major fund of the North Marion School District No. 15, Marion County, Oregon (the District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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 the District, as of June 30, 2019, and the respective changes in financial position, and the respective budgetary comparison for the General Fund, Food Services Fund and Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.



RSM US Alliance provides its members with access to resources of RSM US LLP. RSM US Alliance member firms are separate and independent businesses and legal entities that are responsible for their own acts and omissions, and each are separate and independent from RSM US LLP. RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax, and consulting firms. Members of RSM US Alliance have access to RSM International resources through RSM US LLP but are not member firms of RSM International. Visit rsmus.com/about-us for more information regarding RSM US LLP and RSM International. The RSM™ logo is used under license by RSM US LLP. RSM US Alliance products and services are proprietary to RSM US LLP.

INDEPENDENT AUDITOR'S REPORT (Continued)

Board of Directors
North Marion School District No. 15

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, Schedule of Proportionate Share of Net Pension Liability (Asset) Oregon Public Employees Retirement System, Schedule of Pension Contributions Oregon Public Retirement System, Schedule of Proportionate Share of Net OPEB Liability (Asset) Oregon Public Employees Retirement System, Schedule of OPEB Contributions Oregon Public Retirement System, Schedule of Changes in Total OPEB Liability and Related Ratios Implicit Rate Subsidy, and Notes to Required Supplementary Information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information and the Schedule of Expenditures of Federal Awards

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other schedules listed in the Table of Contents as Supplementary Information, and the Schedule of Expenditures of Federal Awards (SEFA) as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Supplementary Information and SEFA 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 Supplementary Information and the SEFA are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

REPORTS ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

INDEPENDENT AUDITOR'S REPORT (Continued)

Board of Directors
North Marion School District No. 15

Other Reporting Required by Oregon Minimum Standards

In accordance with *Minimum Standards for Audits of Oregon Municipal Corporations*, we have also issued our report dated November 6, 2019, on our consideration of the District's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that 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.

TALBOT, KORVOLA & WARWICK, LLP

By 
Timothy R. Gillette, Partner

Lake Oswego, Oregon
November 6, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2019

As management of North Marion School District 15 (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2019.

FINANCIAL HIGHLIGHTS

- In the government-wide statements, the liabilities and deferred inflows of the District exceeded its assets and deferred outflows at June 30, 2019, by \$2.02 million. Of this amount, \$14.7 million represents the District's investment in capital assets; \$718 thousand is restricted for debt service; \$469 thousand is restricted for student body funds, \$297 thousand is restricted to energy savings projects; \$346 thousand is restricted for uses required for construction excise tax; \$1.19 million is restricted for capital projects; \$6 thousand is restricted for special projects; \$141 thousand is restricted for OPEB and a negative \$19.9 million is unrestricted. The negative balance is mostly due to the net pension liability of \$13.8 million.
- The District's governmental funds report combined ending fund balances of \$43.3 million. This is a decrease of approximately \$4.2 million over last year mostly due to construction costs and the use of our bond proceeds.
- At the end of the fiscal year, fund balance for the General Fund was \$1.74 million, or about 8.5 percent of total General Fund expenditures. This is a decrease of approximately \$290K in the ending fund balance from the prior year. This decrease is mostly due to increased salaries and associated payroll costs.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

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:

Statement of Net Position. The *Statement of Net Position* presents information on all of the District's assets, deferred outflows, liabilities and deferred inflows with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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 position 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, earned but unused vacation leave, pension obligations and other postemployment benefits).

In the government-wide financial statements, the District's activities are shown in one category:

- *Governmental activities.* All of the District's basic functions are shown here, such as regular and special education, food services, transportation, and administration. These activities are primarily financed through property taxes, Oregon's State School Fund and other intergovernmental revenues.

The government-wide financial statements can be found on pages 10 and 11 of this report.

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2019

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund financial statements. The *fund financial statements* provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The North Marion School District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The *governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The Governmental Funds Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances are reconciled to the Government-wide Statements of Net Position and Activities.

The District maintains five individual governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances for the General, Food Services, Special Revenue, Debt Service Funds and Capital Projects Fund.

The basic governmental fund financial statements can be found on pages 12 through 18 of this report.

Notes to the Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 20 through 42 of this report.

Required Supplementary Information. Includes the Schedule of the Proportionate Share of Net Pension Liability (Asset) Oregon Public Employees Retirement System, the Schedule of Pension Contributions Oregon Public Employees Retirement System, Schedule of the Proportionate Share of Net OPEB Liability (Asset) Oregon Public Employees Retirement System, Schedule of OPEB Contributions Oregon Public Employees Retirement System, and Schedule of Changes in Total OPEB Liability and Related Ratios Implicit Rate Subsidy and the Notes to Required Supplementary Information.

Other information. Schedules presenting detailed budgetary information for the Debt Service Fund, Capital Projects Fund and other supplementary information can be found on pages 49 through 53 of this report. The District's budget is prepared on the modified accrual basis of accounting.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities and deferred inflows exceeded assets and deferred outflows by \$2.02 million at June 30, 2019.

Capital assets, which consist of the District's land, buildings, improvements and equipment and vehicles, represent about 33 percent of total assets and investments represent about 36 percent of total assets. The remaining assets consist mainly of cash and grants and property taxes receivable.

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2019

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The District's largest liabilities are the net pension liability and for the repayment of general obligation and limited tax pension bonds. The net pension liability increased by \$1.4 million, primarily as a result of changes in Plan assumptions. Current liabilities consist mostly of accrued payables, unearned revenue, and the current portion of long-term debt.

A large portion of the District's net position reflects its investment in capital assets (e.g. land, buildings, vehicles and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students and other District residents; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources (primarily property taxes), since the capital assets themselves cannot be used to liquidate these liabilities.

Statement of Net Position
(in millions)

| | 2019 | 2018 | Change from 2018 |
|----------------------------------|------------------|------------------|---------------------|
| Current and other assets | \$ 45.12 | \$ 49.15 | \$ (4.03) |
| Capital assets | 22.42 | 15.46 | 6.96 |
| Total assets | 67.54 | 64.61 | 2.93 |
| Deferred outflows | 5.41 | 4.78 | 0.63 |
| Current liabilities | 2.82 | 2.51 | 0.31 |
| Long-term liabilities | 70.50 | 69.81 | 0.69 |
| Total liabilities | 73.32 | 72.32 | 1.00 |
| Deferred inflows | 1.65 | 0.86 | 0.79 |
| Net position: | | | |
| Net investment in capital assets | 14.74 | 12.81 | 1.93 |
| Restricted | 3.17 | 1.63 | 1.54 |
| Unrestricted | (19.93) | (18.23) | (1.69) |
| Total net position (deficit) | <u>\$ (2.02)</u> | <u>\$ (3.79)</u> | <u>\$ 1.77</u> |

Statement of Activities. In comparison to last year, the District's revenues increased by \$1.78 million while expenses increased by \$1.50 million. Most of this increase in expenses can be attributed to an increase in General Fund expenditures and interest expense from one year to the next.

Statement of Activities
(in millions)

| | 2019 | 2018 | Change from 2018 |
|------------------------------------|----------------|------------------|---------------------|
| General revenues | \$ 22.96 | \$ 21.18 | \$ 1.78 |
| Expenses | (26.41) | (24.91) | (1.50) |
| Charges for services | 0.80 | 0.87 | (0.07) |
| Operating grants and contributions | 2.44 | 1.80 | 0.64 |
| Capital grants and contributions | 1.99 | - | 1.99 |
| Change in net assets | <u>\$ 1.78</u> | <u>\$ (1.06)</u> | <u>\$ 2.84</u> |

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2019

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's governmental funds is to provide information on relatively short-term cash flow and funding for future basic services. Such information is useful in assessing the District's financing requirements.

GASB reporting requirements require an analysis and breakdown of ending fund balance between five fund balance categories, Non-spendable, Restricted, Committed, Assigned and Unassigned. Below is a brief explanation of each of these fund balance categories:

- Non-Spendable – Includes items not immediately convertible to cash, such as prepaid items and inventory.
- Restricted – Includes items that are restricted by external creditors, grantors or contributors, or restricted by legal constitutional provisions.
- Committed – Includes committed by the District's Board of Directors, by formal board action.
- Assigned – Includes items assigned for specific uses, authorized by the District's Superintendent and/or Business Manager.
- Unassigned – This is the residual classification used for those balances not assigned to another category.

Under GASB 54, the General Fund is the only fund type that should have an unassigned balance. (Any fund may have an unassigned deficit.) Unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year. See note 10 for the breakdown of ending fund balance by category. Total combined ending fund balances of \$43.3 million represents a decrease of 4.2 in comparison with the prior year primarily due to bond construction costs.

General Fund. The General Fund is the chief operating fund of the district. As of June 30, 2019, the unassigned fund balance was \$1.16 million, down from 1.18 million as of June 30, 2018.

As a measure of the fund's liquidity, it may be useful to compare unassigned and ending fund balances to total fund expenditure. Unassigned fund balance of \$1.16 million represents approximately 5.7 percent of total General Fund expenditures. The ending fund balance represents about 8.5 percent of General Fund expenditures. A goal of the District has been to achieve and maintain a 10 percent fund liquidity to expenditures. In an effort to be fiscally prudent, the District will continue to set aside an unreserved fund balance to maintain our financial solvency. The increase in PERS rates for years to come, as well as potential increases in personnel costs from staffing requirements, negotiations and unforeseen costs due to the bond work that may not be covered by bond funds provide cautionary signals that require us to maintain a conservative financial position.

Expenditures in the General Fund were approximately \$1.3 million less than budgeted when including the budgeted contingency of \$1.2 million or \$83 thousand less than budgeted when excluding the budgeted contingency.

Food Services Fund. The Food Services Fund has a fund balance of \$14 thousand at June 30, 2019, as compared to a fund balance of \$47 thousand at June 30, 2018. This decrease is mostly due to an increase in the cost of food.

Special Revenue Fund. The Special Revenue Fund has a fund balance of \$781 thousand at June 30, 2019, most of which is restricted for Student Body Funds, as compared to \$669 thousand at June 30, 2018.

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2019

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

Governmental funds (Continued)

Debt Service Fund. The Debt Service Fund has a fund balance of \$718 thousand at June 30, 2019, all of which is restricted for the payment of debt service, as compared to \$722 thousand at June 30, 2018.

Capital Projects Fund. The Capital Projects Fund fund balance decreased from \$44.0 million at June 30, 2018 to \$40.0 million at June 30, 2019, due to construction costs.

Actual expenditures were within budgeted amounts for fiscal year ended June 30, 2019.

**General Fund
Actual Expenditures vs. Budget
(in millions)
Year Ended June 30, 2019**

| | Actual | Budget | Variance Positive (Negative) |
|--------------------|---------------|---------------|---|
| Instruction | \$ 12.07 | \$ 12.13 | \$ 0.06 |
| Support services | 8.33 | 8.35 | 0.02 |
| Contingency | - | 1.23 | 1.23 |
| Total Expenditures | \$ 20.40 | \$ 21.71 | \$ 1.31 |

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The District's investment in capital assets includes land, buildings and improvements, vehicles and equipment. As of June 30, 2019, the District had invested approximately \$22.42 million in capital assets, net of depreciation, as shown in the following table:

**Capital Assets
(in millions)
June 30, 2019**

| | Actual |
|------------------------------------|---------------|
| Land | \$ 1.11 |
| Construction in progress | 8.03 |
| Buildings and improvements | 12.84 |
| Furniture, fixtures, and equipment | 0.44 |
| Total | \$ 22.42 |

Further information about capital assets may be found in Note 4.

Long-term debt. At the end of the current fiscal year, the District had total debt outstanding of \$54 million, consisting of general obligation bonds and limited tax pension bonds. State statutes limit the amount of general obligation debt the District may issue to approximately 7.95 percent of its total assessed valuation. The current debt limitation for the District is approximately \$156 million, which is in excess of the District's outstanding general obligation debt. Further information on long-term debt can be found in Note 5.

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

YEAR ENDED JUNE 30, 2019

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The most significant economic factor for the District is the State of Oregon's State School Fund. Oregon school funding is based on the numbers and classifications of students served during the course of a school year. The Fund includes local resources (primarily property taxes) and state sources (primarily personal and business income taxes). Approximately eighty percent of the District's General Fund revenue comes from the State School Fund.

The District's 2019-20 General Fund budget is approximately \$973 thousand more than the prior year. Debt service requirements are met by local property tax collections. Property tax collections have been consistent with prior years' experience and budget requirements. PERS bond requirements are met by intercept payments from the State of Oregon to Wells Fargo as a deduction of our State School Fund.

Declining enrollment for several years in a row, along with the increasing PERS costs creates additional challenges to districts seeking to maintain stable school funding. The costs of increases due to labor negotiations results in a growing concern over our ability to maintain current service levels and staff. We are encouraged by the passing of the Student Success Act and are hopeful some funds will come our way to increase support and services for students.

