

**OREGON SCHOOL BOARDS ASSOCIATION**  
**SALEM, OREGON**

**FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2013**



12700 SW 72<sup>nd</sup> Ave.  
Tigard, OR 97223

**OREGON SCHOOL BOARDS ASSOCIATION**  
SALEM, OREGON

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2013

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**OREGON SCHOOL BOARDS ASSOCIATION**  
**SALEM, OREGON**

**BOARD OF DIRECTORS**

Terry Lenchitsky-President

Lori Theros-President elect

Dave Krumbein-Vice-president

Bobbie Regan-Secretary-treasurer

Kris Howatt-Past president

Greg Jackle

Doug Nelson

Craig Prewitt

Sherry Duerst-Higgins

Linda Brown

Samuel Lee

Anne Schuster

Tass Morrison

David Beeson

Greg Kintz

Karen Cunningham

Fred Marble

Stan Primozych

Doug Montgomery

All board members receive mail at the address below:

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

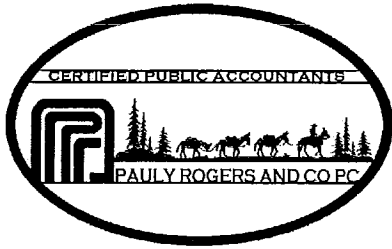
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**OREGON SCHOOL BOARDS ASSOCIATION**  
**SALEM, OREGON**

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PAULY, ROGERS, AND CO., P.C.  
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December 10, 2013

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Oregon School Boards Association  
Marion County, Oregon

### **Report on the Financial Statements**

We have audited the accompanying basic financial statements of the Oregon School Boards Association (a nonprofit organization), which are comprised of the statements of financial position as of June 30, 2013 and 2012, the statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 association's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Oregon School Boards Association as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



## **Other Matters**

### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The 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.

The listing of board members, located before the table of contents, and the other information, as listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



ROY R. ROGERS, CPA  
PAULY, ROGERS AND CO., P.C.

**OREGON SCHOOL BOARDS ASSOCIATION**  
**SALEM, OREGON**

**BASIC FINANCIAL STATEMENTS**

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**OREGON SCHOOL BOARDS ASSOCIATION**

**STATEMENTS OF FINANCIAL POSITION**

As of June 30, 2013 and 2012

	2013	2012
<b>ASSETS:</b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 1,970,532	\$ 17,486,100
Accounts Receivable	163,308	273,165
Interest Receivable	579,093	557,846
Prepaid Expense	40,193	42,927
Investments in Federal Securities (at fair value)	75,379,353	59,216,274
Invested in Local Government Center Trust	1,422,623	1,459,068
Total Current Assets	79,555,102	79,035,380
<b>Fixed Assets:</b>		
Land	126,729	126,729
Equipment	59,610	59,610
Automobiles	248,945	248,945
Building Improvements	219,357	219,357
Total Fixed Assets	654,641	654,641
Less Accumulated Depreciation	(384,779)	(325,132)
Net Fixed Assets	269,862	329,509
Total Assets	\$ 79,824,964	\$ 79,364,889
 <b>LIABILITIES AND NET ASSETS:</b>		
<b>Liabilities</b>		
<b>Current Liabilities:</b>		
Accounts Payable	\$ 112,119	\$ 130,196
Accrued Compensated Absences	159,043	149,898
Payroll Liabilities	1,972	3,133
<b>Unearned Revenue:</b>		
Member Dues	173,220	181,824
Publication Subscription	17,155	26,515
Conference Fees	5,490	1,095
Refundable Advance	2,066	3,971
Due to Others	24,755	35,396
Total Liabilities	495,820	532,028
<b>Net Assets:</b>		
Temporarily Restricted	50,000,000	50,000,000
Unrestricted	29,329,144	28,832,861
Total Net Assets	79,329,144	78,832,861
Total Liabilities and Net Assets	\$ 79,824,964	\$ 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, 2013

