

OREGON SCHOOL BOARDS ASSOCIATION
SALEM, OREGON

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2012

OREGON SCHOOL BOARDS ASSOCIATION
SALEM, OREGON

BOARD OF DIRECTORS

Kris Howatt-President

Terry Lenchitsky-President elect

Lori Theros-Vice President

Dave Krumbein-Secretary-Treasurer

David Beeson-Past President

Greg Jackle

Steve Rankin

Craig Prewitt

Laurie Adams

Linda Brown

Samuel Lee

Anne Schuster

Tass Morrison

Michael Blanchard

Greg Kintz

Karen Cunningham

Fred Marble

Bobbie Regan

James Woods

All board members receive mail at the address below:

Betsy Miller-Jones, Interim Executive Director
Oregon School Boards Association
1201 Court Street NE
Salem, Oregon

OREGON SCHOOL BOARDS ASSOCIATION
SALEM, OREGON

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PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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December 19, 2012

To the Board of Directors
Oregon School Boards Association
Salem, Oregon

INDEPENDENT AUDITORS' REPORT

We were engaged to audit the accompanying statements of financial position of the Oregon School Boards Association (OSBA) as of June 30, 2012, and the related statements of activities and changes in net assets and cash flows for the year then ended which collectively comprise the basic financial statements. These basic financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The financial statements of OSBA as of June 30, 2011 were audited by other auditors whose report dated December 6, 2011 expressed an unqualified opinion on those statements.

We were unable to obtain written representations from management stating that OSBA takes responsibility for the financial statements as required by generally accepted auditing standards.

Since we were not able to obtain a written representation letter, we do not express opinions on these basic financial statements, as listed in the table of contents.

The listing of board members, located before the table of contents, and Other Information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. We did not audit the information and express no opinion on them.

Pauly, Rogers and Co., P.C.
PAULY, ROGERS AND CO., P.C.

OREGON SCHOOL BOARDS ASSOCIATION
SALEM, OREGON

BASIC FINANCIAL STATEMENTS

OREGON SCHOOL BOARDS ASSOCIATION

STATEMENT OF FINANCIAL POSITION
As of June 30, 2012

	2012
ASSETS:	
Current Assets:	
Cash and cash equivalents	\$ 17,486,100
Accounts Receivable	273,165
Interest Receivable	557,846
Prepaid Expense	42,927
Investments in federal securities (at fair value)	59,216,274
Invested in Local Government Center Trust	1,459,068
Total Current Assets	79,035,380
Fixed Assets:	
Land	126,729
Equipment	59,610
Automobiles	248,945
Building Improvements	219,357
Total Fixed Assets	654,641
Less Accumulated Depreciation	(325,132)
Net Fixed Assets	329,509
Total Assets	\$ 79,364,889
 LIABILITIES AND NET ASSETS:	
Liabilities	
Current Liabilities:	
Accounts Payable	\$ 130,196
Accrued compensated absences	149,898
Payroll Liabilities	3,133
Deferred Revenue:	
Member Dues	181,824
Publication Subscription	26,515
Conference Fees	1,095
Refundable Advance	3,971
Due to Others	35,396
Total Liabilities	532,028
Net Assets:	
Temporarily Restricted	50,000,000
Unrestricted	28,832,861
Total Net Assets	78,832,861
Total Liabilities and Net Assets	\$ 79,364,889

See accompanying notes to the basic financial statements.

OREGON SCHOOL BOARDS ASSOCIATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the year ended June 30, 2012

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total Net Assets
Revenues, Gains and Other Support:			
Membership Dues	\$ 661,710	\$ -	\$ 661,710
Insurance Trusts Management Fees	326,012	-	326,012
Convention and Conference	274,442	-	274,442
Sale of Publications	247,040	-	247,040
Contract Services	1,256,652	-	1,256,652
Interest from Pool	23,786	-	23,786
Rental Income	90,143	-	90,143
Sale of Assets	4,200	-	4,200
Endowment Earnings - Bond Interest	1,627,139	-	1,627,139
Unrealized Gain/(Loss)	4,568	-	4,568
Miscellaneous Income	42,571	-	42,571
Total Revenue	4,558,263	-	4,558,263
Expenses:			
Program Services	5,382,085	-	5,382,085
Total Expenses	5,382,085	-	5,382,085
Change in Net Assets	(823,822)	-	(823,822)
Net Assets at Beginning of Year	29,656,683	50,000,000	79,656,683
Net Assets at End of Year	\$ 28,832,861	\$ 50,000,000	\$ 78,832,861

See accompanying notes to the basic financial statements.