As has been in recent years, the District will continue working to maintain a conservative spending pattern.

REQUESTS FOR INFORMATION

This financial report is designed to present the user (citizens, taxpayers, investors, and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the District's Business Manager at 20256 Grim Road N.E., Aurora, Oregon 97002.

BASIC FINANCIAL STATEMENTS

NORTH MARION SCHOOL DISTRICT No. 15

Marion County, Oregon

STATEMENT OF NET POSITION

JUNE 30, 2019

| | Governmental Activities |
|--|----------------------------|
| <u>ASSETS</u> | |
| Cash and cash equivalents | \$ 17,690,445 |
| Cash held by County | 20,591 |
| Investments | 24,416,660 |
| Receivables | 2,789,689 |
| Prepays | 69,045 |
| Net other postemployment benefits asset | 141,611 |
| Capital assets: | |
| Not being depreciated | 9,143,585 |
| Being depreciated, net of accumulated depreciation | 13,272,175 |
| TOTAL ASSETS | 67,543,801 |
| <u>DEFERRED OUTFLOWS OF RESOURCES</u> | |
| Deferred outflows related to other postemployment benefits | 119,968 |
| Deferred outflows related to pension | 5,285,964 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 5,405,932 |
| <u>LIABILITIES</u> | |
| Current liabilities: | |
| Accounts payable | 212,427 |
| Accrued payroll payable | 368,759 |
| Accrued interest payable | 53,629 |
| Unearned grant revenue | 1,046,280 |
| Bonds payable, net, due within one year | 1,137,976 |
| Total current liabilities | 2,819,071 |
| Noncurrent liabilities: | |
| Bonds payable, net, due after one year | 52,585,235 |
| Accrued interest on deferred interest bonds | 3,061,693 |
| Total other postemployment benefits liability | 1,071,007 |
| Net pension liability | 13,778,627 |
| Total noncurrent liabilities | 70,496,562 |
| TOTAL LIABILITIES | 73,315,633 |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | |
| Deferred inflows related to other postemployment benefits | 104,650 |
| Deferred inflows related to pension | 1,545,872 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 1,650,522 |
| <u>NET POSITION</u> | |
| Net investment in capital assets | 14,735,293 |
| Restricted for debt service | 718,116 |
| Restricted for CET projects | 346,498 |
| Restricted for energy savings projects | 296,686 |
| Restricted for student body funds | 468,622 |
| Restricted for capital projects | 1,193,185 |
| Restricted for special projects | 5,805 |
| Restricted for OPEB | 141,611 |
| Unrestricted | (19,922,238) |
| TOTAL NET POSITION (DEFICIT) | \$ (2,016,422) |

See Notes to Basic Financial Statements.

NORTH MARION SCHOOL DISTRICT No. 15

Marion County, Oregon

STATEMENT OF ACTIVITIES**YEAR ENDED JUNE 30, 2019**

| <u>FUNCTIONS/PROGRAMS</u> | Program Revenues | | | Net (Expense) Revenue and Change in Net Position | |
|---|-------------------------|---------------------------------|---|---|---|
| | Expenses | Charges for Services | Operating Grants and Contributions | | Capital Grants and Contributions |
| Instruction: | | | | | |
| Regular programs | \$ 10,140,791 | \$ 610,970 | \$ 280,815 | \$ - | \$ (9,249,006) |
| Special programs | 3,719,597 | - | 446,378 | - | (3,273,219) |
| Support services: | | | | | |
| Student services | 1,257,853 | - | 324,874 | - | (932,979) |
| Instructional staff services | 869,290 | - | 305,348 | - | (563,942) |
| General administration | 449,968 | - | - | - | (449,968) |
| School administration | 1,999,017 | - | 62,130 | - | (1,936,887) |
| Business services | 3,899,896 | 20,700 | 195,294 | - | (3,683,902) |
| Central activities | 610,709 | - | - | - | (610,709) |
| Enterprise and community services: | | | | | |
| Food services | 1,119,501 | 170,090 | 818,675 | - | (130,736) |
| Community services | 2,065 | - | 2,036 | - | (29) |
| Site acquisition & development services | - | - | - | 1,987,982 | 1,987,982 |
| Interest on long-term debt | 2,341,648 | - | - | - | (2,341,648) |
| Totals | \$ 26,410,335 | \$ 801,760 | \$ 2,435,550 | \$ 1,987,982 | (21,185,043) |

GENERAL REVENUES:

| | |
|--|-------------------|
| Property taxes levied for general purposes | 3,497,765 |
| Property taxes levied for debt service | 1,808,729 |
| State school fund - general support | 15,835,558 |
| Unrestricted state and local sources | 44,957 |
| Earnings on investments | 1,383,856 |
| Miscellaneous | 390,023 |
| Total general revenues | 22,960,888 |

CHANGE IN NET POSITION**1,775,845****NET POSITION (DEFICIT), June 30, 2018****(3,792,267)****NET POSITION (DEFICIT), June 30, 2019****\$ (2,016,422)**

See Notes to Basic Financial Statements.

NORTH MARION SCHOOL DISTRICT No. 15

Marion County, Oregon

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2019

| | General Fund | Food Services Fund | Special Revenue Fund | Debt Service Fund | Capital Projects Fund | Total |
|--|---------------------|-----------------------|-------------------------|----------------------|--------------------------|----------------------|
| <u>ASSETS</u> | | | | | | |
| Cash and cash equivalents | \$ 1,796,614 | \$ - | \$ 1,308,038 | \$ 595,849 | \$ 13,989,944 | \$ 17,690,445 |
| Cash held by County | 13,575 | - | - | 7,016 | - | 20,591 |
| Investments | - | - | - | - | 24,416,660 | 24,416,660 |
| Due from other funds | 121,776 | - | - | - | - | 121,776 |
| Accounts receivable | 125,629 | 146,232 | 534,128 | 77,875 | 1,708,964 | 2,592,828 |
| Property taxes receivable | 134,998 | - | - | 61,863 | - | 196,861 |
| Prepays | 69,045 | - | - | - | - | 69,045 |
| TOTAL ASSETS | \$ 2,261,637 | \$ 146,232 | \$ 1,842,166 | \$ 742,603 | \$ 40,115,568 | \$ 45,108,206 |
| <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u> | | | | | | |
| LIABILITIES | | | | | | |
| Accounts payable | \$ 108,691 | \$ 10,601 | \$ 14,934 | \$ - | \$ 78,201 | \$ 212,427 |
| Accrued payroll | 368,759 | - | - | - | - | 368,759 |
| Due to other funds | - | 121,776 | - | - | - | 121,776 |
| Unearned grant revenue | - | - | 1,046,280 | - | - | 1,046,280 |
| TOTAL LIABILITIES | 477,450 | 132,377 | 1,061,214 | - | 78,201 | 1,749,242 |
| DEFERRED INFLOWS OF RESOURCES | | | | | | |
| Unavailable revenue- property taxes | 47,374 | - | - | 24,487 | - | 71,861 |
| FUND BALANCES | | | | | | |
| Nonspendable | 69,045 | - | - | - | - | 69,045 |
| Restricted | - | - | 771,113 | 718,116 | 40,037,367 | 41,526,596 |
| Assigned | 511,540 | 13,855 | 11,644 | - | - | 537,039 |
| Unassigned | 1,156,228 | - | (1,805) | - | - | 1,154,423 |
| TOTAL FUND BALANCES | 1,736,813 | 13,855 | 780,952 | 718,116 | 40,037,367 | 43,287,103 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | \$ 2,261,637 | \$ 146,232 | \$ 1,842,166 | \$ 742,603 | \$ 40,115,568 | \$ 45,108,206 |

See Notes to Basic Financial Statements.

NORTH MARION SCHOOL DISTRICT No. 15

Marion County, Oregon

**RECONCILIATION OF GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET POSITION**

JUNE 30, 2019

| | | | |
|--|----|---------------------|-------------------------------------|
| TOTAL FUND BALANCES | | \$ | 43,287,103 |
| Capital assets are not financial resources and therefore are not reported in the governmental funds: | | | |
| Cost, net of retirements | \$ | 35,560,222 | |
| Accumulated depreciation, net of retirements | | <u>(13,144,462)</u> | 22,415,760 |
| A portion of the District's property taxes are collected after year-end but are not available soon enough to pay for the current year's operations, and therefore are not reported as revenue in the governmental funds. | | | 71,861 |
| Certain assets and deferred outflows are not available to pay for current-period expenditures and, therefore, are not reported in the governmental funds: | | | |
| Net OPEB asset | | 141,611 | |
| Deferred outflows related to OPEB | | 119,968 | |
| Deferred outflows related to pension | | <u>5,285,964</u> | 5,547,543 |
| Liabilities not payable in the current year and deferred inflows not realized in the current year are not reported as governmental fund liabilities. These liabilities and deferred inflows consist of: | | | |
| Accrued interest payable | | (53,629) | |
| Bonds payable, net | | (53,723,211) | |
| Accrued interest on deferred interest bonds | | (3,061,693) | |
| Other postemployment benefits obligation | | (1,071,007) | |
| Net pension liability | | (13,778,627) | |
| Deferred inflows related to OPEB | | (104,650) | |
| Deferred inflows related to pension | | <u>(1,545,872)</u> | <u>(73,338,689)</u> |
| TOTAL NET POSITION (DEFICIT) | | | \$ <u><u>(2,016,422)</u></u> |

See Notes to Basic Financial Statements.

NORTH MARION SCHOOL DISTRICT No. 15

Marion County, Oregon

GOVERNMENTAL FUNDS**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES****YEAR ENDED JUNE 30, 2019**

| | General Fund | Food Services Fund | Special Revenue Fund | Debt Service Fund | Capital Projects Fund | Total |
|---|-----------------|-----------------------|-------------------------|----------------------|--------------------------|---------------|
| REVENUES: | | | | | | |
| Local sources: | | | | | | |
| Property taxes | \$ 3,608,733 | \$ - | \$ - | \$ 1,850,348 | \$ - | \$ 5,459,081 |
| Charges for services | 210,879 | 170,090 | 420,579 | 1,103,469 | - | 1,905,017 |
| Earnings on investments | 111,887 | - | 34,952 | 27,592 | 1,209,425 | 1,383,856 |
| Other | 105,757 | 4,111 | 148,572 | 190 | 116,243 | 374,873 |
| Intermediate sources | 316,717 | - | - | - | - | 316,717 |
| State sources | 15,749,487 | 48,211 | 621,230 | - | 1,987,982 | 18,406,910 |
| Federal sources | - | 818,675 | 776,895 | - | - | 1,595,570 |
| Total revenues | 20,103,460 | 1,041,087 | 2,002,228 | 2,981,599 | 3,313,650 | 29,442,024 |
| EXPENDITURES: | | | | | | |
| Current: | | | | | | |
| Instruction | 12,050,083 | - | 1,181,697 | - | - | 13,231,780 |
| Support services | 8,308,609 | - | 466,997 | - | - | 8,775,606 |
| Enterprise and community services | - | 1,074,299 | 2,037 | - | - | 1,076,336 |
| Capital outlay | 35,793 | - | 239,103 | - | 7,303,563 | 7,578,459 |
| Debt Service: | | | | | | |
| Principal | - | - | - | 413,998 | - | 413,998 |
| Interest | - | - | - | 2,571,906 | - | 2,571,906 |
| Total expenditures | 20,394,485 | 1,074,299 | 1,889,834 | 2,985,904 | 7,303,563 | 33,648,085 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND CHANGE IN FUND BALANCE | (291,025) | (33,212) | 112,394 | (4,305) | (3,989,913) | (4,206,061) |
| FUND BALANCE, June 30, 2018 | 2,027,838 | 47,067 | 668,558 | 722,421 | 44,027,280 | 47,493,164 |
| FUND BALANCE, June 30, 2019 | \$ 1,736,813 | \$ 13,855 | \$ 780,952 | \$ 718,116 | \$ 40,037,367 | \$ 43,287,103 |

See Notes to Basic Financial Statements.

