

FALLS CITY SCHOOL DISTRICT
FALLS CITY, OREGON

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2018



**12700 SW 72nd Ave.
Tigard, OR 97223**

**FALLS CITY SCHOOL DISTRICT
FALLS CITY, OREGON 97344**

**FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2018**

FALLS CITY SCHOOL DISTRICT
FALLS CITY, OREGON

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FALLS CITY SCHOOL DISTRICT
FALLS CITY, OREGON

PRINCIPAL OFFICIALS

BOARD OF DIRECTORS

TERM EXPIRES

Jami Kidd, Chair

June 30, 2019

Robert Young, Vice Chair

June 30, 2019

Larry Sickles

June 30, 2021

Bret Davis

June 30, 2021

Kristy Major

June 30, 2021

All board members will receive mail at the following address:

111 North Main Street
Falls City, Oregon 97344

ADMINISTRATION

Art Houghtaling, Superintendent



PAULY, ROGERS AND CO., P.C.
12700 SW 72nd Ave. ♦ Tigard, OR 97223
(503) 620-2632 ♦ (503) 684-7523 FAX
www.paulyrogersandcocpas.com

December 10, 2018

To the Board of Directors
Falls City School District
Falls City, Oregon

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Falls City School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the 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 the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' 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 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 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 modified cash basis financial position of the governmental activities and each major fund of Falls City School District, as of June 30, 2018, and the respective changes in modified cash basis financial position thereof for the year then ended in accordance with the basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Falls City School District's financial statements. The supplementary information, as listed in the table of contents, is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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, as listed in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

The listing of board members containing their term expiration dates, located before the table of contents, and Other Information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report on Other Legal and Regulatory Requirements

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated December 10, 2018 on our consideration of compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of 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.

A handwritten signature in dark ink, appearing to read 'Ken Allen', is positioned above the printed name and title of the auditor.

Kenneth Allen, CPA
Municipal Auditor
PAULY, ROGERS AND CO., P.C.

FALLS CITY SCHOOL DISTRICT
FALLS CITY, OREGON

BASIC FINANCIAL STATEMENTS

FALLS CITY SCHOOL DISTRICT
FALLS CITY, OREGON
Government-Wide Balance Sheet - Modified Cash Basis
June 30, 2018

ASSETS

Cash and Investments	<u>\$ 2,080,772</u>
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LIABILITIES

Payroll Liabilities	<u>\$ 110,497</u>
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TOTAL LIABILITIES	<u>110,497</u>
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NET POSITION, MODIFIED CASH BASIS

Restricted	283,089
Unrestricted	<u>1,687,186</u>

TOTAL LIABILITIES AND NET POSITION, MODIFIED CASH BASIS	<u>\$ 2,080,772</u>
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The accompanying notes are an integral part of this statement.

FALLS CITY SCHOOL DISTRICT
FALLS CITY, OREGON
Government-Wide Statement of Activities - Modified Cash Basis
For the Year Ended June 30, 2018

FUNCTIONS	DISBURSEMENTS	PROGRAM RECEIPTS		NET (DISBURSEMENT) RECEIPTS AND CHANGES IN NET POSITION
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	
Instruction	\$ 1,945,626	\$ -	\$ 498,046	\$ (1,447,580)
Support Services	1,139,624	-	84,586	(1,055,038)
Community Services	152,153	716	144,319	(7,118)
Facilities Acquisitions	59,909	-	-	(59,909)
Debt Service/Interest	24,691	-	-	(24,691)
Total Governmental Activities	<u>\$ 3,322,003</u>	<u>\$ 716</u>	<u>\$ 726,951</u>	<u>(2,594,336)</u>
General Receipts				
Property Taxes Levied for General Purposes				359,466
State School Fund				2,571,682
Earnings on Investments				23,047
Loan Proceeds				700,000
Miscellaneous				<u>135,225</u>
Total General Receipts				<u>3,789,420</u>
Changes in Net Position, Modified Cash Basis				1,195,084
Net Position, Modified Cash Basis - Beginning of Year				<u>775,191</u>
Net Position, Modified Cash Basis - End of Year				<u>\$ 1,970,275</u>

The accompanying notes are an integral part of this statement.

FALLS CITY SCHOOL DISTRICT
FALLS CITY, OREGON
Governmental Funds Balance Sheet - Modified Cash Basis
June 30, 2018

	General Fund	Special Revenue Fund	PERS Debt Service Fund	Totals Governmental Funds
ASSETS				
Cash and Investments	\$ 1,706,757	\$ 283,089	\$ 90,926	\$ 2,080,772
Total Assets	<u>\$ 1,706,757</u>	<u>\$ 283,089</u>	<u>\$ 90,926</u>	<u>\$ 2,080,772</u>
LIABILITIES:				
Payroll Liabilities	\$ 110,497	\$ -	\$ -	\$ 110,497
Total Liabilities	<u>110,497</u>	<u>-</u>	<u>-</u>	<u>110,497</u>
FUND BALANCE, MODIFIED CASH BASIS				
Restricted:				
For Student Activities	-	35,226	-	35,226
For Grants and Projects	-	247,863	-	247,863
Assigned	-	-	90,926	90,926
Unassigned	<u>1,596,260</u>	<u>-</u>	<u>-</u>	<u>1,596,260</u>
Total Fund Balance, Modified Cash Basis	<u>1,596,260</u>	<u>283,089</u>	<u>90,926</u>	<u>1,970,275</u>
Total Liabilities and Fund Balance, Modified Cash Basis	<u>\$ 1,706,757</u>	<u>\$ 283,089</u>	<u>\$ 90,926</u>	<u>\$ 2,080,772</u>

The accompanying notes are an integral part of this statement.