OREGON SCHOOL BOARDS ASSOCIATION

STATEMENT OF CASH FLOWS
For the year ended June 30, 2012

	2012
CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in Net Assets	\$ (823,822)
Noncash Items Included in Income:	
Depreciation	62,412
Decrease, (Increase) In:	
Accounts Receivable	163,645
Other Current Assets	80,581
Increase, (Decrease) In:	
Accounts Payable	(131,785)
Accrued Compensated Absences	(66,228)
Payroll Liabilities	1,693
Member Dues	74,173
Publication Subscription	(11,180)
Conference Fees	845
Refundable Advance	3,971
Due to Others	29,163
Security Deposit	(11,604)
 Net Cash Provided By (Used In) Operating Activities	 (628,136)
 CASH FLOWS FROM INVESTING ACTIVITIES:	
Change in Fair Value of Investment Activities and Interest	13,151,954
Disposal of Property & Equipment	387,946
Removal of Accumulated Depreciation on Disposed Assets	(381,534)
Purchase of Property & Equipment	(41,517)
 Net Cash Provided By (Used In) Investing Activities	 13,116,849
 Net Increase (Decrease) in Cash and Cash Equivalents	 12,488,713
Cash and Cash Equivalents at Beginning of Year	4,997,387
Cash and Cash Equivalents at End of Year	\$ 17,486,100

See accompanying notes to the basic financial statements.

OREGON SCHOOL BOARDS ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

1. NATURE OF ORGANIZATION

Nature of Organization

The Oregon School Boards Association (OSBA) was organized in 1946 in Eugene, Oregon. It is a voluntary unincorporated association of local boards of education. The primary sources of revenue are from investment earnings, contract income for services rendered and membership dues. Dues are collected from member districts annually; membership is voluntary.

Any school district, education service district or community college can become a member of OSBA by applying and paying the annual membership dues. Membership can be terminated by a district at any time. OSBA can terminate membership for non-payment of fees. Charter schools may become associate members with no voting rights.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and reflect all significant receivables and liabilities. The Financial Accounting Standards Board (FASB) is the accepted standard-setting body for establishing accounting and financial reporting principles.

Financial Statement Presentation

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 (formerly SFAS No. 116), "Accounting for Contributions Received and Contributions Made" has been applied. In accordance with FASB ASC 958, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any outside restrictions. No contributions with outside-imposed restrictions that would result in permanently restricted net assets have been received.

FASB ASC 958 (formerly SFAS No. 117), "Financial Statements of Not-For-Profit Organizations" has been applied. Under FASB ASC 958, information regarding financial position and activities are reported according to three classes of net assets as follows:

Unrestricted - Revenue, gains, and other support that have no external restrictions on their use or purpose and can be used for any purpose consistent with the bylaws are unrestricted. Unrestricted net assets include all assets available for general purposes.

Temporarily Restricted - Contributions that are received with external stipulations that limit their use are temporarily restricted. When an external restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently Restricted - Contributions that have been restricted by external parties or by law to be maintained in perpetuity are permanently restricted. The income from these assets can be used to support general activities.

Effective July 1, 2008, the OSBA Employee Benefits Insurance Trust discontinued its operations. At that time, the Trust's balances were transferred to the Association pursuant to the Trust Agreement. The resolution for dissolution called for an establishment of a \$50,000,000 reserve to protect the funds in a manner consistent with the agreement. An additional reserve of \$15,000,000 is available only upon a two-thirds majority vote by the Board.

OREGON SCHOOL BOARDS ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation (Continued)

The \$15,000,000 is classified as unrestricted for financial reporting purposes, but is considered conditionally restricted by the Board. These reserves are being held in an endowment with the investment earnings being made available to fund OSBA's operations.