NORTH MARION SCHOOL DISTRICT No. 15

Marion County, Oregon

**RECONCILIATION OF GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCES TO STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2019

NET CHANGES IN FUND BALANCES \$ (4,206,061)

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 outlay exceeded depreciation.

| | | |
|--------------------------|------------------|-----------|
| Cost, net of retirements | \$ 7,578,454 | |
| Depreciation expense | <u>(619,317)</u> | 6,959,137 |

Certain revenues that do not meet the measurable and available criteria are not recognized as revenue in the current year in the governmental funds.

| | | |
|-------------------------------|--|-----------|
| Change in unavailable revenue | | (152,587) |
|-------------------------------|--|-----------|

Certain inflows and outflows related to debt are reported in the governmental funds but are not recognized as revenue or expense in the Statement of Activities

| | | |
|--------------------|--|---------|
| Principal payments | | 413,998 |
|--------------------|--|---------|

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

| | | |
|--|--------------------|--------------------|
| Accrued interest payable | 405,020 | |
| Accrued interest on deferred interest bonds | (415,065) | |
| Amortization of bond premium | 240,303 | |
| Change in Other postemployment benefits obligation and deferred inflows and outflows | 26,791 | |
| Change in pension asset/liability and deferred inflows and outflows | <u>(1,495,691)</u> | <u>(1,238,642)</u> |

CHANGE IN NET POSITION **\$ 1,775,845**

NORTH MARION SCHOOL DISTRICT No. 15

Marion County, Oregon

GENERAL FUND

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL**

YEAR ENDED JUNE 30, 2019

| | Budget | | Actual | Variance with Final Budget - Positive (Negative) |
|---|--------------------|--------------------|---------------------|---|
| | Original | Final | | |
| REVENUES: | | | | |
| Local sources: | | | | |
| Property taxes | \$ 3,550,000 | \$ 3,550,000 | \$ 3,608,733 | \$ 58,733 |
| Charges for services | 309,150 | 309,150 | 210,879 | (98,271) |
| Earnings on investments | 95,000 | 95,000 | 111,887 | 16,887 |
| Other | 120,350 | 120,350 | 105,757 | (14,593) |
| Intermediate sources | 282,000 | 282,000 | 316,717 | 34,717 |
| State sources | 15,230,731 | 15,230,731 | 15,749,487 | 518,756 |
| Total revenues | <u>19,587,231</u> | <u>19,587,231</u> | <u>20,103,460</u> | <u>516,229</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Instruction | 12,125,127 | 12,125,127 | 12,066,483 | 58,644 |
| Support services | 8,352,027 | 8,352,027 | 8,328,002 | 24,025 |
| Contingency | 1,226,700 | 1,226,700 | - | 1,226,700 |
| Total expenditures | <u>21,703,854</u> | <u>21,703,854</u> | <u>20,394,485</u> | <u>1,309,369</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND CHANGE IN FUND BALANCE | <u>(2,116,623)</u> | <u>(2,116,623)</u> | <u>(291,025)</u> | <u>1,825,598</u> |
| FUND BALANCE, June 30, 2018 | <u>2,116,623</u> | <u>2,116,623</u> | <u>2,027,838</u> | <u>(88,785)</u> |
| FUND BALANCE, June 30, 2019 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,736,813</u> | <u>\$ 1,736,813</u> |

See Notes to Basic Financial Statements.

NORTH MARION SCHOOL DISTRICT No. 15

Marion County, Oregon

FOOD SERVICES FUND

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL**

YEAR ENDED JUNE 30, 2019

| | Budget | | Actual | Variance with |
|---|------------------|------------------|------------------|--|
| | Original | Final | | Final Budget - Positive (Negative) |
| REVENUES: | | | | |
| Local sources: | | | | |
| Charges for services | \$ 144,000 | \$ 144,000 | \$ 170,090 | \$ 26,090 |
| Interest on Investments | 150 | 150 | - | (150) |
| Other | 200 | 200 | 4,111 | 3,911 |
| State sources | 35,900 | 35,900 | 48,211 | 12,311 |
| Federal sources | 1,002,000 | 1,002,000 | 818,675 | (183,325) |
| Total revenues | <u>1,182,250</u> | <u>1,182,250</u> | <u>1,041,087</u> | <u>(141,163)</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Enterprise and community services | <u>1,252,250</u> | <u>1,252,250</u> | <u>1,074,299</u> | <u>177,951</u> |
| Total expenditures | <u>1,252,250</u> | <u>1,252,250</u> | <u>1,074,299</u> | <u>177,951</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND CHANGE IN FUND BALANCE | <u>(70,000)</u> | <u>(70,000)</u> | <u>(33,212)</u> | <u>36,788</u> |
| FUND BALANCE, June 30, 2018 | <u>70,000</u> | <u>70,000</u> | <u>47,067</u> | <u>(22,933)</u> |
| FUND BALANCE, June 30, 2019 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 13,855</u> | <u>\$ 13,855</u> |

See Notes to Basic Financial Statements.

NORTH MARION SCHOOL DISTRICT No. 15

Marion County, Oregon

SPECIAL REVENUE FUND

**STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL**

YEAR ENDED JUNE 30, 2019

| | Budget | | Actual | Variance with Final Budget - Positive (Negative) |
|---|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| REVENUES: | | | | |
| Local sources: | | | | |
| Charges for services | \$ 276,475 | \$ 276,475 | \$ 420,579 | \$ 144,104 |
| Earnings on investments | 9,000 | 9,000 | 34,952 | 25,952 |
| Other | 189,115 | 189,115 | 148,572 | (40,543) |
| State sources | 451,428 | 451,428 | 621,230 | 169,802 |
| Federal sources | 1,040,474 | 1,040,474 | 776,895 | (263,579) |
| Total revenues | <u>1,966,492</u> | <u>1,966,492</u> | <u>2,002,228</u> | <u>35,736</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Instruction | 1,299,639 | 1,299,639 | 1,225,506 | 74,133 |
| Support services | 846,325 | 846,325 | 662,291 | 184,034 |
| Enterprise and community services | 4,500 | 4,500 | 2,037 | 2,463 |
| Contingency | 405,723 | 405,723 | - | 405,723 |
| Total expenditures | <u>2,556,187</u> | <u>2,556,187</u> | <u>1,889,834</u> | <u>666,353</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND CHANGE IN FUND BALANCE | <u>(589,695)</u> | <u>(589,695)</u> | <u>112,394</u> | <u>702,089</u> |
| FUND BALANCE, June 30, 2018 | <u>1,339,695</u> | <u>1,339,695</u> | <u>668,558</u> | <u>(671,137)</u> |
| FUND BALANCE, June 30, 2019 | <u>\$ 750,000</u> | <u>\$ 750,000</u> | <u>\$ 780,952</u> | <u>\$ 30,952</u> |

See Notes to Basic Financial Statements.

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of North Marion School District No. 15, Marion County, Oregon (the District) is presented to assist in understanding the District's financial statements.

Reporting Entity

The District is organized under the general laws of the State of Oregon. The governing body is an elected Board of Directors of seven members. Administrative officials are approved by the Board. The daily functioning of the District is under the supervision of the Superintendent/Clerk. The District is the level of government financially accountable for all public education within its boundaries. As a result, all related activities have been included in the financial statements. There are various governmental agencies and special service districts which provide services within the District's boundaries. However, the District is not financially accountable for any of these entities and accordingly their financial information is not included in these financial statements.

Basis of Presentation

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District. These statements include the governmental financial activities of the overall District. Governmental activities are financed through property taxes, intergovernmental revenues, and charges for services. For the most part, the effect of interfund activities has been removed from these statements except that interfund services provided and used are not eliminated in the process of consolidation.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function/program. Direct expenses are those that are specifically associated with a function/program and, therefore, are clearly identifiable to that function/program. The District does not allocate indirect expenses. Program revenues include: (1) charges to students or others for tuition, fees, rentals, materials, supplies or services provided and (2) operating grants and contributions. Revenues that are not classified as program revenues, including property taxes, are presented as general revenues.

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

Fund Financial Statements

The fund financial statements provide information about the District's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The District reports the following major funds:

General Fund – This is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund. Principal sources of revenue are property taxes and distributions from the State of Oregon. Expenditures are made for instructional purposes and related supporting services.

Food Services Fund – This fund accounts for revenues and expenditures of the District's food service program. Principal revenue sources are charges for services and federal grants.

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Fund Financial Statements (Continued)

Special Revenue Fund – This fund accounts for revenues and expenditures of grants restricted for particular educational projects and student activities. Principal revenue sources are federal and state grants and charges for services.

Debt Service Fund – This fund provides for the payment of principal and interest on general obligation bonded debt and the limited tax pension bonds. The principal revenue sources are property taxes and transfers from other funds (shown as charges for services).

Capital Projects Fund – This fund accounts for the proceeds from the sale of bonds and from the sale of District properties and the construction of District capital facilities.

The District previously reported an Agency Fund that accounted for Oregon West Conference Activities and Athletics revenue and expenses. North Marion was a member of this conference along with five (5) other school districts. The Conference was disbanded in the year ended June 30, 2019.

Measurement Focus and Basis of Accounting

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 liabilities are incurred, regardless of when the related cash flows take place. 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.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. Property taxes and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and claims and judgments, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in the governmental funds and proceeds from general long-term debt and acquisitions under capital leases are reported as other financing sources.

Use of Estimates

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

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash, Cash Equivalents, and Investments

The District's cash and cash equivalents consist of cash on hand, demand deposits and the State of Oregon Treasurer's Local Government Investment Pool (LGIP). The LGIP is stated at cost which approximates fair value. Fair value of the LGIP is the same as the District's value in the pool shares. The Oregon State Treasury administers the LGIP. It is an open-ended no-load diversified portfolio offered to any agency, political subdivision or public corporation of the state that by law is made the custodian of, or has control of, any fund. The LGIP is commingled with the State's short-term funds. In seeking to best serve local governments of Oregon, the Oregon legislature established the Oregon Short-Term Fund Board. The purpose of the Board is to advise the Oregon State Treasury in the management and investment options of the LGIP. Investments with a remaining maturity of more than one year at the time of purchase are stated at fair value. Other investments are stated at amortized cost, which approximates fair value.

The District sold bonds in February 2018 and a portion of those funds are invested in U.S. Treasury and Agency obligations.

Receivables

Property taxes are levied and become a lien on all taxable property as of July 1. Taxes are payable on November 15, February 15 and May 15. 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.

District management has determined that an allowance for uncollectible property taxes is not required.

Grants

Unreimbursed expenditures due from grantor agencies are reflected in the basic financial statements as receivables and revenues. Grant revenues are recorded at the time eligible expenditures are incurred. Grant monies received prior to the occurrence of qualifying expenditures are recorded as unearned revenue.

Capital Assets

Capital assets are recorded at original or estimated original cost. Donated capital assets are recorded at their acquisition cost on the date donated. The District defines capital assets as assets with an initial cost of more than \$5,000 and an estimated life in excess of one year.

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 | 25 to 50 years |
| Furniture, fixtures and equipment | 5 to 20 years |

Long-term Debt

In the government-wide financial statements long-term debt is reported as liabilities in the Statement of Net Position. Premiums, discounts and amounts deferred on refunding are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bond issuance costs are expensed as incurred.

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-term Debt (Continued)

In the fund financial statements bond premiums and discounts, as well as bond issuance costs are recognized when incurred and not deferred. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Other Postemployment Benefit Plans

The District's net other postemployment benefits plan (OPEB) asset/liability, deferred inflows and outflows related to OPEB, and OPEB benefit/expense have been determined on the basis reported by Oregon Public Employees Retirement System (OPERS). Additionally, the District's total OPEB obligation, deferred inflows and outflows related to OPEB, and OPEB benefit/expense for the implicit subsidy have been actuarially determined. These amounts are recognized in the government-wide financial statements.

Pension Obligations

The District's net pension liability, deferred inflows and outflows related to pensions, and pension expense have been determined on the basis reported by Oregon Public Employees Retirement System (OPERS).

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position/Balance Sheet reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category, deferred outflows related to OPEB and deferred outflows related to pension, in the Statement of Net Position.

In addition to liabilities, the Statement of Net Position/Balance Sheet reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has three types of deferred inflows, one of which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from one source: property taxes. This amount is deferred and recognized as an inflow of resources (revenue) in the period that the amount becomes available. In the Statement of Net Position, deferred outflows related to OPEB and deferred outflows related to pension are recognized.

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Equity

Governmental Accounting Standards Board (GASB) Statement No. 54 requires analysis and presentation of fund balance in five categories. They are:

- Non-Spendable – Includes items not in spendable form, such as prepaid items and inventory.
- Restricted – Includes items that are restricted by external creditors, grantors or contributors, or restricted by constitutional provisions or enabling legislation.
- Committed – Includes items committed by the District’s Board of Directors, by formal board action.
- Assigned – Includes items assigned for specific uses, authorized by the District’s Superintendent and/or Business Manager.
- Unassigned – This is the residual classification used for those balances not assigned to another category.

Budget

A budget is prepared and legally adopted for all funds on the modified accrual basis of accounting. The budget is adopted by the Board, appropriations made, and the tax levy is declared not later than June 30.

The resolution authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations. Appropriations are established at the major function level (instruction, support services, enterprise and community services and debt service), for each fund. The detail budget document, however, is required to contain more specific, detailed information for the aforementioned expenditure categories. Unexpected additional resources may be added to the budget through the use of a supplemental budget and appropriation resolution. Supplemental budgets less than 10% of a fund’s original budget may be adopted by the Board at a regular meeting. A supplemental budget greater than 10% of a fund’s original budget requires hearings before the public, publication in newspapers and approval by the Board. Original and supplemental budgets may be modified by the use of appropriation transfers between the levels of control (major function levels) with Board approval. During the year, there were no appropriation transfers or supplemental budgets adopted. Appropriations lapse at the end of each fiscal year.