FALLS CITY SCHOOL DISTRICT
FALLS CITY, OREGON

Governmental Funds Statement of Receipts, Disbursements and Changes in Fund Balances - Modified Cash Basis
For the Year Ended June 30, 2018

	General Fund	Special Revenue Fund	PERS Debt Service Fund	Totals Governmental Funds
RECEIPTS:				
1000 Local Sources	\$ 394,243	\$ 313,320	\$ 90,926	\$ 798,489
2000 Intermediate Sources	-	2,425	-	2,425
3000 State Sources	2,455,980	115,702	-	2,571,682
4000 Federal Sources	15	535,402	-	535,417
	<u>2,850,238</u>	<u>966,849</u>	<u>90,926</u>	<u>3,908,013</u>
Total Receipts				
DISBURSEMENTS:				
1000 Instruction	1,477,403	521,877	-	1,999,280
2000 Supporting Services	1,074,367	96,684	-	1,171,051
3000 Community Services	1,500	154,849	-	156,349
4000 Facilities Acquisition and Construction	61,452	-	-	61,452
5000 Other Uses	24,691	-	-	24,691
500 Capital Outlay	106	-	-	106
	<u>2,639,519</u>	<u>773,410</u>	<u>-</u>	<u>3,412,929</u>
Total Disbursements				
Excess of Receipts Over, (Under) Disbursements	210,719	193,439	90,926	495,084
OTHER FINANCING SOURCES, (USES):				
Transfers	(49,318)	49,318	-	-
Loan Proceeds	700,000	-	-	700,000
	<u>650,682</u>	<u>49,318</u>	<u>-</u>	<u>700,000</u>
TOTAL OTHER FINANCING SOURCES, (USES)				
NET CHANGE IN FUND BALANCE, MODIFIED CASH BASIS	861,401	242,757	90,926	1,195,084
FUND BALANCE, MODIFIED CASH BASIS				
- BEGINNING OF YEAR	<u>734,859</u>	<u>40,332</u>	<u>-</u>	<u>775,191</u>
FUND BALANCE, MODIFIED CASH BASIS - END OF YEAR	<u>\$ 1,596,260</u>	<u>\$ 283,089</u>	<u>\$ 90,926</u>	<u>\$ 1,970,275</u>

The accompanying notes are an integral part of this statement.

FALLS CITY SCHOOL DISTRICT
FALLS CITY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

The Falls City School District is a municipal corporation governed by an elected five member board. As required by generally accepted accounting principles, these financial statements present Falls City School District (the primary government) and any component units. Component units, as established by GASB Statement 61, are separate organizations that are included in the District's reporting entity because of the significance of their operational or financial relationships with the District. The District has no component units.

B. BASIS OF PRESENTATION – FUND ACCOUNTING

Financial operations of the District are accounted for in the following major funds:

GENERAL FUND

This fund accounts for all financial resources and expenditures of the District, except those required to be accounted for in another fund. The principal source of receipts is state school fund and property taxes.

SPECIAL REVENUE FUND (Combined Grants)

The Special Revenue Fund accounts for receipts and disbursements restricted for specific projects or programs.

DEBT SERVICE FUND (PERS Bond)

The Special Revenue Fund accounts for receipts and disbursements restricted for PERS bond debt service payments and internal charges.

C. BASIS OF ACCOUNTING

The District follows the modified cash basis of accounting. Under the modified cash basis of accounting, receipts are recorded when received and disbursements are generally recorded as paid in cash, by check, or electronic funds transfer. The only modification to this practice is for payroll related disbursements, which are recorded at the time services were rendered. At the balance sheet date, the financial statements will report payroll liabilities for any costs that have been accrued, but not yet paid. This basis of accounting is applied to both the government-wide financial statements and the fund financial statements uniformly.

FALLS CITY SCHOOL DISTRICT
FALLS CITY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

This basis of accounting is not equivalent to the generally accepted accounting principles (GAAP) basis of accounting. Under GAAP the fund financial statements require that revenues be recorded as they become susceptible to accrual (i.e. when they become measurable and available) and expenditures recorded as goods and services received. For the government-wide statements GAAP requires that the accrual basis of accounting be applied. Under the accrual basis of accounting the cost of capital assets is capitalized and depreciated over their estimated useful lives, debt is recorded as incurred, revenues are recorded when earned irrespective of the collection of cash, and expenses, including depreciation, are recorded when incurred. Management believes the modified cash basis of accounting is preferable for the District due to the District's small size and the necessity of assessing available cash resources. The modified cash basis of accounting is allowed under Oregon Local Budget Law (ORS 294.445).

D. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The District has adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB 34), as they are applicable to modified cash basis financial statements. The Statement requires that the District present both government-wide and fund financial statements, and reconcile the two types of statements, if necessary.

The government-wide statements report information on the District irrespective of fund activity, and the fund financial statements report information using the District's funds. In total, the results presented using both of these methods are the same. Additionally, each of the District's funds is considered a "major fund" in accordance with GASB 34. General receipts are property and related taxes and interest. All disbursements of the District are categorized as program disbursements.

E. RETIREMENT PLANS

Substantially all of the District's employees are participants in the State of Oregon Public Employees Retirement System (PERS). For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about fiduciary net position of PERS and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. GASB Statements 68 and 71 have been implemented as of July 1, 2014.

F. BUDGET

A budget is prepared and legally adopted for each fund on the modified cash basis of accounting in the main program categories required by the Oregon Local Budget Law. The budgets for all funds are adopted on a basis consistent with another comprehensive basis of accounting (OCBOA). The District begins its budget process early in each fiscal year with the establishment of the budget committee. Recommendations are developed through late winter with the budget committee approving the budget in early spring. Public notices of the budget hearing are published generally in early spring with a public hearing being held approximately three weeks later. The board may amend the budget prior to adoption; however, budgeted disbursements for each fund may not be increased by more than ten percent. The budget is adopted and appropriations are made no later than June 30th.

FALLS CITY SCHOOL DISTRICT
FALLS CITY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Disbursements cannot legally exceed the above appropriations levels. Appropriations lapse at the fiscal year end. Supplemental appropriations may occur if the Board approves them due to a need which exists which was not determined at the time the budget was adopted. Disbursements budgets are appropriated at the following levels for each fund: Instruction, Supporting Services, Enterprise & Community Service, Facilities Acquisition & Construction, Other Uses; Debt Service & Transfers, and Contingencies.

Budget amounts shown in the basic financial statements reflect the original appropriations plus several appropriation transfers. For the period 2017-2018 the District's disbursements did not exceed appropriations.

G. PROPERTY TAXES

Real and personal property are assessed and property taxes become a lien against the property as of July 1 of each year. Property taxes are payable in three installments, following the lien date on November 15, February 15, and May 15. Taxes not received by May 15th are considered delinquent. Substantially all taxes receivable are considered collectible (even though not accrued on the modified cash basis statements) through liens on the underlying property.

H. CAPITAL ASSETS

Non-expendable equipment purchased is usually recorded as a capital outlay disbursement in the General Fund. The original historical cost of such assets has been estimated or tracked and is recorded by the District, but, under the modified cash basis of accounting the cost of capital assets of the District are not required to be displayed in the financial statements. The costs of significant betterments to capital assets are similarly recorded as disbursements and not capitalized. Depreciation is not recorded. When assets are donated, the estimated value is used to increase the balances of the capital assets. No receipts or disbursements are recorded since no cash was received or used when assets are donated. Normal repairs and maintenance are charged to disbursements as capital outlay or as materials and services. When property is retired or sold, any related proceeds are recorded in the General Fund.