Expense Allocation

The cost of providing various programs and activities has been summarized on a functional basis in the Schedule of Functional Expenses. Accordingly, certain costs are allocated among the programs and supporting services benefited.

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 these estimates.

Cash and Cash Equivalents

For financial reporting purposes, OSBA considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents including the investment in the Local Government Investment Pool.

Fair Value Measurements

FASB ASC 820-10 (formerly SFAS No. 157), Fair Value Measurements, establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in an active market for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB Statement ASC 820-10 are described as follows:

Level 1 – quoted prices in active markets for identical securities

Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, and others)

Level 3 – significant unobservable inputs

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Money market funds are stated at fair value which is substantially the same as cost. Investments in U.S. government securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the year. Investments in corporate bonds are valued using a matrix pricing model that considers quoted market prices for similar securities, if available, interest rates, prepayment spreads, and credit risks. The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used at June 30, 2012.

OREGON SCHOOL BOARDS ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Revenue is recorded in the period in which it is earned. Income from restricted grants and contracts is recorded in the period in which the restrictions have been met through proper expenditure of the funds and/or provision of the required services. The total unrealized gain/loss at year end June 30, 2012 was \$4,568.

Accounts Receivable

Accounts receivable represent member dues, amounts due from reinsurance providers, fees for services provided as well as various miscellaneous refunds. Due to the nature of the receivables and the likelihood of collection, no provision for uncollectible accounts has been made by management.

Budgets and Budgetary Accounting

Operating budgets in accordance with ORS 294.900, which is voluntarily followed are adopted each year on a modified accrual basis of accounting. The administrative and fiscal staff prepares a budget for each of the separate projects and for the total operation of OSBA. The budget is submitted to the Board of Directors for approval, modification and adoption.

Investments

An investment policy is maintained, which is re-adopted annually by the Board, and is shown at Note 4. Investment income is composed of interest and net changes in the fair value of applicable investments. Investments are held by a third party in the name of the Association.

Capital Assets

Capital assets, which include land and improvements, buildings and improvements, vehicles, furniture, equipment and construction in progress, are reported in the basic financial statements.

Capital assets are defined as assets with an initial, individual cost in excess of \$5,000 and an estimated useful life of more than one year. Such assets are recorded at historical cost, or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of the donation. The costs of normal 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 estimated useful lives:

- Buildings improvements 15 years
- Vehicles, furniture and equipment 3-5 years

Income Taxes

The Association is exempt from Federal income taxes under Internal Revenue Code Section 115.

U.S. Generally Accepted Accounting Principles require management to evaluate tax positions taken and recognize a tax liability (or asset) if an uncertain position has been taken that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Trust is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in process. Management believes it is no longer subject to income tax examinations for years prior to 2009. As of June 30, 2012, management has determined it has no uncertain tax positions requiring accrual or disclosure.

OREGON SCHOOL BOARDS ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Revenue

The Association reports deferred revenue on its statement of net assets. Deferred revenues arise when resources are received before there is a legal claim to them, as when dues are received prior to the incurrence of qualifying earning period. In subsequent periods, when there is a legal claim to the resources, the liability for deferred revenue is removed from the statement of net assets and revenue is recognized.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by outside parties. Amounts received that are designated for future period or restricted by outside parties for specific purposes are reported as temporarily restricted or permanently restricted support increases of net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Financial Position as Unrestricted Net Assets. Contributions received with outside parties imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted contributions.

Compensated Absences Payable

Employee vacation and sick leave policies generally provide for granting vacation and sick leave with pay. The current and long-term liabilities for vested or accumulated vacation leave, compensatory time, and retirement benefits are reported on the statement of financial position. Total unpaid compensated absences at June 30, 2012 were recorded on the books based on total vested hours multiplied by current wage rates.

No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

3. CASH AND CASH EQUIVALENTS

DEPOSITS

Deposits with financial institutions include bank demand deposits. Oregon Revised Statutes, which are voluntarily followed, require deposits to be adequately covered by federal depository insurance or deposited at an approved depository as identified by the Treasury. At June 30, 2012, deposits with various financial institutions had a bank value of \$3,018,227.