Net Position

Net position represents the difference between the District’s total assets and total liabilities and deferred inflows/outflows of resources.

District net position currently has three components:

Net investment in capital assets, represents capital assets less accumulated depreciation and outstanding principal of capital asset related debt, net of unspent bond proceeds.

Restricted net position represents net position upon which constraints have been placed, either externally by creditors, grantors, contributors or others, or legally constrained by law.

Unrestricted net position represents net position that does not meet the definition of “restricted” or “net investment in capital assets”.

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position (Continued)

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

The District maintains a common cash, cash equivalents and investment pool for all District funds. The types of investments in which the District may invest are restricted by State of Oregon statutes. Authorized investments include general obligations of the United States Government and its agencies, obligations of the States of Oregon, California, Washington and Idaho that have a rating of AA or better, A-1 commercial paper and banker’s acceptances, AA rated corporate bonds, time deposits, repurchase agreements and the State of Oregon Treasurer’s Local Government Investment Pool (LGIP).

At June 30, 2019, the District's cash, cash equivalents, and investments are comprised of the following:

| | <u>Fair Value Measurement</u> | | <u>Total</u> | <u>Weighted Average Maturity (in Years)</u> |
|---|-------------------------------|----------------------|----------------------|---|
| | <u>N/A</u> | <u>Level 2</u> | | |
| Cash on hand | \$ 104 | \$ - | \$ 104 | - |
| Deposits with financial institutions | 717,268 | - | 717,268 | - |
| Money market with financial institutions | 14,299 | - | 14,299 | - |
| Investments: | | | | |
| State of Oregon Treasurer's Local Government Investment Pool | 16,958,774 | - | 16,958,774 | - |
| U.S. Agency obligations | - | 24,416,660 | 24,416,660 | 0.72 |
| | <u>\$ 17,690,445</u> | <u>\$ 24,416,660</u> | <u>\$ 42,107,105</u> | 0.42 |

At June 30, 2019, cash, cash equivalents, and investments are reflected in the financial statements as follows:

| | <u>Governmental Activities</u> |
|---------------------------|------------------------------------|
| Cash and cash equivalents | \$ 17,690,445 |
| Investments | 24,416,660 |
| | <u>\$ 42,107,105</u> |

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Deposits with Financial Institutions

At June 30, 2019, the carrying amount of the District's deposits was \$717,268 and the bank balance was \$5,888,266. The District's deposits with financial institutions are insured up to \$250,000 by the Federal Depository Insurance Corporation (the FDIC) per financial institution. Of the bank balance, \$250,000 was covered by the FDIC. As required by Oregon Revised Statutes, deposits in excess of federal depository insurance were held at a qualified depository for public funds. All qualified depositories for public funds are included in the multiple financial institution collateral pool that is maintained by and in the name of the Office of the State Treasurer. As a result, the District's remaining deposits in excess of FDIC insurance of \$5,638,266 are considered to be fully collateralized.

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The District's investment policy allows for 100% of the portfolio to be invested in U.S. Treasury or Agency obligations. While the investment policy allows for 100% of the portfolio to be invested in LGIP up to the limit imposed by the State of Oregon. Additionally, the policy allows for up to 75 % in certificate of deposits, 50% in banker's acceptances, 25% in state and local government securities, and 15% in repurchase agreements.

All of the investments in U.S. Agency obligations are rated AA+ by Standard & Poor's Corporation and Aaa by Moody's Investors Service. The LGIP is unrated.

As mentioned above, Oregon Revised Statutes limit the investments that the District may have. The District is in compliance with these statutes at June 30, 2019.

3. RECEIVABLES

Receivables are comprised of the following:

| | |
|----------------|----------------------------|
| Property taxes | \$ 196,861 |
| Grants | 2,467,199 |
| Other | <u>125,629</u> |
| | <u><u>\$ 2,789,689</u></u> |

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

4. CAPITAL ASSETS

Capital assets activity for the year was as follows:

| | Balance June 30, 2018 | Increases | Decreases | Balance June 30, 2019 |
|---|--------------------------|---------------------|-------------------|--------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,114,538 | \$ - | \$ - | \$ 1,114,538 |
| Construction in progress | 1,387,776 | 7,500,856 | 859,585 | 8,029,047 |
| Total capital assets not being depreciated | <u>2,502,314</u> | <u>7,500,856</u> | <u>859,585</u> | <u>9,143,585</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 24,283,946 | 859,585 | (23,361) | 25,120,170 |
| Furniture, fixtures and equipment | 1,259,195 | 77,602 | (40,330) | 1,296,467 |
| Total capital assets being depreciated | <u>25,543,141</u> | <u>937,187</u> | <u>(63,691)</u> | <u>26,416,637</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (11,731,754) | (574,388) | 23,361 | (12,282,781) |
| Furniture, fixtures and equipment | (857,082) | (44,929) | 40,330 | (861,681) |
| Total accumulated depreciation | <u>(12,588,836)</u> | <u>(619,317)</u> | <u>63,691</u> | <u>(13,144,462)</u> |
| Total capital assets being depreciated, net | <u>12,954,305</u> | <u>317,870</u> | <u>-</u> | <u>13,272,175</u> |
| Total capital assets, net | <u>\$ 15,456,619</u> | <u>\$ 7,818,726</u> | <u>\$ 859,585</u> | <u>\$ 22,415,760</u> |

Depreciation expense for the year was charged to the following functions/programs:

| | | |
|------------------------------------|----|----------------|
| Instruction: | | |
| Regular programs | \$ | 286,483 |
| Special programs | | 104,020 |
| Support services: | | |
| Instructional staff services | | 24,804 |
| School administration | | 55,542 |
| Business services | | 116,906 |
| Enterprise and community services: | | |
| Food service | | <u>31,562</u> |
| Total | \$ | <u>619,317</u> |

5. LONG-TERM DEBT

The District has issued general obligation bonds for the improvement and construction of education facilities and limited tax pension bonds for the payment of a portion of its estimated OPERS unfunded actuarial liability. The debt service fund is typically used to liquidate long-term debt.

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

5. LONG-TERM DEBT (Continued)

Bonds payable transactions for the year are as follows:

| | <u>Original Issue</u> | <u>June 30, 2018</u> | <u>Redeemed</u> | <u>June 30, 2019</u> | <u>Due Within One Year</u> |
|---|-----------------------|----------------------|-------------------|----------------------|--------------------------------|
| General Obligation Bonds: | | | | | |
| Series 2018A, Deferred Interest Issued February 22, 2018 imputed interest at 4.2-4.4% | \$ 15,378,009 | \$ 15,378,009 | \$ - | \$ 15,378,009 | \$ - |
| Series 2018B, Current Interest Issued February 22, 2018 interest at 3-5% | 26,820,000 | 26,820,000 | 95,000 | 26,725,000 | 580,000 |
| Limited Tax Pension Bonds: | | | | | |
| Series 2013A&B Issued April 21, 2003, imputed interest at 1.5-6.3% | 11,859,719 | <u>7,864,067</u> | <u>318,998</u> | <u>7,545,069</u> | <u>317,673</u> |
| Total bonds payable | | 50,062,076 | 413,998 | 49,648,078 | 897,673 |
| Premiums on bonds payable | | <u>4,315,436</u> | <u>240,303</u> | <u>4,075,133</u> | <u>240,303</u> |
| Bonds payable, net | | <u>\$ 54,377,512</u> | <u>\$ 654,301</u> | <u>\$ 53,723,211</u> | <u>\$ 1,137,976</u> |

Future maturities of bond principal and interest are as follows:

| Fiscal Year Ending June 30, | Principal | Interest |
|--------------------------------|----------------------|----------------------|
| 2020 | \$ 897,673 | \$ 2,225,601 |
| 2021 | 990,024 | 2,270,850 |
| 2022 | 1,084,019 | 2,316,605 |
| 2023 | 1,178,353 | 2,359,171 |
| 2024 | 2,125,000 | 1,547,924 |
| 2025-2029 | 11,790,000 | 5,804,462 |
| 2030-2034 | 10,580,000 | 3,083,750 |
| 2035-2039 | 9,793,125 | 6,044,375 |
| 2040-2044 | 6,445,808 | 11,924,192 |
| 2045-2048 | <u>4,764,076</u> | <u>12,010,924</u> |
| Total | <u>\$ 49,648,078</u> | <u>\$ 49,587,854</u> |

6. OTHER POST-EMPLOYMENT BENEFITS

The other postemployment benefits (OPEB) for the District includes two separate plans. The District provides an implicit rate subsidy for retiree health insurance premiums, and a contribution to the State of Oregon's PERS cost-sharing multiple-employer defined health insurance benefit plan.

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

6. OTHER POST-EMPLOYMENT BENEFITS (Continued)

Financial Statement Presentation

The District's two OPEB plans are presented in the aggregate on the Statement of Net Position. The amounts on the financial statements relate to the plans as follows:

| | Implicit Rate Subsidy Plan | PERS RHIA Plan | Totals |
|-------------------------------|-------------------------------|-------------------|------------|
| Net OPEB Asset | \$ - | \$ 141,611 | \$ 141,611 |
| Deferred Outflow of Resources | 71,377 | 48,591 | 119,968 |
| Total OPEB Liability | 1,071,007 | - | 1,071,007 |
| Deferred Inflow of Resources | 59,949 | 44,701 | 104,650 |
| OPEB Expense (Benefit) | 108,554 | (15,911) | 92,643 |

Implicit Subsidy

Plan Description

The District does not have a formal postemployment benefits plan for its employees; however, the District is required by Oregon Revised Statutes 243.303 to provide retirees with group health and dental insurance from the date of retirement to age 65 at the same rate provided to current employees. This "plan" is not a stand-alone plan and therefore does not issue its own financial statements.

Benefits Provided

The plan provides eligible retirees and their dependents under age 65 the same health care coverage at the same premium rate as offered to active employees. The retiree is responsible for the premiums. As of the valuation date of July 1, 2017, the following employees were covered by the benefit terms:

| | |
|--|-----|
| Active employees | 221 |
| Inactive employees entitled to, but not yet receiving benefits | 3 |
| Inactive employees (or their beneficiaries) currently receiving benefits | 12 |
| Total | 236 |

Total OPEB Liability, OPEB Expense, and Deferred outflows of Resources and Deferred Inflows of Resources Related to OPEB

The District's total OPEB liability of \$1,071,007 was measured as of June 30, 2018 and was determined by an actuarial valuation as of July 1, 2017.

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

6. OTHER POST-EMPLOYMENT BENEFITS (Continued)

Implicit Subsidy (Continued)

Total OPEB Liability, OPEB Expense, and Deferred outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

| | Deferred Outflow of Resources | Deferred Inflow of Resources |
|--|----------------------------------|---------------------------------|
| Changes of assumptions | \$ - | \$ 59,949 |
| Contributions made subsequent to measurement date | 71,377 | - |
| Net Deferred Outflow/Inflow of Resources | \$ 71,377 | \$ 59,949 |

Deferred outflows of resources related to OPEB of \$71,377 resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Employer subsequent fiscal years | | Deferred Inflow of Resources (prior to post-measurement date contributions) |
|--|----|---|
| 2020 | \$ | (10,728) |
| 2021 | | (10,728) |
| 2022 | | (10,728) |
| 2023 | | (10,728) |
| 2024 | | (10,728) |
| Thereafter | | (6,309) |
| Total | \$ | (59,949) |

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

6. OTHER POST-EMPLOYMENT BENEFITS (Continued)

Implicit Subsidy (Continued)

Actuarial Assumptions and Other Inputs

| | |
|---|---|
| Valuation date | July 1, 2017 |
| Measurement date | June 30, 2018 |
| Actuarial Assumptions | |
| Actuarial cost method | Entry Age Normal |
| Inflation | 2.50 percent |
| Discount rate* | 3.87 percent (change from 3.58 percent in previous measurement period) |
| Salary increases | 3.50 percent |
| Healthcare cost trend rate | Medical and vision: 6.75 percent per year, decreasing to 4.25 percent Dental: 4.0 percent per year |
| Election and lapse rates | 55% of eligible employees; 60% of male members and 35% of female members will elect spouse coverage; 5% annual lapse rate |
| Withdrawal, retirement, and mortality rates | Based on the December Oregon PERS valuation (see Note 7 for additional information). |

*Discount rate was based on a 20-year general obligation bond yield index published by The Bond Buyer.

Changes in Total OPEB Liability

| | |
|---|---------------------|
| Balance as of June 30, 2018 | \$ 1,038,953 |
| Changes for the year: | |
| Service Cost | 80,359 |
| Interest on total OPEB liability | 38,923 |
| Effect of assumptions changes or inputs | (22,523) |
| Benefit payments | <u>(64,705)</u> |
| Balance as of June 30, 2019 | <u>\$ 1,071,007</u> |

Changes in assumptions is the result of the change in the discount rate from 3.58 to 3.87.