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total Net Assets
<b>Revenues, Gains and Other Support:</b>			
Membership Dues	\$ 703,221	\$ -	\$ 703,221
Insurance Trusts Management Fees	390,820	-	390,820
Convention and Conference	299,773	-	299,773
Sale of Publications	268,250	-	268,250
Contract Services	1,148,487	-	1,148,487
Interest from Pool	53,168	-	53,168
Rental Income	87,543	-	87,543
Endowment Earnings – Bond Interest	2,686,400	-	2,686,400
Unrealized Gain/(Loss)	337,248	-	337,248
Miscellaneous Income	67,559	-	67,559
<b>Total Revenue</b>	<b>6,042,469</b>	<b>-</b>	<b>6,042,469</b>
<b>Expenses:</b>			
Program Services	4,057,687	-	4,057,687
Support Services	1,488,499	-	1,488,499
<b>Total Expenses</b>	<b>5,546,186</b>	<b>-</b>	<b>5,546,186</b>
<b>Change in Net Assets</b>	<b>496,283</b>	<b>-</b>	<b>496,283</b>
<b>Net Assets at Beginning of Year</b>	<b>28,832,861</b>	<b>50,000,000</b>	<b>78,832,861</b>
<b>Net Assets at End of Year</b>	<b>\$ 29,329,144</b>	<b>\$ 50,000,000</b>	<b>\$ 79,329,144</b>

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
	<u>4,558,263</u>	<u>-</u>	<u>4,558,263</u>
Expenses:			
Program Services	3,975,535	-	3,975,535
Support Services	1,406,550	-	1,406,550
	<u>5,382,085</u>	<u>-</u>	<u>5,382,085</u>
Change in Net Assets	(823,822)	-	(823,822)
Net Assets at Beginning of Year	<u>29,656,683</u>	<u>50,000,000</u>	<u>79,656,683</u>
Net Assets at End of Year	<u>\$ 28,832,861</u>	<u>\$ 50,000,000</u>	<u>\$ 78,832,861</u>

See accompanying notes to the basic financial statements.

**OREGON SCHOOL BOARDS ASSOCIATION**

STATEMENTS OF CASH FLOWS  
For the years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in Net Assets	\$ 496,283	\$ (823,822)
Noncash Items Included in Income:		
Depreciation	59,647	62,412
Decrease, (Increase) In:		
Accounts Receivable	109,857	163,645
Other Current Assets	(18,513)	80,581
Increase, (Decrease) In:		
Accounts Payable	(18,077)	(131,785)
Accrued Compensated Absences	9,145	(66,228)
Payroll Liabilities	(1,161)	1,693
Member Dues	(8,604)	74,173
Publication Subscription	(9,360)	(11,180)
Conference Fees	4,395	845
Refundable Advance	(1,905)	3,971
Due to Others	(10,641)	29,163
Security Deposit	-	(11,604)
Net Cash Provided By (Used In) Operating Activities	<u>611,066</u>	<u>(628,136)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Change in Fair Value of Investment Activities and Interest	(16,126,634)	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	<u>(16,126,634)</u>	<u>13,116,849</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(15,515,568)	12,488,713
Cash and Cash Equivalents at Beginning of Year	<u>17,486,100</u>	<u>4,997,387</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,970,532</u>	<u>\$ 17,486,100</u>

See accompanying notes to the basic financial statements.

# OREGON SCHOOL BOARDS ASSOCIATION

## NOTES TO BASIC FINANCIAL STATEMENTS

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### 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, "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, "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

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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, 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.

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. Investments in U.S. and international equities and real estate investment trusts are traded on a national securities exchange are valued at the last reported sales price on the last business day of the fiscal year. 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, 2013.

OREGON SCHOOL BOARDS ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

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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 years ended June 30, 2013 and 2012 was \$337,248 and \$4,568 respectively.

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 are prepared in accordance with ORS 294.900, which is voluntarily followed since member organizations budget this way, 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, and equipment 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 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 Association is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in process. As of June 30, 2013, management has determined it has no uncertain tax positions requiring accrual or disclosure. Management believes it is no longer subject to income tax examinations for years prior to 2009.

OREGON SCHOOL BOARDS ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unearned Revenue

The Association reports unearned revenue on its Statement of Net Assets. Unearned 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 unearned 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 a 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, 2013 and 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 for investments, require deposits to be adequately covered by federal depository insurance or deposited at an approved depository as identified by the Treasury. Total deposits with various financial institutions at years ended June 30, 2013 and 2012 had a bank value of \$193,675 and \$3,018,227, respectively.