I. INVESTMENTS

Investments are stated at cost which approximates fair value.

J. COMPENSATED ABSENCES

The District has a policy which permits employees to accumulate unused sick leave at the rate of one day per month over their working careers. The District does not compensate the employees for unused accumulations upon termination of employment.

FALLS CITY SCHOOL DISTRICT
FALLS CITY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. USE OF ESTIMATES

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

L. LONG-TERM OBLIGATIONS

Although the modified cash basis of accounting does not require that debt be displayed, the District believes that presentation of this information is important. Accordingly, the details of debt are presented in these notes to the financial statements.

M. NET POSITION

Net position comprises of the various net earnings from operations, nonoperating revenues, expenses and contributions of capital. Net position is classified in the following categories:

- Restricted – Consists of externally imposed restrictions on the District's net position.
- Unrestricted – Consists of all other assets that are not restricted.

N. FUND EQUITY

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved/undesignated were replaced with five new classifications – nonspendable, restricted, committed, assigned, and unassigned.

- Nonspendable fund balance represents amounts that are not in a spendable form. No portion of the District's fund balance falls under this classification.
- Restricted fund balance represents amounts that are legally restricted by outside parties for a specific purpose (such as debt covenants, grant requirements, donor requirements, or other governments) or are restricted by law (constitutionally or by enabling legislation).
- Committed fund balance represents funds formally set aside by the governing body for a particular purpose. The use of committed funds would be approved by resolution.
- Assigned fund balance represents amounts that are constrained by the expressed intent to use resources for specific purposes that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body or by an official to whom that authority has been given by the governing body. No assignments have been made by the District.
- Unassigned fund balance is the residual classification of the General Fund. Only the General Fund may report a positive unassigned fund balance. Other governmental funds would report any negative residual fund balance as unassigned.

FALLS CITY SCHOOL DISTRICT
FALLS CITY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The governing body has approved the following order of spending regarding fund balance categories: Restricted resources are spent first when both restricted and unrestricted (committed, assigned or unassigned) resources are available for expenditures. When unrestricted resources are spent, the order of spending is committed (if applicable), assigned (if applicable) and unassigned.

2. CASH AND INVESTMENTS

State statutes govern the District's cash management policies, because the District does not have an official investment policy. Statutes authorize the District to invest in banker's acceptances, time certificates of deposit, repurchase agreements, obligations of the United States and its agencies and instrumentalities, and the Oregon State Treasurer's Local Government Investment Pool. Deposits with financial institutions include bank demand deposits. Oregon Revised Statutes require deposits to be adequately covered by federal depository insurance or deposited at an approved depository as identified by the Treasury.

Investments

Investments in the Local Government Investment Pool (LGIP) are included in the Oregon Short-Term Fund, which is an external investment pool that is not a 2a-7-like external investment pool, and is not registered with the U.S. Securities and Exchange Commission as an investment company. Fair value of the LGIP is calculated at the same value as the number of pool shares owned. The unit of account is each share held, and the value of the position would be the fair value of the pool's share price multiplied by the number of shares held. Investments in the Short-Term Fund are governed by ORS 294.135, Oregon Investment Council, and portfolio guidelines issued by the Oregon Short-Term Fund Board, which establish diversification percentages and specify the types and maturities of investments. The portfolio guidelines permit securities lending transactions as well as investments in repurchase agreements and reverse repurchase agreements. The fund's compliance with portfolio guidelines can be found in their annual report when issued. The LGIP seeks to exchange shares at \$1.00 per share; an investment in the LGIP is neither insured nor guaranteed by the FDIC or any other government agency. Although the LGIP seeks to maintain the value of share investments at \$1.00 per share, it is possible to lose money by investing in the pool. We intend to measure these investments at book value since it approximates fair value, and since the entity uses the modified cash basis of accounting. Amounts in the State Treasurer's Local Government Investment Pool are not required to be collateralized. The audited financial reports of the Oregon Short Term Fund can be found here:

[http://www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-\(OSTF\).aspx](http://www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-(OSTF).aspx)

If the link has expired please contact the Oregon Short Term Fund directly.

Cash and Investments (recorded at fair value) consisted of:

Deposits with Financial Institutions:

Petty Cash	\$ 179
Demand Deposits	710,891
Investments	<u>1,369,702</u>
	<u><u>\$ 2,080,772</u></u>

FALLS CITY SCHOOL DISTRICT
FALLS CITY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)

The District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in months)	
		Less than 3	More than 3
State Treasurer's Local Government Investment Pool	\$ 1,369,702	\$ 1,369,702	\$ -
Total	\$ 1,369,702	\$ 1,369,702	\$ -

Interest Rate Risk

Oregon Revised Statutes require investments to not exceed a maturity of 18 months, except when the local government has adopted a written investment policy that was submitted to and reviewed by the OSTFB. The District does not have any investments that have a maturity date.

Credit Risk

Oregon Revised Statutes does not limit investments as to credit rating for securities purchased from US Government Agencies or USGSE. The State Investment Pool is not rated.

Custodial Credit Risk

At year-end, the District's net carrying amount of deposits was \$710,891 and the bank balance was \$789,050. Of these deposits, \$250,000 was covered by federal depository insurance. The remainder is collateralized by the Oregon Public Funds Collateralization Program.

3. CAPITAL ASSETS

The changes in capital assets for the year ended June 30, 2018 are as follows:

	7/1/2017	Additions	Deletions	6/30/2018
Land	\$ 37,411	\$ -	\$ -	\$ 37,411
Buildings	3,290,989	-	-	3,290,989
Equipment	299,048	-	-	299,048
Totals	\$ 3,627,448	\$ -	\$ -	\$ 3,627,448

4. PENSION PLAN

Plan Description – The Oregon Public Employees Retirement System (PERS) consists of a single cost-sharing multiple-employer defined benefit plan. All benefits of the system are established by the legislature pursuant to Oregon Revised Statute (ORS) Chapters 238 and 238A. Oregon PERS produces an independently audited Comprehensive Annual Financial Report which can be found at:

<http://www.oregon.gov/pers/documents/financials/CAFR/2017-CAFR.pdf>

If the link is expired please contact Oregon PERS for this information.

- a. **PERS Pension (Chapter 238).** The ORS Chapter 238 Defined Benefit Plan is closed to new members hired on or after August 29, 2003.