Sensitivity of the Total OPEB Liability

The following presents the District's total OPEB liability, as well as what the liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.87 percent) or 1-percentage-point higher (4.87 percent) than the current discount rate. A similar sensitivity analysis is then presented for changes in the healthcare trend assumption.

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

6. OTHER POST-EMPLOYMENT BENEFITS (Continued)

Implicit Subsidy (Continued)

| | <u>1% Decrease</u> <u>(2.87%)</u> | <u>Current Discount Rate</u> <u>(3.87%)</u> | <u>1% Increase</u> <u>(4.87%)</u> |
|------------------------|--|--|--|
| Discount Rate: | | | |
| Total OPEB Liability | \$ 1,150,565 | \$ 1,071,007 | \$ 997,235 |
| | <u>1% Decrease</u> <u>5.75% decreasing</u> <u>to 3.25%</u> | <u>Current Healthcare</u> <u>Cost Trend</u> <u>(6.75% decreasing</u> <u>to 4.25%)</u> | <u>1% Increase</u> <u>(7.75%</u> <u>decreasing</u> <u>to 5.25%)</u> |
| Healthcare Cost Trend: | | | |
| Total OPEB Liability | \$ 969,294 | \$ 1,071,007 | \$ 1,190,459 |

PERS Retirement Health Insurance Account

Plan Description

The District contributes to the PERS Retirement Health Insurance Account (RHIA) for each of its eligible employees. RHIA is a cost-sharing multiple-employer defined benefit other postemployment benefit plan administered by PERS. RHIA pays a monthly contribution toward the cost of Medicare companion health insurance premiums for eligible retirees. ORS 238.420 established this trust fund. Authority to establish and amend the benefit provisions of RHIA reside with the Oregon Legislature. The plan is closed to new entrants hired after August 29, 2003. PERS issues publicly available financial statements and required supplementary information. That report may be obtained by writing to Oregon Public Employees Retirement System, PO Box 23700, Tigard, OR 97281-3700, or online at http://Oregon.gov/PERS/section/financial_reports/financials.shtml.

Benefits Provided

Because RHIA was created by enabling legislation (ORS 238.420), contribution requirements of the plan members and the participating employers were established and may be amended only by the Oregon Legislature. ORS require that an amount equal to \$60 or the total monthly cost of Medicare companion health insurance premiums coverage, whichever is less, shall be paid from the RHIA established by the employer, and any monthly cost in excess of \$60 shall be paid by the eligible retired member in the manner provided in ORS 238.410. To be eligible to receive this monthly payment toward the premium cost, the member must: (1) have eight years or more of qualifying service in PERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in PERS, (2) receive both Medicare Parts A and B coverage, and (3) enroll in a PERS-sponsored health plan. A surviving spouse or dependent of a deceased PERS retiree who was eligible to receive the subsidy is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died and the member retired before May 1, 1991.

Contributions

PERS funding policy provides for employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. Employer contribution rates for the period were based on the December 31, 2016 actuarial valuation. The rates based on a percentage of payroll, first became

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

6. OTHER POST-EMPLOYMENT BENEFITS (Continued)

PERS Retirement Health Insurance Account (Continued)

effective July 1, 2017. The District's contribution rates for the period were 0.43% for Tier One/Tier Two and OPSRP members. The District's total for the year ended June 30, 2019 contributions was \$48,591.

OPEB Assets, Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2019, the District reported an asset of \$141,611 for its proportionate share of the OPERS net OPEB asset. The net OPEB asset was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2016 rolled forward to June 30, 2018. The District's proportion of the net OPEB asset was based on the District's contributions to the RHIA program during the measurement period relative to contributions from all participating employers. At the June 30, 2018 measurement date, the District's proportionate share was 0.1269%, which is an increase from its proportion of 0.0964% as of June 30, 2017.

OPEB Assets, Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

For the year ended June 30, 2019, the District recognized OPEB benefit from this plan of \$15,911. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to this OPEB plan from the following sources:

| | Deferred Outflow of Resources | Deferred Inflow of Resources |
|---|----------------------------------|---------------------------------|
| Differences between expected and actual experience | \$ - | \$ 8,025 |
| Changes of assumptions | - | 449 |
| Net difference between projected and actual earnings on investments | - | 30,531 |
| Changes in proportionate share | - | 5,696 |
| | - | 44,701 |
| Contributions made subsequent to measurement date | 48,591 | - |
| Net Deferred Outflow/Inflow of Resources | \$ 48,591 | \$ 44,701 |

Deferred outflows of resources related to OPEB of \$48,591 resulting from the District's contributions subsequent to the measurement date will be recognized as either a reduction of the net OPEB liability or an increase in the net OPEB asset in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Employer subsequent fiscal years | Deferred Inflow of Resources (prior to post-measurement date contributions) |
|--|---|
| 2020 | \$ (15,470) |
| 2021 | (15,305) |
| 2022 | (10,892) |
| 2023 | (3,034) |
| Total | \$ (44,701) |

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

6. OTHER POST-EMPLOYMENT BENEFITS (Continued)

PERS Retirement Health Insurance Account (Continued)

Actuarial Methods and Assumptions

The total OPEB liability in the December 31, 2016 actuarial valuation was determined using a retiree participation rate of 38% for healthy retirees and 20% of disabled retirees. Healthcare cost trend rates are not applicable as ORS stipulates \$60 monthly payment for healthcare insurance. All other actuarial methods and assumptions are consistent with those disclosed for the OPERS Pension Plan. See Note 7 for additional information on Actuarial Assumptions and Methods, the Long-Term Expected Rate of Return, and the Discount Rate.

Sensitivity of the District's proportionate share of the net OPEB liability (asset) to changes in the discount rate

The following presents the District's proportionate share of the net OPEB liability (asset) calculated using the discount rate of 7.20%, as well as what the District's proportionate share of the net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20%) or 1-percentage-point higher (8.20%) than the current rate:

| Discount Rate: | 1% Decrease (6.2%) | Current Discount Rate (7.2%) | 1% Increase (8.2%) |
|----------------------------|-----------------------|---------------------------------|-----------------------|
| Net OPEB Liability (Asset) | \$ (82,453) | \$ (141,611) | \$ (191,967) |

7. RETIREMENT PLANS

Pension Plan – The District is a participating employer in the State of Oregon Public Employees Retirement System (OPERS), a cost sharing multiple-employer defined benefit plan. All District employees are eligible to participate in the system after completing six months of service.

Plan description. Employees of the District are provided with pensions through OPERS. All the benefits of OPERS are established by the Oregon legislature pursuant to Oregon Revised Statute (ORS) Chapters 238 and 238A. The ORS Chapter 238 Defined Benefit Pension Plan is closed to new members hired on or after August 29, 2003. OPERS issues a publicly available financial report that can be obtained at:

<http://www.oregon.gov/pers/Pages/Financials/Actuarial-Financial-Information.aspx>.

Benefits provided under Chapter 238-Tier One / Tier Two

1. *Pension Benefits.* The OPERS retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary. A percentage (1.67 percent for general service employees) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefit results.

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

7. RETIREMENT PLANS (Continued)

Benefits provided under Chapter 238-Tier One / Tier Two (Continued)

1. *Pension Benefits (Continued).* A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment with a participating employer. General service employees may retire after reaching age 55. Tier One general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Tier Two members are eligible for full benefits at age 60. The ORS Chapter 238 Defined Benefit Pension Plan is closed to new members hired on or after August 29, 2003.
2. *Death Benefits.* Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance, provided one or more of the following conditions are met:
 - Member was employed by an OPERS employer at the time of death,
 - Member died within 120 days after termination of OPERS-covered employment,
 - Member died as a result of injury sustained while employed in a OPERS-covered job, or
 - Member was on an official leave of absence from an OPERS-covered job at the time of death.
3. *Disability Benefits.* A member with 10 or more years of creditable service who becomes disabled from other than duty-connected causes may receive a non-duty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member for disability benefits regardless of the length of OPERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 when determining the monthly benefit.
4. *Benefit Changes After Retirement.* Members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in the market value of equity investments.

Under ORS 238.360 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2015 and beyond will vary based on 1.25 percent on the first \$60,000 of annual benefit and 0.15 percent on annual benefits above \$60,000.

Benefits provided under Chapter 238A-OPSRP Pension Program (OPSRP).

The ORS 238A Defined Benefit Pension Program provides benefits to members hired on or after August 29, 2003. This portion of the OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age:

1. *General service:* 1.5 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65, or age 58 with 30 years of retirement credit.

A member of the OPSRP pension program becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, and, if the pension program is terminated, the date on which termination becomes effective.

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

7. RETIREMENT PLANS (Continued)

Benefits provided under Chapter 238A-OPSRP Pension Program (OPSRP) (Continued)

2. *Death Benefits.* Upon the death of a non-retired member, the spouse or other person who is constitutionally required to be treated in the same manner as the spouse, receives for life 50 percent of the pension that would otherwise have been paid to the deceased member.
3. *Disability Benefits.* A member who has accrued 10 or more years of retirement credits before the member becomes disabled or a member who becomes disabled due to job-related injury shall receive a disability benefit of 45 percent of the member's salary determined as of the last full month of employment before the disability occurred.
4. *Benefit Changes After Retirement.* Under ORS 238A.210 monthly benefits are adjusted annually through cost-of-living changes. Under current law, the cap on the COLA in fiscal year 2015 and beyond will vary based on 1.25 percent on the first \$60,000 of annual benefit and 0.15 percent on annual benefits above \$60,000.

Actuarial Valuations.

The employer contribution rates effective July 1, 2017, through June 30, 2019, were set using the entry age normal actuarial cost method.

For the Tier One/Tier Two component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (2) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over twenty years.

For the OPSRP Pension Program component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (2) an actuarially determined amount for funding a disability benefit component, and (3) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over sixteen years.

Actuarial Methods and Assumptions:

| | |
|-----------------------------------|---|
| Valuation Date | December 31, 2016 |
| Measurement Date | June 30, 2018 |
| Experience Study Report | 2016, published July 26, 2017 |
| Actuarial Assumptions: | |
| Actuarial Cost Method | Entry Age Normal |
| Inflation Rate | 2.50 percent |
| Investment Rate of Return* | 7.20 percent |
| Discount rate | 7.20 percent |
| Projected Salary Increases | 3.50 percent |
| Cost of living adjustments (COLA) | Blend of 2.00% COLA and graded COLA (1.25%/0.15%) in accordance with Moro decision; blended based on service. |

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

7. RETIREMENT PLANS (Continued)

Actuarial Valuations (Continued):

Mortality

Healthy retirees and beneficiaries:

RP-2014 Healthy annuitant, sex-distinct, generational with Unisex, Social Security Data Scale, with collar adjustments and set-backs as described in the valuation.

Active members:

RP-2014 Employees, sex-distinct, generational with Unisex, Social Security Data Scale, with collar adjustments and set-backs as described in the valuation.

Disabled retirees:

RP-2014 Disabled retirees, sex-distinct, generational with Unisex, Social Security Data Scale.

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years. The methods and assumptions shown above are based on the 2016 Experience Study which reviewed experience for the four-year period ending on December 31, 2016.

Discount Rate:

The discount rate used to measure the total pension liability was 7.20 percent for the Defined Benefit Pension Plan. 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 pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Defined Benefit Pension Plan was applied to all periods of projected benefit payments to determine the total pension liability.

Depletion Date Projection:

GASB Statement No. 68 generally requires that a blended discount rate be used to measure the Total Pension Liability. The long-term expected return on plan investments may be used to discount liabilities to the extent that the plan's Fiduciary Net Position is projected to cover benefit payments and administrative expenses. GASB Statement No. 68 does allow for alternative evaluations of projected solvency, if such evaluation can reliably be made.