CREDIT RISK – DEPOSITS

There is an agreement with West Coast Bank that all deposits maintained in non-interest bearing accounts are covered under FDIC insurance regardless of balance.

LOCAL GOVERNMENT INVESTMENT POOL

The State Treasurer's Local Government Investment Pool is not registered with the U.S. Securities and Exchange Commission as an investment company. The Oregon Revised Statutes and the Oregon Investment Council govern the State's investment policies. The State Treasurer is the investment officer for the Council and is responsible for all funds in the State Treasury. These funds must be invested, and the investments managed, as a prudent investor would, exercising reasonable care, skill and caution. Investments in the Fund are further governed by portfolio guidelines issued by the Oregon Short-Term Fund Board (OSTFB), 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.

Amounts in the State Treasurer's Local Government Investment Pool are not required to be collateralized. As of June 30, 2012 the fair position in the LGIP is 100% of the value of the pool shares as reported in the Oregon Short Term Fund audited financial statements. There were no known violations of legal or contractual provisions for deposits and investments during the fiscal year.

OREGON SCHOOL BOARDS ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

3. CASH AND CASH EQUIVALENTS (CONTINUED)

CREDIT RISK – INVESTMENTS

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the value of the deposit will not be recovered. There is no formal investment policy for custodial credit risk.

CONCENTRATION RISK

Concentration risk is the risk of loss due to a large portion of investments with a single issuer. To avoid incurring unreasonable risks inherent to over-investing in specific instruments or in individual financial institutions, most funds are invested in the LGIP, which is not required to have a risk rating.

Cash and cash equivalents consisted of:

	<u>2012</u>
Cash	
Cash on hand	\$ 175
Demand deposits	2,966,253
Cash Equivalents	
Money Market	8,616,871
Local Government Investment Pool	<u>5,902,801</u>
Total Cash and Cash Equivalents	<u>\$ 17,486,100</u>

OREGON SCHOOL BOARDS ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

4. INVESTMENTS

Investments are held by Umpqua Bank. The following table sets forth by level, within fair value hierarchy (see page 7), the asset's fair value at June 30, 2012.

<u>Investment Type</u>	<u>Assets at Fair Value as of June 30, 2012</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Corporate Bonds				
AAA credit rating (Moody's)	\$ -	\$ 1,029,487	\$ -	\$ 1,029,487
AA1 credit rating (Moody's)	-	1,062,347	-	1,062,347
AA2 credit rating (Moody's)	-	6,269,708	-	6,269,708
AA3 credit rating (Moody's)	-	7,645,525	-	7,645,525
A1 credit rating (Moody's)	-	3,145,632	-	3,145,632
A2 credit rating (Moody's)	-	4,698,804	-	4,698,804
A3 credit rating (Moody's)	-	3,969,042	-	3,969,042
BAA1 credit rating (Moody's)	-	891,302	-	891,302
Total Corporate Bonds	-	28,711,847	-	28,711,847
Governmental Bonds				
AAA credit rating (Moody's)	26,068,851	-	-	26,068,851
AA1 credit rating (Moody's)	310,487	-	-	310,487
AA2 credit rating (Moody's)	633,239	-	-	633,239
AA- credit rating (S&P)	1,105,950	-	-	1,105,950
A+ credit rating (S&P)	225,284	-	-	225,284
A credit rating (S&P)	690,390	-	-	690,390
A2 credit rating (Moody's)	1,470,226	-	-	1,470,226
Total Governmental Bonds	30,504,427	-	-	30,504,427
Total Bonds	\$ 30,504,427	\$ 28,711,847	\$ -	\$ 59,216,274

Investment Objectives

- a. To assure the safety of principal.
- b. To retain liquidity to meet projected or unexpected cash needs.
- c. To attain the best possible total return (yield and market appreciation) while retaining liquidity and minimizing risk.
- d. To comply with the provisions of Chapter 294 of Oregon Revised Statutes, which are voluntarily followed.