FALLS CITY SCHOOL DISTRICT
FALLS CITY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

4. PENSION PLAN (CONTINUED)

- i. **Pension Benefits.** The PERS 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 (2.0 percent for police and fire employees, and 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 benefits results. 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 (age 45 for police and fire members). General service employees may retire after reaching age 55. Police and fire members are eligible after reaching age 50. Tier 1 general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Police and fire member benefits are reduced if retirement occurs prior to age 55 with fewer than 25 years of service. Tier 2 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.
 - ii. **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 contributions are met:
 - member was employed by PERS employer at the time of death,
 - member died within 120 days after termination of PERS covered employment,
 - member died as a result of injury sustained while employed in a PERS-covered job, or
 - member was on an official leave of absence from a PERS-covered job at the time of death.
 - iii. **Disability Benefits.** A member with 10 or more years of creditable service who becomes disable 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 (including PERS judge members) for disability benefits regardless of the length of PERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 (55 for police and fire members) when determining the monthly benefit.
 - iv. **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 equity investments. Under ORS 238.360 monthly benefits are adjusted annually through cost-of-living changes. The cap on the COLA will vary based on the amount of the annual benefit.
- b. **OPSRP Pension Program (OPSRP DB).** The ORS Chapter 238A Defined Benefit Pension Program provides benefits to members hired on or after August 29, 2003.
- i. **Pension Benefits.** This portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age:
Police and fire: 1.8 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for police and fire members is age 60 or age 53 with 25 years of retirement credit. To be classified as a police and fire member, the individual must have been employed continuously as a police and fire member for at least five years immediately preceding retirement.

FALLS CITY SCHOOL DISTRICT
FALLS CITY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

4. PENSION PLAN (CONTINUED)

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 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.

- ii. **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.
- iii. **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.
- iv. **Benefit Changes After Retirement.** Under ORS 238A.210 monthly benefits are adjusted annually through cost-of-living changes. The cap on the COLA will vary based on the amount of the annual benefit.

Contributions – PERS 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. The 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, 2015 actuarial valuation, which became effective July 1, 2017. The state of Oregon and certain schools, community colleges, and political subdivision have made unfunded actuarial liability payments and their rates have been reduced. Employer contributions for the year ended June 30, 2018 were \$18,884, excluding amounts to fund employer specific liabilities.

Since the District's financial statements are reported on the modified cash basis, no amounts are reported on the balance sheet for pension related assets, deferred outflows, liabilities or deferred inflows. Had the District's financial statements been reported in accordance with GAAP, it would have reported a net pension liability of \$990,310 at June 30, 2018 for its proportionate share of the net pension asset. The pension asset was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. As of the measurement date of June 30, 2017, the District's proportion was .007 percent. Pension expense for the year ended June 30, 2018 was \$96,880. This was composed of the required employer contributions of \$18,884 and the District-paid employee pick-up of \$77,996.

The rates in effect for the year ended June 30, 2018 were:

- (1) Tier 1/Tier 2 – 6.59%
- (2) OPSRP general services – 1.26%

All assumptions, methods and plan provisions used in these calculations are described in the Oregon PERS system-wide GASB 68 reporting summary dated February 16, 2018. Oregon PERS produces an independently audited CAFR which can be found at: <http://www.oregon.gov/pers/documents/financials/CAFR/2017-CAFR.pdf>

FALLS CITY SCHOOL DISTRICT
FALLS CITY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

4. PENSION PLAN (CONTINUED)

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 (estimated amount necessary to finance benefits earned by employees during the current service year), (2) an amount for the amortization unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial liabilities being amortized over 20 years.

For the OPSRP Pension Program component of the PERS Defined Benefit Plan, this method produced an employer rate consisting of (a) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (b) an actuarially determined amount for funding a disability benefit component, and (c) 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 16 years.

Actuarial Methods and Assumptions:

Valuation date	December 31, 2015 rolled forward to June 30, 2017 measurement date
Experience Study Report	2014, Published September 23, 2015
Actuarial cost method	Entry Age Normal
Amortization method	Amortized as a level percentage of payroll as layered amortization bases over a closed period; Tier One/Tier Two UAL is amortized over 20 years and OPSRP pension UAL is amortized over 16 years
Asset valuation method	Market value of assets
Inflation rate	2.50 percent
Investment rate of return	7.50 percent
Projected salary increase	3.5 percent overall payroll growth
Cost of Living Adjustment	Blend of 2% COLA and graded COLA (1.25%/0.15%) in accordance with <i>Moro</i> decision, blend based on service
Mortality	Healthy retirees and beneficiaries: RP-2000 Sex-distinct, generational per Scale BB, with collar adjustments and set-backs as described in the valuation. Active members: Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation. Disabled retirees: Mortality rates are a percentage (70% for males and 95% for females) of the RP-2000 sex-distinct, generational per scale BB, disabled mortality table.

Actuarial valuations of an ongoing plan involve estimates of value of reported amounts 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 method and assumptions shown are based on the 2015 Experience Study which is reviewed for the four-year period ending December 31, 2015.

FALLS CITY SCHOOL DISTRICT
FALLS CITY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

4. PENSION PLAN (CONTINUED)

Assumed Asset Allocation:

Asset Class/Strategy	Low Range	High Range	OIC Target
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	14.0%	21.0%	17.5%
Alternative Equity	0.0%	12.5%	12.5%
Opportunity Portfolio	0.0%	3.0%	0.0%
Total			100%

(Source: June 30, 2017 PERS CAFR; p. 92)

Long-Term Expected Rate of Return:

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2015 the PERS Board reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. 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.

Asset Class	Target	Compound Annual Return (Geometric)
Core Fixed Income	8.00%	4.00%
Short-term Bonds	8.00%	3.61%
Bank/Leveraged Loans	3.00%	5.42%
High Yield Bonds	1.00%	6.20%
Large/Mid Cap US Equities	15.75%	6.70%
Small Cap US Equities	1.31%	6.99%
Micro Cap US Equities	1.31%	7.01%
Developed Foreign Equities	13.13%	6.73%
Emerging Market Equities	4.12%	7.25%
Non-US Small Cap Equities	1.88%	7.22%
Private Equity	17.50%	7.97%
Real Estate (Property)	10.00%	5.84%
Real Estate (REITS)	2.50%	6.69%
Hedge Fund of Funds - Diversified	2.50%	4.64%
Hedge Fund - Event-driven	0.63%	6.72%
Timber	1.88%	5.85%
Farmland	1.88%	6.37%
Infrastructure	3.75%	7.13%
Commodities	1.88%	4.58%
<i>Assumed Inflation - Mean</i>		2.50%

(Source: June 30, 2017 PERS CAFR; p. 69)

FALLS CITY SCHOOL DISTRICT
FALLS CITY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

4. PENSION PLAN (CONTINUED)

Discount Rate – The discount rate used to measure the total pension liability was 7.50 percent for the Defined Benefit Pension Plan. The projection of cash flows used to determine the discount rate assumed that contributions from the 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.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate – The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	\$ 1,687,668	\$ 990,310	\$ 407,189

Changes Subsequent to the Measurement Date

As described above, GASB 67 and GASB 68 require the Total Pension Liability to be determined based on the benefit terms in effect at the Measurement Date. Any changes to benefit terms that occurs after that date are reflected in amounts reported for the subsequent Measurement Date. However, Paragraph 80f of GASB 68 requires employers to briefly describe any changes between the Measurement Date and the employer's reporting date that are expected to have a significant effect on the employer's share of the collective Net Pension Liability, along with an estimate of the resulting change, if available.