Assumed Asset Allocation:

| <u>Asset Class/Strategy</u> | <u>Low Range</u> | <u>High Range</u> | <u>OIC Target</u> |
|-----------------------------|------------------|-------------------|-------------------|
| Cash | 0.0 % | 3.0 % | 0.0 % |
| Debt Securities | 15.0 | 25.0 | 20.0 |
| Public Equity | 32.5 | 42.5 | 37.5 |
| Real Estate | 9.5 | 15.5 | 12.5 |
| Private Equity | 13.5 | 21.5 | 17.5 |
| Alternative Equity | 0.0 | 12.5 | 12.5 |
| Opportunity Portfolio | 0.0 | 3.0 | 0.0 |
| Total | | | <u>100.0 %</u> |

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

7. RETIREMENT PLANS (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 June 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. The table below shows Milliman's assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC's description of each asset class was used to map the target allocation to the asset classes shown below. 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.

| <u>Asset Class</u> | <u>Target Allocation*</u> | <u>Annual Arithmetic Return</u> | <u>Compound Annual Return (Geometric)</u> | <u>Standard Deviation</u> |
|-----------------------------------|---------------------------|---------------------------------|---|---------------------------|
| Core Fixed Income | 8.00 % | 3.59 % | 3.49 % | 4.55 % |
| Short-Term Bonds | 8.00 | 3.42 | 3.38 | 2.70 |
| Bank/Leveraged Loans | 3.00 | 5.34 | 5.09 | 7.50 |
| High Yield Bonds | 1.00 | 6.90 | 6.45 | 10.00 |
| Large/Mid Cap US Equities | 15.75 | 7.45 | 6.30 | 16.25 |
| Small Cap US Equities | 1.31 | 8.49 | 6.69 | 20.55 |
| Micro Cap US Equities | 1.31 | 9.01 | 6.80 | 22.90 |
| Developed Foreign Equities | 13.13 | 8.21 | 6.71 | 18.70 |
| Emerging Market Equities | 4.13 | 10.53 | 7.45 | 27.35 |
| Non-US Small Cap Equities | 1.88 | 8.67 | 7.01 | 19.75 |
| Private Equity | 17.50 | 11.45 | 7.82 | 30.00 |
| Real Estate (Property) | 10.00 | 6.15 | 5.51 | 12.00 |
| Real Estate (REITS) | 2.50 | 8.26 | 6.37 | 21.00 |
| Hedge Fund of Funds - Diversified | 2.50 | 4.36 | 4.09 | 7.80 |
| Hedge Fund - Event-driven | 0.63 | 6.21 | 5.86 | 8.90 |
| Timber | 1.88 | 6.37 | 5.62 | 13.00 |
| Farmland | 1.88 | 6.90 | 6.15 | 13.00 |
| Infrastructure | 3.75 | 7.54 | 6.60 | 14.65 |
| Commodities | 1.88 | 5.43 | 3.84 | 18.95 |
| Assumed Inflation - Mean | | | 2.50 % | 1.85 % |

*Based on the OIC Statement of Investment Objectives and Policy Framework for the Oregon Public Employees Retirement Fund, revised as of June 7, 2017.

Contributions:

OPERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. This funding policy applies to the PERS Defined Benefit Plan and the Other Postemployment Benefit Plans.

Employer contribution rates during the period were based on the December 31, 2016 actuarial valuation. The rates, based on a percentage of payroll, first became effective July 1, 2017. The state of Oregon and certain schools, community colleges, and political subdivisions have made lump sum payments to establish side accounts, and their rates have been reduced.

Employer contributions for the year ended June 30, 2019 were \$1,068,780. The rates in effect for the fiscal year ended June 30, 2019 were: (1) Tier1/Tier 2 – 13.26 percent, and (2) OPSRP general service – 8.00 percent. These rates are reduced due to the District's side account. Rates would be 26.70 percent and 21.44 percent, respectively, if not for the side account.

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

7. RETIREMENT PLANS (Continued)

Pension Assets/Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

At June 30, 2019, the District reported a liability of \$13,778,627 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016 and rolled forward to June 30, 2018. The District's proportion of the net pension liability was based on the District's projected long-term contribution effort as compared to the total projected long-term contribution effort of all employers. At the June 30, 2018 measurement date, the District's proportion was 0.09095594 percent.

For the year ended June 30, 2019, the District recognized a pension expense of \$2,560,397 for the Defined Benefit Pension Plan. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflow of Resources</u> | <u>Deferred Inflow of Resources</u> |
|---|--|---|
| Differences between expected and actual experience | \$ 468,708 | \$ - |
| Changes of assumptions | 3,203,505 | - |
| Net difference between projected and actual earnings on investments | - | 611,849 |
| Changes in proportionate share | 544,971 | 96,991 |
| Differences between employer contributions and proportionate share of contributions | - | 837,032 |
| | <u>4,217,184</u> | <u>1,545,872</u> |
| Contributions made subsequent to measurement date | 1,068,780 | - |
| Net Deferred Outflow/Inflow of Resources | <u>\$ 5,285,964</u> | <u>\$ 1,545,872</u> |

\$1,068,780 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Employer subsequent fiscal years</u> | <u>Deferred Outflow/(Inflow) of Resources (prior to post- measurement date contributions)</u> |
|---|---|
| 2020 | \$ 1,620,702 |
| 2021 | 1,153,401 |
| 2022 | (236,152) |
| 2023 | 70,337 |
| 2024 | 63,024 |
| Total | <u>\$ 2,671,312</u> |

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

7. RETIREMENT PLANS (Continued)

Pension Assets/Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: (Continued)

Sensitivity of the District's proportionate share of the net pension asset/liability to changes in the discount rate. The following presents the District's proportionate share of the net pension asset/liability calculated using the discount rate of 7.20 percent, as well as what the District's proportionate share of the net pension asset/liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.20 percent) or 1-percentage-point higher (8.20 percent) than the current rate:

| | 1% Decrease (6.2%) | Current Discount Rate (7.2%) | 1% Increase (8.2%) |
|-----------------------|-------------------------------|---|-------------------------------|
| Discount Rate: | | | |
| Net Pension Liability | \$ 23,026,689 | \$ 13,778,637 | \$ 6,145,109 |

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued OPERS financial report. See OPERS' audited financial statements at: <https://www.oregon.gov/pers/Pages/Financials/Actuarial-Financial-Information.aspx>.

Changes in Plan Provisions Subsequent to Measurement Date

In 2019 the Oregon Legislature passed Senate Bill 1049, which made certain changes to PERS pension plans, which included impacts to benefits for future service. Subject salary used for PERS benefit calculations and contributions will be limited to \$195,000, indexed annually to the Consumer Price Index (CPI) [All Urban Consumers, West Region]. The Work After Retirement limits of 1,039 hours and 600 hours, for Tier One/Tier Two participants and OPSRP participants, respectively, will be removed for calendar years 2020 through 2024. Additionally, Tier One/Tier Two participants, earning \$2,500/month or more, will have 2.5% of their salary that is currently going to the IAP be redirected into an "Employee Pension Stability Account." OPSRP participants will have 0.75% of their salary that is currently going to the IAP be redirected into an "Employee Pension Stability Account." Participants will have the option to make additional after-tax contributions to their IAP accounts to make a full 6% contribution subject to the salary limit. There is no anticipated impact to inactive participants. The overall impact to the net pension liability and related balances is not known at this time. Additional information can be found at <https://www.oregon.gov/pers/MEM/Pages/SB1049.aspx>.

Defined Contribution Plan

OPSRP Individual Account Program (OPSRP IAP)

Pension Benefits

Participants in OPERS defined benefit pension plans also participate in their defined contribution plan. An Individual Account Program (IAP) becomes vested on the date the employee account is established or on the date the rollover account was established. If the employer makes optional employer contributions for a member, the member becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, the date the IAP is terminated, the date the active member becomes disabled, or the date the active member dies.

Upon retirement, a member of OPSRP IAP may receive the amounts in his or her employee account, rollover account, and vested employer account as a lump-sum payment or in equal installments over a 5-, 10-, 15-, 20-year period or an anticipated life span option. Each distribution option has a \$200 minimum distribution limit.

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

7. RETIREMENT PLANS (Continued)

Defined Contribution Plan (Continued)

Death Benefits

Upon the death of a non-retired member, the beneficiary receives in a lump sum the member's account balance, rollover account balance, and vested employer optional contribution account balance. If a retired member dies before the installment payments are completed, the beneficiary may receive the remaining installment payments or choose a lump-sum payment.

Contributions

The District has chosen to pay the employees' contributions to the plan. Six percent of covered payroll is paid for general service employees. For the year ended June 30, 2019, the District paid approximately \$636,000.

8. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft or damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. The District does not engage in risk financing activities where the risk is retained (self-insurance). Settlements have not exceeded insurance coverage for any of the preceding three years ended June 30, 2019.

9. COMMITMENTS AND CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by these agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the District. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although District management expects such amounts, if any, to be immaterial.

The District, in the regular course of business, is a defendant in various lawsuits. The likely outcome of these lawsuits is not presently determinable; however, in the opinion of the District's management the resolution of these matters will not have a material adverse effect on the financial condition of the District.

As of June 30, 2019, the District had contractual commitments related to bond construction costs of approximately \$31.4 million.

The District is dependent on the State of Oregon for a substantial portion of its operating funds. Due to a more stable economy in Oregon, future funding for school districts should hold steady or increase. The ultimate effect of this possible increase in funding on the District's future operations is not yet determinable.

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2019

10. FUND BALANCES

Fund balances by classification for the year ended June 30, 2019 are as follows:

| Fund Balances (Deficit): | General Fund | Food Services Fund | Special Revenue Fund | Debt Service Fund | Capital Projects Fund | Total |
|---------------------------------|-------------------------|-----------------------------------|-------------------------------------|----------------------------------|--------------------------------------|----------------------|
| <u>Nonspendable:</u> | | | | | | |
| Prepays | \$ 69,045 | \$ - | \$ - | \$ - | \$ - | \$ 69,045 |
| <u>Restricted:</u> | | | | | | |
| Student Body Funds | - | - | 468,622 | - | - | 468,622 |
| Special Projects | - | - | 5,805 | - | - | 5,805 |
| Energy Savings Projects | - | - | 296,686 | - | - | 296,686 |
| Construction Excise | - | - | - | - | 346,498 | 346,498 |
| Capital Improvements | - | - | - | - | 39,690,869 | 39,690,869 |
| Debt Service | - | - | - | 718,116 | - | 718,116 |
| | <u>-</u> | <u>-</u> | <u>771,113</u> | <u>718,116</u> | <u>40,037,367</u> | <u>41,526,596</u> |
| <u>Assigned:</u> | | | | | | |
| Salaries for 2019/20 | 511,540 | - | - | - | - | 511,540 |
| Surplus Sales | - | - | 11,644 | - | - | 11,644 |
| Food services | - | 13,855 | - | - | - | 13,855 |
| | <u>511,540</u> | <u>13,855</u> | <u>11,644</u> | <u>-</u> | <u>-</u> | <u>537,039</u> |
| <u>Unassigned</u> | | | | | | |
| | <u>1,156,228</u> | <u>-</u> | <u>(1,805)</u> | <u>-</u> | <u>-</u> | <u>1,154,423</u> |
| Total Fund Balances | <u>\$ 1,736,813</u> | <u>\$ 13,855</u> | <u>\$ 780,952</u> | <u>\$ 718,116</u> | <u>\$ 40,037,367</u> | <u>\$ 43,287,103</u> |

REQUIRED SUPPLEMENTARY INFORMATION

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)
OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM

Last 10 Fiscal Years

| Fiscal Year ¹ | Proportion of the net pension liability (asset) | Proportionate share of the net pension liability (asset) | Covered payroll | Proportionate share of the net pension liability (asset) as a percentage of its covered payroll | Plan fiduciary net position as a percentage of the total pension liability |
|--------------------------|---|---|------------------|--|--|
| 2019 | 0.09095594 % | \$ 13,778,627 | \$ 10,105,845 | 136.34 % | 82.07 % |
| 2018 | 0.09197140 % | 12,397,779 | 9,870,867 | 125.60 % | 83.12 % |
| 2017 | 0.08840541 % | 13,271,705 | 9,899,535 | 134.06 % | 80.53 % |
| 2016 | 0.07591663 % | 4,358,724 | 9,341,657 | 46.66 % | 91.88 % |
| 2015 | 0.07830880 % | (1,775,037) | 9,336,283 | (19.01) % | 103.60 % |
| 2014 | 0.07830880 % | 3,996,213 | 8,825,083 | 45.28 % | N/A ² |
| 2013 | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² |
| 2012 | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² |
| 2011 | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² |
| 2010 | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² |

¹ Measurement date is one year in arrears.

² 10-year trend information required by GASB Statement 68 will be presented prospectively.

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF PENSION CONTRIBUTIONS
OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM

Last 10 Fiscal Years

| <u>Fiscal Year</u> | <u>Contractually required contribution</u> | <u>Contributions in relation to the contractually required contribution</u> | <u>Contribution deficiency (excess)</u> | <u>District's covered payroll</u> | <u>Contributions as a percentage of covered payroll</u> |
|--------------------|--|---|---|---------------------------------------|---|
| 2019 | \$ 1,068,780 | \$ 1,068,780 | \$ - | \$ 10,638,773 | 10.05% |
| 2018 | 905,651 | 905,651 | - | 10,105,845 | 8.96% |
| 2017 | 459,438 | 459,438 | - | 9,870,867 | 4.65% |
| 2016 | 450,029 | 450,029 | - | 9,899,535 | 4.55% |
| 2015 | 819,405 | 819,405 | - | 9,341,657 | 8.77% |
| 2014 | 781,689 | 781,689 | - | 9,336,283 | 8.37% |
| 2013 | N/A ¹ | N/A ¹ | N/A ¹ | N/A ¹ | N/A ¹ |
| 2012 | N/A ¹ | N/A ¹ | N/A ¹ | N/A ¹ | N/A ¹ |
| 2011 | N/A ¹ | N/A ¹ | N/A ¹ | N/A ¹ | N/A ¹ |
| 2010 | N/A ¹ | N/A ¹ | N/A ¹ | N/A ¹ | N/A ¹ |

¹ 10-year trend information required by GASB Statement 68 will be presented prospectively.