CREDIT RISK – DEPOSITS

In the case of deposits, this is the risk that in the event of a bank failure, deposits may not be returned. There is no deposit policy for custodial credit risk. As of June 30, 2013, all of the \$193,675 bank balance was fully insured by the Federal Depository Insurance Corporation.

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, 2013 the fair position in the LGIP is approximately 100% of the value of the pool shares as reported in the

OREGON SCHOOL BOARDS ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

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**3. CASH AND CASH EQUIVALENTS (CONTINUED)**

**LOCAL GOVERNMENT INVESTMENT POOL (CONTINUED)**

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.

**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:

	2013	2012
<b>Cash</b>		
Cash on hand	\$ 175	\$ 175
Demand deposits	135,706	2,966,253
<b>Cash Equivalents</b>		
Money Market	-	8,616,871
Local Government Investment Pool	1,834,651	5,902,801
Total Cash and Cash Equivalents	\$ 1,970,532	\$ 17,486,100

OREGON SCHOOL BOARDS ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

4. INVESTMENTS

Investments are held by RBC Wealth Management and West Coast Trust. The following tables set forth by level, within fair value hierarchy (see page 8), the asset's fair value at June 30, 2013.

Investment Type	Assets at Fair Value as of June 30, 2013			
	Level 1	Level 2	Level 3	Total
<b>Corporate Bonds</b>				
AAA credit rating (Moody's)	\$ -	\$ 3,008,539	\$ -	\$ 3,008,539
AA1 credit rating (Moody's)	-	1,055,576	-	1,055,576
AA2 credit rating (Moody's)	-	4,149,770	-	4,149,770
AA3 credit rating (Moody's)	-	7,554,571	-	7,554,571
AA credit rating (Moody's)	-	1,166,678	-	1,166,678
AA- credit rating (Moody's)	-	361,894	-	361,894
A1 credit rating (Moody's)	-	2,085,913	-	2,085,913
A2 credit rating (Moody's)	-	4,062,162	-	4,062,162
A3 credit rating (Moody's)	-	2,832,996	-	2,832,996
BAA1 credit rating (Moody's)	-	3,141,542	-	3,141,542
BAA2 credit rating (Moody's)	-	4,770,080	-	4,770,080
BAA3 credit rating (Moody's)	-	4,798,684	-	4,798,684
BBB+ credit rating (Moody's)	-	1,137,410	-	1,137,410
BBB credit rating (Moody's)	-	2,598,142	-	2,598,142
BB+ credit rating (Moody's)	-	1,076,652	-	1,076,652
Total Corporate Bonds	-	43,800,608	-	43,800,608
US Equities	25,306,877	-	-	25,306,877
Total US Equities	25,306,877	-	-	25,306,877
International Equities	3,855,805	-	-	3,855,805
Total International Equities	3,855,805	-	-	3,855,805
<b>Other Investments</b>				
Real Estate Investment Trusts	-	-	2,416,063	2,416,063
Total Other Investments	-	-	2,416,063	2,416,063
Total Investments	\$ 29,162,682	\$ 43,800,608	\$ 2,416,063	\$ 75,379,353

OREGON SCHOOL BOARDS ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

4. INVESTMENTS (CONTINUED)

Investments were held by Umpqua Bank during the fiscal year ended June 30, 2012. The following tables set forth by level, within fair value hierarchy (see page 8), the asset's fair value at June 30, 2012.

Investment Type	Assets at Fair Value as of June 30, 2012			
	Level 1	Level 2	Level 3	Total
<b>Corporate Bonds</b>				
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
<b>Total Corporate Bonds</b>	<b>-</b>	<b>28,711,847</b>	<b>-</b>	<b>28,711,847</b>
<b>Governmental Bonds</b>				
AAA credit rating (Moody's)	26,068,851	-	-	-
AA1 credit rating (Moody's)	310,487	-	-	-
AA2 credit rating (Moody's)	633,239	-	-	-
AA- credit rating (S&P)	1,105,950	-	-	-
A+ credit rating (S&P)	225,284	-	-	-
A credit rating (S&P)	690,390	-	-	-
A2 credit rating (Moody's)	1,470,226	-	-	-
<b>Total Governmental Bonds</b>	<b>30,504,427</b>	<b>-</b>	<b>-</b>	<b>30,504,427</b>
<b>Total Bonds</b>	<b>\$ 30,504,427</b>	<b>\$ 28,711,847</b>	<b>\$ -</b>	<b>\$ 59,216,274</b>

Investment Objectives

- a. To retain liquidity and provide income to meet projected or unexpected cash needs.
- b. To attain the best possible total return (yield and market appreciation) while retaining liquidity and minimizing risk.
- c. To assure the safety of principal.