At its July 28, 2017 meeting, the PERS Board lowered the assumed rate to 7.2 percent. For member transactions, this rate will take effect January 1, 2018. The current assumed rate is 7.5 percent and has been in effect for member transactions since January 1, 2016.

Deferred Compensation Plan

A deferred compensation plan is available to employees wherein they may execute an individual agreement with the District for amounts earned by them to not be paid until a future date when certain circumstances are met. These circumstances are: termination by reason of death, disability, resignation, or retirement. Payment to the employee will be made over a period not to exceed 15 years. The deferred compensation plan is one which is authorized under IRC Section 457 and has been approved in its specifics by a private ruling from the Internal Revenue Service. The assets of the plan are held by the administrator for the sole benefit of the plan participants and are not considered assets or liabilities of the District.

FALLS CITY SCHOOL DISTRICT
FALLS CITY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

4. PENSION PLAN (CONTINUED)

Pension Benefits:

Participants in OPERS defined benefit pension plans also participate in their defined contribution plan. An IAP member 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 the 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.

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:

Employees of the District pay six (6) percent of their covered payroll. The District's contributions to member IAP accounts for the year ended June 30, 2018 totaled \$77,996.

Retirement Health Insurance Account

Plan Description:

As a member of Oregon Public Employees Retirement System (OPERS) the District contributes to the 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 OPERS. RHIA pays a monthly contribution toward the cost of Medicare companion health insurance premiums of eligible retirees. Oregon Revised Statute (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 after January 1, 2004. OPERS issues a publicly available financial report that includes 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.

Funding Policy:

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 dollars or the total monthly cost of Medicare companion health insurance premiums coverage, whichever is less, shall be paid from the Retirement Health Insurance Account established by the employer, and any monthly cost in excess of \$60 dollars 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 OPERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in OPERS, (2) receive both Medicare Parts A and B coverage, and (3) enroll in an OPERS-sponsored health plan. A surviving spouse or dependent of a deceased OPERS retiree who was eligible to receive the subsidy is eligible to

FALLS CITY SCHOOL DISTRICT
FALLS CITY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

4. PENSION PLAN (CONTINUED)

receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from OPERS or (2) was insured at the time the member died and the member retired before May 1, 1991.

Participating districts are contractually required to contribute to RHIA at a rate assessed each year by OPERS, and the District currently contributes 0.53% of annual covered OPERF payroll and 0.45% of OPSRP payroll under a contractual requirement in effect until June 30, 2019. The OPERS Board of Trustees sets the employer contribution rates based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The District's contributions to RHIA for the years ended June 30, 2018 were \$5,819, which equaled the required contributions for the year.

Actuarial Methods and Assumptions:

Assets are valued at their market value. Gains and losses between odd-year valuations are amortized as a level percentage of combined valuation payroll over 20 years from the odd-year valuation in which they are first recognized. The assumed rate of return on investments is 7.5% compounded annually. The assumed consumer price inflation rate used is 2.5% per year.

Additional disclosures related to Oregon PERS not applicable to specific employers are available online, or by contacting PERS at the following address: PO Box 23700 Tigard, OR 97281-3700.
<http://www.oregon.gov/pers/EMP/Pages/GASB.aspx>

5. LONG TERM OBLIGATIONS

Pension Obligation Bond

In April 2003, the District issued a limited tax pension obligation bond in the amount of \$1,701,922 to finance its unfunded actuarially accrued liability (UAL) with the State of Oregon Public Employees Retirement System (PERS). The issuance of the bond was considered an advance refunding of the District's UAL and resulted in an estimated present value savings of approximately \$383,310 over the life of the bond. The actual savings realized by the District over the life of the bonds is uncertain because of the various legislative changes and legal issues pending with the PERS system which could impact the District's future required contribution rate.

Financing Agreement (QSCB Bonds)

In July, 2010, the District entered into a loan agreement in the amount of \$375,000 to provide funds for various capital projects throughout the district and educational programs. Loan payments began in December 2010 at an interest rate of 1.15%. Interest rates throughout the life of the loan range from 1.15% to 5.50%. Per the terms of the loan agreement, the interest will be paid by the federal government and the annual amount of the interest payments will be considered grant revenue to the District. The loan will mature in June 2025. This loan is backed by the full faith and credit of the school district.

Financing Agreement (2017 Loan)

In November, 2017, the District entered into a loan agreement in the amount of \$700,000 to provide funds for various capital projects throughout the district and educational programs. Loan payments will begin in December 2019 at an interest rate of 3.67%. Interest rates throughout the life of the loan will be 3.65% until the interest rate adjustment date of November 20, 2024. The loan will mature in June 2025. This loan is backed by the full faith and credit of the school district.

FALLS CITY SCHOOL DISTRICT
FALLS CITY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

5. LONG TERM OBLIGATIONS (CONTINUED)

Changes in long term debt outstanding are as follows:

<u>Issue Date</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Outstanding July 1, 2017</u>	<u>Issued</u>	<u>Matured & Redeemed</u>	<u>Outstanding June 30, 2018</u>
April 20, 2003	2.96-5.71%	\$ 1,701,922	\$ 1,189,264	\$ -	\$ 46,844	\$ 1,142,420
July 1, 2010	1.15-5.50%	375,000	255,000	-	-	255,000
November 20, 2017	3.68%	700,000	-	700,000	-	700,000
Total Debt Payable			<u>\$ 1,444,264</u>	<u>\$ 700,000</u>	<u>\$ 46,844</u>	<u>\$ 2,097,420</u>

Future maturities of long term debt are payable as follows:

<u>Fiscal Year</u>	<u>Pension Obligation Bond</u>		<u>2010 QSCB Bond</u>		<u>2017 Loan</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018-2019	\$ 45,282	\$ 126,879	\$ -	\$ 13,524	\$ 35,811	\$ 25,725
2019-2020	45,574	136,587	100,000	13,524	37,127	24,409
2020-2021	45,608	146,554	-	8,524	38,492	23,045
2021-2022	45,514	156,647	-	8,524	39,907	21,629
2022-2023	45,442	166,720	-	8,524	41,373	20,163
2023-2028	<u>915,000</u>	<u>152,372</u>	<u>155,000</u>	<u>17,048</u>	<u>507,290</u>	<u>35,710</u>
Total	<u>\$ 1,142,420</u>	<u>\$ 885,759</u>	<u>\$ 255,000</u>	<u>\$ 69,668</u>	<u>\$ 700,000</u>	<u>\$ 150,681</u>

6. PROPERTY TAX LIMITATIONS

The voters of the State of Oregon approved ballot Measure 5, a constitutional limit on property taxes for schools and non-school government operations, in November 1990. School operations include community colleges, local school districts and education service districts. The limitation provides that property taxes for school operations are limited to \$5.00 for each \$1,000 of property market value. This limitation does not apply to taxes levied for principal and interest on general obligation bonded debt. The result of this initiative has been that school districts have become more dependent upon state funding and less dependent upon property tax revenues as their major source of operating revenue. The voters of the State of Oregon passed ballot Measure 50 in May, 1997 to further reduce property taxes by replacing the previous constitutional limits on tax bases with a rate and value limit.

Measure 50 reduced the amount of operating property tax revenues available to the District for its 1997-98 fiscal year, and thereafter. This reduction is accomplished by rolling assessed property values back to their 1995-96 values less 10%, and limiting future tax value growth of each property to no more than 3% per year, subject to certain exceptions. Taxes levied to support bonded debt are exempted from the reductions. The Measure also sets restrictive voter approval requirements for most tax and many fee increases and new bond issues, and requires the State of Oregon to minimize the impact of the tax cuts to school districts.

FALLS CITY SCHOOL DISTRICT
FALLS CITY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

7. RISK MANAGEMENT

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

The District purchases commercial insurance for all such risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

8. COMMITMENTS AND CONTINGENCIES

The District participates in a number of federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Federal audits of these programs for the year ended June 30, 2018 have not been conducted. Accordingly, the District's compliance with grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District expects such amounts to be immaterial.

A substantial portion of operating funding is received from the State of Oregon. State funding is determined through state wide revenue projections that are paid to individual school districts based on pupil counts and other factors in the state school fund revenue formula. Since these projections and pupil counts fluctuate they can cause the District to either have increases or decreases in revenue. Due to these future uncertainties at the state level, the future effect on operations can not be determined.

In June of 2018, the District accepted a bid from TS Gray for the construction of a gym. The total construction commitment outstanding is \$459,269.

FALLS CITY SCHOOL DISTRICT
FALLS CITY, OREGON
Modified Cash Basis Schedule of Receipts, Disbursements and
Changes in Fund Balance - Budget and Actual - General Fund
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
RECEIPTS:				
1000 Local Sources				
1111 Current year's taxes	\$ 333,673	\$ 333,673	\$ 347,773	\$ 14,100
1112 Prior year's taxes	16,243	16,243	11,552	(4,691)
1114 Foreclosure Land Sales	-	-	141	141
1510 Interest on investments	1,650	1,650	23,047	21,397
1960 Prior Year Recovery	-	-	503	503
1990 Miscellaneous	7,500	7,500	11,227	3,727
Total 1000 Local Sources	359,066	359,066	394,243	35,177
3000 State Sources				
3101 School support fund	2,093,987	2,496,622	2,421,499	(75,123)
3103 Common school fund	20,846	20,846	21,797	951
3199 Other unrestricted grants-in-aid	9,000	9,000	12,684	3,684
Total 3000 State Sources	2,123,833	2,526,468	2,455,980	(70,488)
4000 Federal Sources				
4801 Federal Forest Fees from federal government	-	-	15	15
Total 4000 Federal Sources	-	-	15	15
Total receipts	2,482,899	2,885,534	2,850,238	(35,296)

Continued on pages 21 and 22

FALLS CITY SCHOOL DISTRICT
FALLS CITY, OREGON
Modified Cash Basis Schedule of Receipts, Disbursements and
Changes in Fund Balance - Budget and Actual - General Fund
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Salaries	Employee Benefits
DISBURSEMENTS:				
1000 Instruction				
1111 Elementary			\$ 251,317	\$ 169,007
1121 Middle/Junior high school			88,603	62,470
1131 High school			240,589	155,046
1140 Pre-kindergarten Programs			10,036	10,592
1250 Resource rooms			177,146	139,510
1272 Title I/AD			7,841	6,681
Total 1000 Instruction	1,535,193	1,800,543 (1)	775,532	543,306
2000 Supporting Services				
2120 Counseling			-	-
2240 Instructional staff development			-	13,139
2310 Board of education			-	-
2320 Executive administration			80,022	50,328
2410 Office of the principal			134,794	80,481
2520 Fiscal services			39,478	26,806
2540 Operation and maintenance of plant			99,495	63,482
2550 Student transportation			-	-
2600 Support services			2,000	700
Total 2000 Supporting services	1,238,399	1,296,599 (1)	355,789	234,936
3000 Community Services				
3200 Community recreation	1,500	1,500 (1)	-	-
4000 Facility Acquisition and Construction				
4150 Building Acquisition and Improvement Services	420,000	749,000 (1)	-	-
5000 Other Uses				
5100 Debt Service	66,548	66,548 (1)	-	-
6000 Contingencies				
6110 Operating contingency	151,222	201,307 (1)	-	-
Total Disbursements	3,412,862	4,115,497	1,131,321	778,242
Excess of Receipts Over, (Under) Disbursements	(929,963)	(1,229,963)		
OTHER FINANCING SOURCES, (USES):				
Transfer Out	(70,037)	(70,037) (1)		
Loan Proceeds	400,000	700,000		
TOTAL OTHER FINANCING SOURCES, (USES)	329,963	629,963		
NET CHANGE IN FUND BALANCE, MODIFIED CASH BASIS	(600,000)	(600,000)		
MODIFIED CASH BASIS FUND BALANCE - BEGINNING	600,000	600,000		
MODIFIED CASH BASIS FUND BALANCE - ENDING	\$ -	\$ -		

(1) Appropriation Level

FALLS CITY SCHOOL DISTRICT
FALLS CITY, OREGON
Modified Cash Basis Schedule of Receipts, Disbursements and
Changes in Fund Balance - Budget and Actual - General Fund
For the Year Ended June 30, 2018