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET OPEB LIABILITY (ASSET)
OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM

Last 10 Fiscal Years

| <u>Fiscal Year¹</u> | <u>Proportion of the net pension liability (asset)</u> | <u>Proportionate share of the net pension liability (asset)</u> | <u>Covered payroll</u> | <u>Proportionate share of the net pension liability (asset) as a percentage of its covered payroll</u> | <u>Plan fiduciary net position as a percentage of the total pension liability</u> |
|--------------------------------|--|---|------------------------|--|---|
| 2019 | 0.12686094 % | \$ (141,611) | \$ 10,105,845 | (1.40) % | 123.99 % |
| 2018 | 0.00096428 % | (40,243) | 9,870,867 | (0.41) % | 108.88 % |
| 2017 | 0.00103979 % | 28,237 | 9,899,535 | 0.29 % | N/A ² |
| 2016 | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² |
| 2015 | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² |
| 2014 | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² |
| 2013 | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² |
| 2012 | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² |
| 2011 | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² |
| 2010 | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² |

¹ Measurement date is one year in arrears.

² 10-year trend information required by GASB Statement 75 will be presented prospectively.

NORTH MARION SCHOOL DISTRICT No. 15
 Marion County, Oregon

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF OPEB CONTRIBUTIONS
OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM

Last 10 Fiscal Years

| <u>Fiscal Year</u> | <u>Contractually required contribution</u> | <u>Contributions in relation to the contractually required contribution</u> | <u>Contribution deficiency (excess)</u> | <u>District's covered payroll</u> | <u>Contributions as a percentage of covered payroll</u> |
|--------------------|--|---|---|---------------------------------------|---|
| 2019 | \$ 48,591 | \$ 48,591 | \$ - | \$ 10,638,773 | 0.46% |
| 2018 | 61,426 | 61,426 | - | 10,105,845 | 0.61% |
| 2017 | 48,007 | 48,007 | - | 9,870,867 | 0.49% |
| 2016 | N/A ¹ | N/A ¹ | N/A ¹ | N/A ¹ | N/A ¹ |
| 2015 | N/A ¹ | N/A ¹ | N/A ¹ | N/A ¹ | N/A ¹ |
| 2014 | N/A ¹ | N/A ¹ | N/A ¹ | N/A ¹ | N/A ¹ |
| 2013 | N/A ¹ | N/A ¹ | N/A ¹ | N/A ¹ | N/A ¹ |
| 2012 | N/A ¹ | N/A ¹ | N/A ¹ | N/A ¹ | N/A ¹ |
| 2011 | N/A ¹ | N/A ¹ | N/A ¹ | N/A ¹ | N/A ¹ |
| 2010 | N/A ¹ | N/A ¹ | N/A ¹ | N/A ¹ | N/A ¹ |

¹ 10-year trend information required by GASB Statement 75 will be presented prospectively.

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
IMPLICIT RATE SUBSIDY

Last 10 Fiscal Years

| <u>Fiscal Year¹</u> | <u>Beginning Total OPEB Liability</u> | <u>Service Cost</u> | <u>Interest on Total OPEB Liability</u> | <u>Effect of Assumption Changes or Inputs</u> | <u>Benefit Payments</u> | <u>Ending Total OPEB Liability</u> | <u>Covered Payroll</u> | <u>Total OPEB Liability as a % of Covered Payroll</u> |
|--------------------------------|---------------------------------------|---------------------|---|---|-------------------------|------------------------------------|------------------------|---|
| 2019 | \$ 1,038,953 | \$ 80,359 | \$ 38,923 | \$ (22,523) | \$ (64,705) | \$ 1,071,007 | \$ 10,105,845 | 10.60% |
| 2018 | 1,055,522 | 84,923 | 31,411 | (55,797) | (77,106) | 1,038,953 | 9,870,867 | 10.53% |
| 2017 | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² |
| 2016 | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² |
| 2015 | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² |
| 2014 | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² |
| 2013 | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² |
| 2012 | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² |
| 2011 | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² |
| 2010 | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² | N/A ² |

¹ Measurement date is one year in arrears.

² 10-year trend information required by GASB Statement 75 will be presented prospectively.

NORTH MARION SCHOOL DISTRICT No. 15

Marion County, Oregon

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2019

1. OREGON PUBLIC EMPLOYEE RETIREMENT PENSION PLAN (PERS)

Changes in Assumptions

A summary of key changes implemented with the December 31, 2016 actuarial valuation, rolled forward to June 30, 2018, which was used in the pension calculations and amounts reported for the fiscal year ended June 30, 2019, along with additional detail and a comprehensive list of changes in methods and assumptions from the prior actuarial valuation can be found at:

<http://www.oregon.gov/pers/Pages/Financials/Actuarial-Financial-Information.aspx>.

2. IMPLICIT RATE SUBSIDY

There are no assets accumulated in a trust that meets the criteria of GASB Statement 75 to pay related benefits.

Changes in Assumptions

The discount rate was changed from 3.58% to 3.87%

OTHER SUPPLEMENTARY INFORMATION

NORTH MARION SCHOOL DISTRICT No. 15

Marion County, Oregon

DEBT SERVICE FUND

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL**

YEAR ENDED JUNE 30, 2019

| | Budget | | Actual | Variance with Final Budget - Positive (Negative) |
|---|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| REVENUES: | | | | |
| Local sources: | | | | |
| Property taxes | \$ 1,772,851 | \$ 1,772,851 | \$ 1,850,348 | \$ 77,497 |
| Charges for services | 1,060,293 | 1,060,293 | 1,103,469 | 43,176 |
| Earnings on investments | 9,500 | 9,500 | 27,592 | 18,092 |
| Other | - | - | 190 | 190 |
| Total revenues | <u>2,842,644</u> | <u>2,842,644</u> | <u>2,981,599</u> | <u>138,955</u> |
| EXPENDITURES: | | | | |
| Debt Service | 2,986,025 | 2,986,025 | 2,985,904 | 121 |
| Contingency | 471,619 | 471,619 | - | 471,619 |
| Total expenditures | <u>3,457,644</u> | <u>3,457,644</u> | <u>2,985,904</u> | <u>471,740</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND CHANGE IN FUND BALANCE | <u>(615,000)</u> | <u>(615,000)</u> | <u>(4,305)</u> | <u>610,695</u> |
| FUND BALANCE, June 30, 2018 | <u>715,000</u> | <u>715,000</u> | <u>722,421</u> | <u>7,421</u> |
| FUND BALANCE, June 30, 2019 | <u>\$ 100,000</u> | <u>\$ 100,000</u> | <u>\$ 718,116</u> | <u>\$ 618,116</u> |

NORTH MARION SCHOOL DISTRICT No. 15

Marion County, Oregon

CAPITAL PROJECTS FUND**SCHEDULE OF REVENUES, EXPENDITURES, OTHER FINANCING SOURCES
AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL****YEAR ENDED JUNE 30, 2019**

| | Budget | | Actual | Variance with Final Budget - Positive (Negative) |
|--|---------------------|---------------------|----------------------|---|
| | Original | Final | | |
| REVENUES: | | | | |
| Local sources: | | | | |
| Earnings on investments | \$ 402,000 | \$ 402,000 | \$ 1,209,425 | \$ 807,425 |
| Construction excise tax and other | 105,000 | 105,000 | 116,243 | 11,243 |
| State sources | 1,966,000 | 1,966,000 | 1,987,982 | 21,982 |
| Total revenues | <u>2,473,000</u> | <u>2,473,000</u> | <u>3,313,650</u> | <u>840,650</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Support services | 35,000 | 35,000 | - | 35,000 |
| Facilities, acquisitions and construction | 16,130,500 | 16,130,500 | 7,303,563 | 8,826,937 |
| Contingency | 35,037,500 | 35,037,500 | - | 35,037,500 |
| Total expenditures | <u>51,203,000</u> | <u>51,203,000</u> | <u>7,303,563</u> | <u>43,899,437</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | <u>(48,730,000)</u> | <u>(48,730,000)</u> | <u>(3,989,913)</u> | <u>44,740,087</u> |
| OTHER FINANCING SOURCES | | | | |
| Proceed from bonds | <u>4,000,000</u> | <u>4,000,000</u> | <u>-</u> | <u>(4,000,000)</u> |
| NET CHANGE IN FUND BALANCE | <u>(44,730,000)</u> | <u>(44,730,000)</u> | <u>(3,989,913)</u> | <u>40,740,087</u> |
| FUND BALANCE, June 30, 2018 | <u>44,730,000</u> | <u>44,730,000</u> | <u>44,027,280</u> | <u>(702,720)</u> |
| FUND BALANCE, June 30, 2019 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 40,037,367</u> | <u>\$ 40,037,367</u> |

NORTH MARION SCHOOL DISTRICT No. 15
Marion County, Oregon

AGENCY FUND

SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES

YEAR ENDED JUNE 30, 2019

| | <u>Balance</u> <u>June 30, 2018</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>June 30, 2019</u> |
|---------------------------|--|-----------------------------|-----------------------------|--|
| <u>ASSETS</u> | | | | |
| Cash and cash equivalents | \$ 19,467 | \$ - | \$ 19,467 | \$ - |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| <u>LIABILITIES</u> | | | | |
| Held in trust | \$ 19,467 | \$ - | \$ 19,467 | \$ - |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

NORTH MARION SCHOOL DISTRICT No. 15

Marion County, Oregon

**SUPPLEMENTAL INFORMATION AS REQUIRED BY
THE OREGON DEPARTMENT OF EDUCATION**

YEAR ENDED JUNE 30, 2019

School Business Managers and Auditors:

This page is a required part of your annual audited financial statements. Please make sure it is included.

Part A is needed for computing Oregon's full allocation for ESEA, Title I & other Federal Funds for Education.

A. Energy Bill for Heating - **All Funds:**

Please enter your expenditures for electricity, heating fuel, and water & sewage for these Functions & Objects.

| | Objects 325 & 326 & *327 |
|---------------|--------------------------|
| Function 2540 | \$ 418,132 |
| Function 2550 | \$ - |

B. Replacement of Equipment - **General Fund:**

Include all General Fund expenditures in object 542, except for the following exclusions:

Exclude these functions:

1113,1122 & 1132 Co-curricular Activities
1140 Pre-Kindergarten
1300 Continuing Education
1400 Summer School

Exclude these functions:

4150 Construction
2550 Pupil Transportation
3100 Food Service
3300 Community Services

| |
|----------|
| \$ 9,474 |
|----------|

* **Object code 327** (water and sewage) has been added to Part A to be included in the Function 2540 and 2550 totals.

NORTH MARION SCHOOL DISTRICT No. 15

Marion County, Oregon

MEASURE 5 TAXABLE VALUE AND TOP 25 TAXPAYERS

YEAR ENDED JUNE 30, 2019

2018 - 2019 Measure 5 Taxable Value: \$ 1,578,073,863

| <u>2018-2019 Top 25 Taxpayers</u> | <u>M5 Assessed Value</u> | <u>Total Tax</u> |
|--|---------------------------------|-------------------------|
| COLUMBIA HELICOPTERS INC | \$ 23,274,402 | \$ 250,966 |
| US LEASECO INC | 19,866,610 | 214,220 |
| MARION AG SERVICE INC | 18,622,722 | 209,102 |
| PORTLAND GENERAL ELECTRIC CO | 16,599,000 | 192,449 |
| CENTURYLINK | 15,280,000 | 169,800 |
| NORTHWEST NATURAL GAS CO | 11,456,000 | 162,202 |
| DONALD INDUSTRIAL PARK LLC | 12,777,780 | 151,330 |
| HD AVIATION CORP | 13,107,990 | 148,706 |
| SMITH AURORA LLC | 11,683,800 | 125,985 |
| TLM HOLDINGS LLC | 8,216,950 | 97,027 |
| WILCO FARMERS | 6,700,299 | 84,353 |
| SUNBELT RENTALS INC | 5,409,261 | 75,483 |
| GK PROPERTIES LLC | 5,904,720 | 69,888 |
| QUIKRETE COMPANIES INC | 5,926,410 | 62,356 |
| LEATHERS LIMITED PARTNERSHIP | 5,505,340 | 60,933 |
| DEL MESA FARMS | 5,156,115 | 55,598 |
| R&R PROPERTY HOLDINGS INC | 3,755,690 | 54,295 |
| QUALITY TRADING CO LLC | 4,965,079 | 53,538 |
| WAVE DIVISION HOLDINS INC | 3,316,200 | 51,166 |
| NORTHWEST HAZELNUT COMPANY | 3,286,630 | 49,935 |
| NATIONAL AUTO TRUCKSTOPS | 4,208,810 | 45,383 |
| PBSL LLC | 3,089,730 | 44,668 |
| SLW PROPERTIES LLC | 3,937,250 | 44,507 |
| PACIFIC SKIES AVIATION LLC | 3,812,780 | 42,985 |
| ANDERSON HAY & GRAIN CO INC | 3,945,624 | 42,545 |

Source: Marion County, Oregon Assessor's Office; www.co.marion.or.us

SINGLE AUDIT SECTION



Talbot, Korvola
& Warwick, LLP

4800 Meadows Road, Suite 200
Lake Oswego, OR 97035

P 503.274.2849
F 503.274.2853

www.tkw.com

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
North Marion School District No. 15
Aurora, Oregon

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States the financial statements of the governmental activities and each major fund of North Marion School District No. 15, Marion County, Oregon (the District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 6, 2019.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, described in the accompanying *Schedule of Findings and Questioned Costs* as item 2019-001 that we consider to be a significant deficiency.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying *Schedule of Findings and Questioned Costs* as item 2019-001.