Investment Securities and Diversification

Acceptable Investments per internal policy:

1. General obligations of the United States issued as U.S. Treasury Bills, Notes and Bonds and Federal Agency securities.
2. Obligations of Oregon and its respective political subdivisions having a long-term rating of A or an equivalent rating or better, or are rated in the highest category for short-term municipal debt by a nationally recognized statistical rating organization.

OREGON SCHOOL BOARDS ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

4. INVESTMENTS (CONTINUED)

Investment Securities and Diversification (Continued)

3. Lawfully issued debt of Washington, Idaho and California and their respective political subdivisions having a long-term rating of AA or an equivalent rating or better, or are rated in the highest category for short-term municipal debt by a nationally recognized statistical rating organization.
4. Negotiable Certificates of Deposit of banks, mutual savings banks and savings and loan associations which maintain a head office or branch in the state of Oregon.
5. Fixed or Variable Life Insurance or Annuity Contracts and Guaranteed Investment Contracts issued by life insurance companies authorized to do business in Oregon.
6. Deferred Compensation Funds used by other public employers if the Trust is a public instrumentality of such public employers and is described as set forth in ORS 294.035(7), which is voluntarily followed.
7. Banker's Acceptance of qualified financial institutions pursuant to Oregon law. Guaranteed by and carried on the books of a qualified financial institution defined as financial institution located and licensed to do business in the state of Oregon or a financial institution licensed and qualified to do business in the states of California, Idaho and Washington that is wholly-owned by a bank-holding company that owns a financial institution that is located and licensed to do banking business in the state of Oregon and the obligation is eligible for discount by the Federal Reserve System and issued by a qualified financial institution whose short-term letter of credit rating is rated in the highest category by one or more nationally recognized statistical rating organization.
8. Corporate Indebtedness: Commercial Paper, Bonds and MTNS.
9. Securities of any open- and/or closed-end management investment company or investment trust subject to the limitations set forth in ORS 294.035(10), which is voluntarily followed.
10. Repurchase Agreements: Only securities described in paragraph 1 above shall be used in conjunction with repurchase agreements and such securities shall have a maturity of not longer than three years. The price paid for such securities may not exceed amounts or percentages prescribed by Oregon statute which is followed voluntarily.

Portfolio Diversification per internal policy:

To support the stated investment objectives, the funds will be diversified to sufficiently minimize risk as well as to assure adequate liquidity and marketability of the invested funds. Additionally, ORS 294.035 sets forth diversification limitations, which are voluntarily followed. These limitations are applied on a fund-by-fund basis.

Portfolio Diversification per internal policy (continued):

Corporate Indebtedness of "Oregon Issuer" (ORS 294.035(9)9C0):

No more than 35% of any association's fund

No more than 5% with any one single corporate entity

Corporate Indebtedness of "Outside Oregon Issuer" (ORS 294.035(9)(a)(b):

No more than 35% of any association's fund

No more than 5% with any one single corporate entity

Banker's Acceptances:

No more than 25% of any association's fund may be invested in banker's acceptances of any qualified financial institution

None of the investments in commercial paper exceeded 5%.

OREGON SCHOOL BOARDS ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

5. CAPITAL ASSETS

	Balance 07/01/11	Adjustments	Additions	Balance 06/30/12
Capital Assets, Non-Depreciable				
Land	\$ 126,729	\$ -	\$ -	\$ 126,729
Total Capital Assets, Non-Depreciable	126,729	-	-	126,729
Capital Assets, Depreciable				
Equipment	382,561	(340,113)	17,162	59,610
Automobiles	272,422	(47,832)	24,355	248,945
Building Improvements	219,357	-	-	219,357
Total Capital Assets, Depreciable	874,340	(387,945)	41,517	527,912
Accumulated Depreciation	644,254	\$ (381,534)	\$ 62,412	325,132
Total Capital Assets, Depreciable	230,086			202,780
Total Capital Assets, Net	\$ 356,815			\$ 329,509

6. RETIREMENT PLANS

Plan Description

Contributions are made to the Oregon Public Employees Retirement Fund (OPERF), a cost-sharing multiple-employer defined benefit pension plan administered by the Oregon Public Employees Retirement System (PERS). PERS provides retirement and disability benefits, post employment health care benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

PERS is administered under Oregon Revised Statute (ORS) Chapter 238. ORS 238.620 establishes the Public Employees Retirement Board as the governing body of PERS. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report can be obtained by writing to PERS, P.O. Box 23700, Tigard, OR 97281-3700 or by calling 1-503-598-7377.