Purchased Services	Supplies & Services	Capital Outlay	Other Objects	Total	Variance Positive (Negative)
\$ 20,771	\$ 51,357	\$ -	\$ 268	\$ 492,720	
4,611	4,507	-	-	160,191	
50,783	19,403	-	203	466,024	
26	312	-	-	20,966	
4,164	2,118	-	-	322,938	
42	-	-	-	14,564	
<u>80,397</u>	<u>77,697</u>	<u>-</u>	<u>471</u>	<u>1,477,403</u>	<u>323,140</u>
49,800	-	-	-	49,800	
422	98	-	-	13,659	
13,846	295	-	1,810	15,951	
3,803	1,871	-	2,342	138,366	
2,559	2,145	-	-	219,979	
54,989	1,996	-	2,929	126,198	
130,499	31,077	-	27,541	352,094	
96,166	-	-	-	96,166	
44,041	15,338	-	75	62,154	
<u>396,125</u>	<u>52,820</u>	<u>-</u>	<u>34,697</u>	<u>1,074,367</u>	<u>222,232</u>
-	-	-	1,500	1,500	-
<u>55,003</u>	<u>6,449</u>	<u>106</u>	<u>-</u>	<u>61,558</u>	<u>687,442</u>
-	-	-	24,691	24,691	41,857
-	-	-	-	-	201,307
<u>531,525</u>	<u>136,966</u>	<u>106</u>	<u>61,359</u>	<u>2,639,519</u>	<u>1,475,978</u>
				210,719	1,440,682
				(49,318)	20,719
				<u>700,000</u>	<u>-</u>
				<u>650,682</u>	<u>20,719</u>
				861,401	1,461,401
				<u>734,859</u>	<u>134,859</u>
				<u>\$ 1,596,260</u>	<u>\$ 1,596,260</u>

FALLS CITY SCHOOL DISTRICT
FALLS CITY, OREGON
Modified Cash Basis Schedule of Receipts, Disbursements and
Changes in Fund Balance - Budget and Actual - Special Revenue Funds
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
RECEIPTS:				
1000 Local Sources	\$ 161,802	\$ 296,702	\$ 313,320	\$ 16,618
2000 Intermediate Sources	-	-	2,425	2,425
3000 State Sources	119,700	119,700	115,702	(3,998)
4000 Federal Sources	274,643	312,643	535,402	222,759
Total Receipts	556,145	729,045	966,849	237,804
DISBURSEMENTS:				
1000 Instruction	414,492	587,392 (1)	521,877	65,515
2000 Supporting Services	117,089	117,089 (1)	96,684	20,405
3000 Enterprise and Community Services	164,375	164,375 (1)	154,849	9,526
4000 Facility Acquisition and Construction	22,100	22,100 (1)	-	22,100
Total Disbursements	718,056	890,956	773,410	117,546
EXCESS OF RECEIPTS OVER DISBURSEMENTS	(161,911)	(161,911)	193,439	355,350
OTHER FINANCING SOURCES, (USES):				
Transfer In	70,037	70,037	49,318	(20,719)
Total Other Financing Sources, (Uses)	70,037	70,037	49,318	(20,719)
NET CHANGE IN MODIFIED CASH BASIS FUND BALANCE	(91,874)	(91,874)	242,757	334,631
MODIFIED CASH BASIS FUND BALANCE - BEGINNING OF YEAR	91,874	91,874	40,332	(51,542)
MODIFIED CASH BASIS FUND BALANCE - END OF YEAR	\$ -	\$ -	\$ 283,089	\$ 283,089

(1) Appropriation Level

FALLS CITY SCHOOL DISTRICT
FALLS CITY, OREGON
Modified Cash Basis Schedule of Receipts, Disbursements and
Changes in Fund Balance - Budget and Actual - PERS Bond Debt Service
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
RECEIPTS:				
1000 Local Sources	\$ -	\$ -	\$ 90,926	\$ 90,926
Total Receipts	-	-	90,926	90,926
NET CHANGE IN MODIFIED CASH BASIS FUND BALANCE	-	-	90,926	90,926
MODIFIED CASH BASIS FUND BALANCE - BEGINNING OF YEAR	-	-	-	-
MODIFIED CASH BASIS FUND BALANCE - END OF YEAR	\$ -	\$ -	\$ 90,926	\$ 90,926

(1) Appropriation Level

FALLS CITY SCHOOL DISTRICT
FALLS CITY, OREGON
Schedule of Property Tax Transactions and Balances of Taxes Uncollected
For the Year Ended June 30, 2018

TAX YEAR	ORIGINAL LEVY OR BALANCE UNCOLLECTED AT July 1, 2017	DEDUCT DISCOUNTS	ADJUSTMENTS TO ROLLS	ADD INTEREST	CASH COLLECTIONS BY COUNTY TREASURER	BALANCE UNCOLLECTED OR UNSEGREGATED AT June 30, 2018
Current:						
2017-18	\$ 452,422	\$ 12,029	\$ (271)	\$ 198	\$ 427,830	\$ 12,490
Prior Years:						
2016-17	12,644	-	(81)	376	5,046	7,893
2015-16	5,714	-	(27)	401	2,375	3,713
2014-15	3,698	-	(25)	505	2,059	2,119
2013-14	2,131	-	(25)	341	1,205	1,242
Prior	4,401	-	(70)	118	309	4,140
Total Prior	28,588	-	(228)	1,741	10,994	19,107
Total	\$ 481,010	\$ 12,029	\$ (499)	\$ 1,939	\$ 438,824	\$ 31,597

RECONCILIATION TO RECEIPTS

Cash Collections by County Treasurer Above	\$ 438,824
Cash Basis Timing Differences	1,214
Total Receipts	\$ 440,038
General Fund Receipts	\$ 359,325
Local Option Fund Receipts (Included in Combined Grants Fund)	77,086
Total Receipts	\$ 436,411

FALLS CITY SCHOOL DISTRICT
FALLS CITY, OREGON

SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2018

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Year Ended June 30,	(a) Employer's proportion of the net pension liability (NPL)	(b) Employer's proportionate share of the net pension liability (NPL)	(c) covered payroll	(b/c) NPL as a percentage of covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2018	0.007 %	\$ 990,310	\$ 1,085,155	0.9 %	83.1 %
2017	0.002	360,700	1,045,132	34.5	80.5
2016	0.001	83,413	995,124	8.4	91.9
2015	0.001	(23,150)	849,897	(2.3)	103.6
2014	0.001	52,119	778,833	6.1	92.0

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

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

SCHEDULE OF CONTRIBUTIONS

	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)	Employer's covered payroll	Contributions as a percent of covered payroll
2018	\$ 18,884	\$ 18,884	\$ -	\$ 1,289,415	1.5 %
2017	9,200	9,200	-	1,085,155	0.8
2016	12,965	12,965	-	1,045,132	1.2
2015	21,531	21,531	-	995,124	2.2
2014	29,814	29,814	-	849,897	3.5

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

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



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Independent Auditors' Report Required by Oregon State Regulations

We have audited the basic financial statements of the Falls City School District as of and for the year ended June 30, 2018, and have issued our report thereon dated December 10, 2018. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the Falls City School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

- **Deposit of public funds with financial institutions (ORS Chapter 295)**
- **Indebtedness limitations, restrictions and repayment.**
- **Budgets legally required (ORS Chapter 294).**
- **Insurance and fidelity bonds in force or required by law.**
- **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 Falls City School District was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, except as follows:

1. The District did not obtain 3 quotes for purchase over \$10,000 in accordance with ORS 279.

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

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

A handwritten signature in dark ink, appearing to read "Ken Allen", with a stylized, flowing script.