RSM US Alliance provides its members with access to resources of RSM US LLP. RSM US Alliance member firms are separate and independent businesses and legal entities that are responsible for their own acts and omissions, and each are separate and independent from RSM US LLP. RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax, and consulting firms. Members of RSM US Alliance have access to RSM International resources through RSM US LLP but are not member firms of RSM International. Visit rsmus.com/about-us for more information regarding RSM US LLP and RSM International. The RSM™ logo is used under license by RSM US LLP. RSM US Alliance products and services are proprietary to RSM US LLP.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (Continued)**

DISTRICT'S RESPONSE TO FINDINGS

The District's response to the findings identified in our audit is described in the accompanying *Schedule of Findings and Questioned Costs*. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Talbot, Kowola & Warwick LLP

Lake Oswego, Oregon
November 6, 2019



Talbot, Korvola
& Warwick, LLP

4800 Meadows Road, Suite 200
Lake Oswego, OR 97035

P 503.274.2849
F 503.274.2853

www.tkw.com

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
North Marion School District No. 15
Aurora, Oregon

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited North Marion School District No. 15, Marion County, Oregon (the District's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of District's major federal programs for the year ended June 30, 2019. The District's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.



RSM US Alliance provides its members with access to resources of RSM US LLP. RSM US Alliance member firms are separate and independent businesses and legal entities that are responsible for their own acts and omissions, and each are separate and independent from RSM US LLP. RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax, and consulting firms. Members of RSM US Alliance have access to RSM International resources through RSM US LLP but are not member firms of RSM International. Visit rsmus.com/about-us for more information regarding RSM US LLP and RSM International. The RSM™ logo is used under license by RSM US LLP. RSM US Alliance products and services are proprietary to RSM US LLP.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM and REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (Continued)**

OTHER MATTERS

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying *Schedule of Findings and Questioned Costs* as item 2019-001. Our opinion on each major federal program is not modified with respect to this matter.

The District's response to the noncompliance finding identified in our audit is described in the accompanying *Schedule of Findings and Questioned Costs*. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, described in the accompanying *Schedule of Findings and Questioned Costs* as item 2019-001 that we consider to be a significant deficiency.

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Zalbot, Kowola & Warwick LLP

Lake Oswego, Oregon
November 6, 2019

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NORTH MARION SCHOOL DISTRICT No. 15

Marion County, Oregon

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2019

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>Grant Period</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Number</u> | <u>Expend- itures</u> |
|---|-------------------------|------------------------------------|--------------------------------|---------------------------|
| <u>U.S. DEPARTMENT OF EDUCATION:</u> | | | | |
| PASSED THROUGH STATE DEPARTMENT OF EDUCATION: | | | | |
| Title I, Part A | | | | |
| Title I Grants to Local Educational Agencies | 2017-2018 | 84.010A | 45653 | \$ 34,040 |
| | 2018-2019 | 84.010A | 50446 | 310,833 |
| Total Title I, Part A | | | | <u>344,873</u> |
| Improving Teacher Quality State Grants | 2017-2018 | 84.367A | 45869 | 199 |
| | 2018-2019 | 84.367A | 49366 | 52,589 |
| Total Improving Teacher Quality | | | | <u>52,788</u> |
| English Language Acquisition State Grants | 2018-2019 | 84.365 | 50269 | 39,349 |
| Title IV Student Support and Academic Enrichment | 2017-2019 | 84.424 | 47782 | 10,352 |
| | 2018-2020 | 84.424 | 50782 | 3,295 |
| Total Title IV Student Support & Accademic Enrichment | | | | <u>13,647</u> |
| Special Education Cluster (IDEA): | | | | |
| Special Education - Grants to States | 2018-2019 | 84.027 | 49923 | 263,231 |
| Special Education - Grants to States | 2018-2019 | 84.027 | 49167 | 159 |
| Special Education - Grants to States | 2018-2020 | 84.173 | 50155 | 1,053 |
| Total Special Education Cluster (IDEA) | | | | <u>264,443</u> |
| TOTAL PASSED THROUGH STATE DEPARTMENT OF EDUCATION | | | | <u>715,100</u> |
| PASSED THROUGH WILLAMETTE EDUCATION SERVICE DISTRICT: | | | | |
| Migrant Education - State Grant Programs | 2018-2019 | 84.011 | N/A | <u>19,795</u> |
| PASSED THROUGH OREGON COMMUNITY FOUNDATION: | | | | |
| Gaining Early Awareness and Readiness for Undergraduate Programs | 2018-2019 | 84.334 | N/A | <u>42,000</u> |
| TOTAL U.S. DEPARTMENT OF EDUCATION | | | | <u>776,895</u> |

NORTH MARION SCHOOL DISTRICT No. 15

Marion County, Oregon

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

YEAR ENDED JUNE 30, 2019

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>Grant Period</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Number</u> | <u>Expend- itures</u> |
|---|-------------------------|------------------------------------|--------------------------------|---------------------------|
| <u>U.S. DEPARTMENT OF AGRICULTURE:</u> | | | | |
| PASSED THROUGH STATE | | | | |
| DEPARTMENT OF EDUCATION: | | | | |
| Child Nutrition Cluster: | | | | |
| School Breakfast Program | 2018-2019 | 10.553 | N/A | <u>\$ 188,415</u> |
| National School Lunch Program | 2018-2019 | 10.555 | N/A | 478,369 |
| Donated Commodities | 2018-2019 | 10.555 | N/A | <u>83,583</u> |
| | | | | <u>561,952</u> |
| Summer Food Service Program for Children | 2018-2019 | 10.559 | N/A | <u>64,103</u> |
| Total Child Nutrition Cluster | | | | <u>814,470</u> |
| Child & Adult Care Program | 2018-19 | 10.558 | | <u>4,205</u> |
| | | | | <u>818,675</u> |
| TOTAL U.S. DEPARTMENT OF AGRICULTURE | | | | <u>818,675</u> |
| TOTAL FEDERAL FINANCIAL ASSISTANCE | | | | <u>\$ 1,595,570</u> |

N/A - Not available

Notes:

1. This schedule is presented on the modified accrual basis of accounting.
2. Donated commodities are valued at their estimated fair value.
3. No amounts were passed through to subrecipients.
4. The District has elected not to use the 10% de minimus indirect cost rate as allowed under the Uniform Guidance.

NORTH MARION SCHOOL DISTRICT No. 15

Marion County, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2019

SECTION I - SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes No X

Significant deficiency(ies) identified? Yes X None Reported

Noncompliance material to financial statements noted? Yes No X

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? Yes No X

Significant deficiency(ies) identified? Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No X

Identification of major programs:

| CFDA NUMBER | NAME OF PROGRAM OR CLUSTER |
|------------------------|-----------------------------------|
| 10.553, 10.555, 10.559 | Child Nutrition Cluster |

Dollar threshold used to distinguish between type A and type B programs \$ 750,000

Auditee qualified as low-risk auditee? Yes X No

SECTION II – FINANCIAL STATEMENT FINDINGS

See Section III, finding 2019-001.

NORTH MARION SCHOOL DISTRICT No. 15

Marion County, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2019

SECTION III – FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding 2019-001

| | |
|--|---|
| <i>Federal program:</i> | Child Nutrition Cluster (CFDA 10.533, 10.555, 10.559) |
| <i>Criteria:</i> | Per Title 2, Subtitle A, Chapter II, Subpart D, Section 202.303 (a), a non-Federal entity must "establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)." |
| <i>Condition:</i> | A significant deficiency in controls over compliance was identified for controls over compliance requirements A and B from 2019 Office of Management and Budget (OMB) <i>Compliance Supplement</i> . Controls over employee timecards were found not to be implemented as designed. |
| <i>Cause:</i> | Oversights by administrative staff, which may have been due to a lack of familiarity with the time keeping software utilized by the District. |
| <i>Effect or potential effect:</i> | A lack of effective internal controls over compliance for payroll expenditures could cause expenditure of funds for unallowable activities and/or costs. In the fiscal year ending June 30, 2019, payroll related expenditures for the Child Nutrition Cluster programs were \$542,671. |
| <i>Questioned costs:</i> | No known or estimated questioned costs identified as the one timecard that was not approved was for a salaried employee that is dedicated to the Food Service Program and the other timecards were approved. |
| <i>Context:</i> | Out of a population of 365 payroll transactions subjected to sampling, TKW noted the following out of 60 sample items: 1 timecard was not approved, 4 timecards were not approved timely, and 1 timecard was missing documentation of the date of review. |
| <i>Recommendation:</i> | The District should develop and implement policies and procedures to ensure that all timecards are reviewed in a timely manner and documented appropriately. |
| <i>Views of responsible officials:</i> | The District understands and concurs with this finding. |
| <i>Identification as a repeat finding, if applicable:</i> | Not Applicable |

NORTH MARION SCHOOL DISTRICT No. 15

Marion County, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2019

SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No Prior Year Findings to Report.



**North Marion
School District 15**

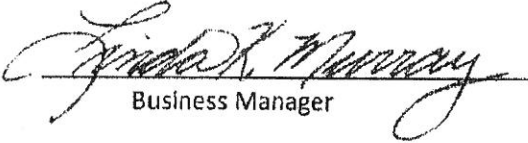
20256 Grim Road NE
Aurora, OR 97002

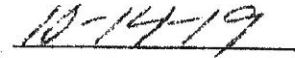
District Office Hours: 7:00 AM – 4:00 PM
Phone: (503) 678-7100
FAX: (503) 678-1473
www.nmarion.k12.or.us

October 14, 2019

Timesheet Approvals Corrective Action Plan: Finding 2019-001

In the future, we will conduct trainings for all administrative and department heads that are responsible for approving timesheets in our electronic system. In addition, weekly reminders are sent automatically from the electronic system. Monthly reminders will also be sent out from payroll.


Business Manager


Date

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
OREGON STATE REGULATIONS**



Talbot, Korvola
& Warwick, LLP

4800 Meadows Road, Suite 200
Lake Oswego, OR 97035

P 503.274.2849
F 503.274.2853

www.tkw.com

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH OREGON STATE REGULATIONS**

Board of Directors
North Marion School District No. 15
Aurora, Oregon

We have audited the financial statements of the governmental activities and each major fund of North Marion School District No. 15, Marion County, Oregon (the District), as of and for the year ended June 30, 2019, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 6, 2019. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

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 162-10-330 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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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).
- Indebtedness limitations, restrictions and repayment.
- Budgets legally required (ORS Chapter 294).
- Insurance and fidelity bonds in force or required by law.
- Programs funded from outside sources.
- Authorized investment of surplus funds (ORS Chapter 294).
- Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).
- State school fund factors and calculation.

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 162-10-330 of the Minimum Standards for Audits of Oregon Municipal Corporations.



RSM US Alliance provides its members with access to resources of RSM US LLP. RSM US Alliance member firms are separate and independent businesses and legal entities that are responsible for their own acts and omissions, and each are separate and independent from RSM US LLP. RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax, and consulting firms. Members of RSM US Alliance have access to RSM International resources through RSM US LLP but are not member firms of RSM International. Visit rsmus.com/about-us for more information regarding RSM US LLP and RSM International. The RSM™ logo is used under license by RSM US LLP. RSM US Alliance products and services are proprietary to RSM US LLP.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH OREGON STATE REGULATIONS (Continued)**

Page 2

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control that we consider to be a significant deficiency described in the *Schedule of Findings and Questions Costs* as item 2019-001.

PURPOSE OF THIS REPORT

This report is intended solely for the information and use of the Board of Directors, Oregon Secretary of State Audits Division, and management and is not intended to be and should not be used by anyone other than these specified parties.

Talbot, Kowola & Warwick LLP

Lake Oswego, Oregon
November 6, 2019