Members of PERS are required to contribute 6% of their salary covered under the plan. The Association is required by ORS 238.225 to contribute at an actuarially determined rate. The rate effective July 1, 2011 is 13.95% of salary covered under the plan for Tier 1 and Tier 2 employees and 12.91% for employees covered under the Oregon Public Services Retirement Plan (OPSRP). The contribution requirements for plan members are established by ORS Chapter 238 and may be amended by an act of the Oregon Legislature. The contributions to PERS for the years ended June 30, 2012, 2011 and 2010 were \$471,789, \$378,232 and \$365,085, respectively, and were equal to the required contributions for the year.

The Association elected to contribute the 6% "pick-up" starting January 1, 2005.

In the 2003 legislative session, the Oregon Legislative Assembly created a successor plan for PERS. The Oregon Public Service Retirement Plan ("OPSRP") is effective for all new employees hired on or after August 29, 2003. The new plan consists of a defined benefit program (the "Pension Program") and a defined contribution portion (the Individual Account Program or "IAP"). The Pension Program portion of OPSRP provides a life pension funded by employer contributions.

OREGON SCHOOL BOARDS ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

6. RETIREMENT PLANS (CONTINUED)

Plan Description (Continued)

Benefits are calculated by a formula for members who attain normal retirement age. The formula takes into account final average salary and years of service and a factor that varies based on type of service (general versus police or fire).

Beginning January 1, 2004, all PERS member contributions go into the IAP portion of OPSRP. PERS members retain their existing PERS accounts, but any future member contributions are deposited into the member's IAP, not the member's PERS account. Those employees who had established a PERS membership prior to creation of OPSRP will be members of both the PERS and OPSRP system as long as they remain in covered employment.

The Association's pension liability and the annual required contribution rate were determined using the entry age cost method. The unfunded actuarial liability ("UAL") created by this method, including gains and losses, is amortized as a level percentage of salary over a period commencing on the valuation date (2001, 2003, 2005, and 2007) and ending on December 31, 2027 using closed amortization. Beginning in 2007, each valuation's UAL will be amortized over 20 years, again using closed amortization. The actuarial assumptions include an investment return of 8.0% per year, projected salary increase of 3.75%, health cost inflation graded from 9.0% in 2007 to 5.0% in 2013, and a consumer price inflation component of 2.75%.

The OPERB utilizes a technique called asset smoothing to determine the actuarial value of assets. The actuarial value of assets are reported at fair market value, less a reserve equal to a pro-rata portion of the investment gains (losses) over the four-year period ending on the valuation date. Investment gains (losses), effective from January 1, 2000, are recognized at the rate of 25% per year. The actuarial value of assets is limited to a 10% corridor above and below the fair market value.

7. RISK MANAGEMENT

There is exposure 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. Commercial insurance is purchased to minimize exposure to these risks. Settled claims did not exceed this commercial coverage for the last three years.

8. INVESTMENT IN LOCAL GOVERNMENT CENTER TRUST

The Local Government Center Trust was established by the Oregon School Boards Association, together with the League of Oregon Cities and the Association of Oregon Counties to hold title to jointly-owned property. The Local Government Center, owned by the Associations, houses the operations of these organizations. Each organization is entitled to an undivided interest in properties held by the Trust according to the distribution ratio of the Declaration of Trust, as amended. Each organization is required to pay its proportionate share of expenditures for operation and maintenance of the building, reimbursements for other services provided, and monthly payments for reserve purposes.

OREGON SCHOOL BOARDS ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

8. INVESTMENT IN LOCAL GOVERNMENT CENTER TRUST (CONTINUED)

Investment in the Trust, at cost, consists of the following:

		<u>June 30, 2012</u>
Cash on deposit	\$	212,648
Accounts receivable		38,410
Land and improvements		216,142
Building		1,673,924
Furniture and equipment		24,642
Less depreciation		(677,151)
Accounts payable		<u>(29,547)</u>
Total Investment in Local Government Center Trust	\$	<u>1,459,068</u>

Separate financial statements for the Local Government Center Trust are available for the year ended June 30, 2012.