Kenneth Allen, CPA
Municipal Auditor
PAULY, ROGERS AND CO., P.C.

FALLS CITY SCHOOL DISTRICT, #57
FALLS CITY, OREGON

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year ended June 30, 2018

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	ENTITY NUMBER	GRANT PERIOD	EXPENDITURES	Passed Through to Subrecipients
US DEPARTMENT OF EDUCATION					
Passed through State Department of Education:					
Title I Grants to Local Educational Agencies	84.010	45590	2017-18	\$ 59,295.77	\$ -
Title IIA - Teacher Quality	84.367	45805	2017-18	1,701.75	-
Title IV-A Student Support and Academic Enrichment	84.424	47718	2017-19	9,892.69	-
IDEA Part B Section 611	84.027	41503	2016-17	27,559.54	-
IDEA Part B Section 611	84.027	45172	2017-18	21,450.29	-
IDEA Part B Section 619 Preschool Grant for Children with disabilities	84.173	40585	2016-17	975.84	-
21st Century Community Learning Cohort 3 Year 4	84.287	40519	2016-17	36,104.42	-
21st Century Community Learning Cohort 3 Year 5	84.287	44146	2017-18	32,481.61	-
Farm to School	99.998	45978	2017-18	610.43	-
State Dyslexia Training	99.998	47917	2017-18	286.16	-
Measure 98	99.998	44663	2017-18	34,852.53	-
TOTAL US DEPARTMENT OF EDUCATION				225,211.03	
U.S. DEPARTMENT OF AGRICULTURE					
Passed Through State Department of Education:					
Donated Commodities (Non-Cash Assistance)	10.555		2017-18	5,974.01	-
School Breakfast Program	10.553		2016-17	1,307.64	-
School Breakfast Program	10.553		2017-18	39,676.56	-
National School Lunch Program	10.555		2016-17	2,572.56	-
National School Lunch Program	10.555		2017-18	72,065.32	-
Summer Food Program	10.559		2017-18	817.25	-
CNP Fresh Fruit & Veg GIAC	10.582	42995	2016-17	906.40	-
CNP Fresh Fruit & Veg GIAC	10.582	46320	2017-18	5,400.97	-
NSLP Child Care Food	10.558		2017-18	28,900.45	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE				157,621.16	\$ -
TOTAL FEDERAL EXPENDITURES				\$ 382,832.19	

SUPPLEMENTAL INFORMATION, 2017-2018

School District 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 ESSA, 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	\$69,971
Function 2550	\$0

- 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	4150	Construction
1140	Pre-Kindergarten	2550	Pupil Transportation
1300	Continuing Education	3100	Food Service
1400	Summer School	3300	Community Services

\$

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

2017-18 DISTRICT AUDIT EXPENDITURE SUMMARY
Falls City School District

Fund: 200 - Special Revenue

Instruction Expenditures	Totals	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
1113 Elementary Extracurricular	\$ 4,634	\$	\$	\$	\$ 4,634	\$	\$	\$
1131 High School Programs	\$ 45,714	\$ 8,426	\$ 5,026	\$ 8,502	\$ 19,279	\$	\$ 4,480	\$
1132 High School Extracurricular	\$ 286,565	\$ 133,280	\$ 40,089	\$ 29,103	\$ 80,414	\$	\$ 3,679	\$
1140 Pre-Kindergarten Programs	\$ 7,381	\$ 1,725	\$ 1,499	\$ 3,116	\$ 1,041	\$	\$	\$
1250 Less Restrictive Programs for Students with Disabilities	\$ 50,415	\$ 22,733	\$ 19,968	\$ 217	\$ 7,498	\$	\$	\$
1272 Title I	\$ 127,168	\$ 58,987	\$ 33,236	\$ 11,408	\$ 23,537	\$	\$	\$
Total Instruction Expenditures	\$ 521,877	\$ 225,152	\$ 99,817	\$ 52,346	\$ 136,403	\$	\$ 8,159	\$
Support Services Expenditures	Totals	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
2120 Guidance Services	\$ 10,200	\$	\$	\$ 10,200	\$	\$	\$	\$
2210 Improvement of Instruction Services	\$ 1,171	\$	\$	\$ 1,171	\$	\$	\$	\$
2220 Educational Media Services	\$ 41,483	\$ 22,665	\$ 16,404	\$ 676	\$ 1,513	\$	\$ 226	\$
2240 Instructional Staff Development	\$ 2,676	\$	\$	\$ 1,540	\$ 1,136	\$	\$	\$
2540 Operation and Maintenance of Plant Services	\$ 1,000	\$	\$	\$ 1,000	\$	\$	\$	\$
2550 Student Transportation Services	\$ 36,137	\$	\$	\$ 36,137	\$	\$	\$	\$
2620 Planning, Research, Development, Evaluation Services, Grant Writing and Statistical Services	\$ 4,017	\$ 2,286	\$ 771	\$ 960	\$	\$	\$	\$
Total Support Services Expenditures	\$ 96,684	\$ 24,951	\$ 17,174	\$ 51,684	\$ 2,649	\$	\$ 226	\$
Enterprise and Community Services Expenditures	Totals	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
3100 Food Services	\$ 152,257	\$ 39,616	\$ 40,047	\$ 2,403	\$ 69,413	\$	\$ 778	\$
3300 Community Services	\$ 2,592	\$	\$	\$	\$ 2,592	\$	\$	\$
Total Enterprise and Community Services Expenditures	\$ 154,849	\$ 39,616	\$ 40,047	\$ 2,403	\$ 72,005	\$	\$ 778	\$
Grand Total	\$ 773,410	\$ 289,719	\$ 157,039	\$ 106,433	\$ 211,057	\$	\$ 9,163	\$