9. RELATED PARTY TRANSACTIONS

The following transactions occurred during the period beginning July 1, 2011 and ending June 30, 2012 between the Association and other companies or individuals which were related through common ownership or management:

Amounts recognized as receivable from or payable to related parties for the year June 30, 2012:

<u>Company Name</u>	<u>Type of Receivable/Payable</u>	<u>Amount</u>
Legal Assistance Trust	Accounts receivable	\$ 36,740
OSBA property and Casualty Coverage for Education	Accounts receivable	95,586
Local Government Center Trust	Accounts receivable	24,341
Local Government Center Trust	Accounts payable	10,926
Legal Assistance Trust	Accounts payable	900

OREGON SCHOOL BOARDS ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

9. RELATED PARTY TRANSACTIONS (CONTINUED)

Amounts recognized as revenues from related parties for the year June 30, 2012 (excludes a/r and a/p amounts listed above):

<u>Company Name</u>	<u>Type of Revenue/Expense</u>	<u>Amount</u>
Local Government Center Trust	Rental Income	\$ 107,954
OSBA property and Casualty Coverage for Education	Administration Charges	326,012
OSBA property and Casualty Coverage for Education	Legal Services	472,114

10. SUBSEQUENT EVENTS

The provisions of Accounting Standards Codification (ASC) 855 "Subsequent Events" are followed. ASC 855 establishes accounting and disclosure requirements for subsequent events. Management has evaluated subsequent events through December 19, 2012, the date on which the financial statements were available to be issued. Management is not aware of any subsequent events that require recognition or disclosure in the financial statements.

OREGON SCHOOL BOARDS ASSOCIATION
SALEM, OREGON

OTHER INFORMATION

OREGON SCHOOL BOARDS ASSOCIATION

SCHEDULE OF FUNCTIONAL EXPENSES

For the year ended June 30, 2012

	<u>Program Expenses</u>
Salaries	\$ 2,458,963
Payroll Assessments	1,341,364
Contracted Services	96,194
Legislative	16,178
Travel	238,735
Professional Development	47,439
Publications	50,638
Conventions & Conferences	214,250
Audit, Insurance, Bonds	83,941
Telephone	11,313
Postage	18,932
Supplies	64,364
Nonconsumable Supplies	3,793
Impressions/Copier	41,462
Computer Hardware	17,937
Computer Software	4,249
Equipment Purchases	1,601
Equipment Maintenance	6,169
Staff Recruitment	3,557
NSBA	76,550
Dues	10,291
Subscriptions, Publications	38,357
Building	98,419
Continuing Partnerships	37,841
Legal Fees	329,050
Tech Connections	4,110
Video Conferencing	1,369
Depreciation Expense	62,412
PACE Expense	1,818
Miscellaneous Expense	789
	<hr/>
Total Program Expenses	<u>\$ 5,382,085</u>

OREGON SCHOOL BOARDS ASSOCIATION

SCHEDULE OF AMOUNTS DUE TO OTHERS

For the year ended June 30, 2012

PERS EMPLOYER ALLIANCE

Revenues:	
Litigation fees	\$ 36,740
Adjustments	<u>49,794</u>
Total Revenues	<u>86,534</u>
Expenses:	
Legal	57,565
Other	<u>802</u>
Total Expenses	<u>58,367</u>
Revenues in excess of expenses	28,167
Balance - July 1, 2011	<u>(22,683)</u>
Balance - June 30, 2012	<u>\$ 5,484</u>

OREGON COUNCIL OF SCHOOL ATTORNEYS

Revenues:	
Dues	\$ 8,311
Expenses	
Dues	7,165
Other	<u>150</u>
Total Expenses	<u>7,315</u>
Revenues in excess of expenses	996
Balance - July 1, 2011	<u>28,916</u>
Balance - June 30, 2012	<u>\$ 29,912</u>
Total Amounts Due to Others	<u>\$ 35,396</u>