These objectives are ranked in order of importance. No "speculative" activity on securities is permitted.

Investment Securities and Diversification

*Permitted Transactions:*

1. Federally insured certificates of deposits, savings accounts, and money market funds that invest in government backed securities.
2. Bank repurchase agreements, banker acceptances, and commercial paper.
3. United States Treasury Bills and United States Government Securities that are backed by full faith of the United States Government.
4. Investment grade (BBB) of better individual corporate or municipal bonds.
5. Exchange traded funds.

OREGON SCHOOL BOARDS ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

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4. INVESTMENTS (CONTINUED)

Investment Securities and Diversification (Continued)

6. Open end and closed-end mutual funds.
7. Equities of Corporations listed on the New York Stock Exchange (NYSE), American Stock Exchange (AMEX), and large and medium capitalization companies listed on National Association of Securities Dealers Exchange (NASDAQ).
8. Master Limited Partnerships (MLPs).
9. Real Estate Investment Trusts (REITs)

*Fixed Income Securities:*

1. Quality

In addition to government Treasuries and Agencies, all other marketable issues held should have a minimum quality rating of investment grade or better at time of purchase as designated by a recognized rating service. For purposes of commercial paper holdings, issues held should have a minimum quality rating of "A1-P1", as defined by a recognized rating service.

2. Maturity

The average duration will not exceed 10 years.

3. Limitation

The maximum investment in any one fixed income security will be limited to 5% of the fixed income portfolio, at time of purchase (Government and Agency obligations are excluded from this limitation).

4. Commercial paper and repurchase agreements, as well as convertible securities and bonds, are considered acceptable assets.

*Diversification:*

The purpose of diversification is to insure that no single investment, security, class of investments or industry group will have a dominant position in the portfolio of investments.

- A. In order to minimize the risk of large losses in individual security positions, the portfolio will be constructed to attain extensive diversification in both equity and fixed income investments with no material concentration of plan assets in any single security or industry group with the exception of U.S. Government and Agency obligations.
- B. Economic Sectors: It is expected that the equity component of the portfolio will reflect a broad economic sector diversification.

The OSBA Board of Directors has adopted the following asset allocation formula for OSBA's investment manager. The formula is consistent with the desired objectives and risk tolerances of the funds.

<u>Asset Category</u>	<u>Preferred Allocation</u>	<u>Target Range</u>
Equities	40%	20 - 50%
Bonds/Fixed Income	55%	30 - 70%
Cash/Equivalents	5%	0 - 20%

\* The above formula may be altered to either reduce market risk or optimize opportunities to capitalize on expected market movement.

OREGON SCHOOL BOARDS ASSOCIATION  
NOTES TO BASIC FINANCIAL STATEMENTS

5. CAPITAL ASSETS

	Balance 07/01/12	Additions	Deletions	Balance 06/30/13
Capital Assets, Non-Depreciable				
Land	\$ 126,729	\$ -	\$ -	\$ 126,729
Total Capital Assets, Non-Depreciable	<u>126,729</u>	<u>-</u>	<u>-</u>	<u>126,729</u>
Capital Assets, Depreciable				
Equipment	59,610	-	-	59,610
Automobiles	248,945	-	-	248,945
Building Improvements	219,357	-	-	219,357
Total Capital Assets, Depreciable	<u>527,912</u>	<u>-</u>	<u>-</u>	<u>527,912</u>
Accumulated Depreciation:				
Equipment	48,346	4,202	-	52,548
Automobiles	145,592	44,425	-	190,017
Building Improvements	131,194	11,020	-	142,214
Total Accumulated Depreciation	<u>325,132</u>	<u>\$ 59,647</u>	<u>\$ -</u>	<u>384,779</u>
Total Capital Assets, Depreciable, Net	<u>202,780</u>			<u>143,133</u>
Total Capital Assets, Net	<u>\$ 329,509</u>			<u>\$ 269,862</u>

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, 2013, 2012 and 2011 were \$457,836, \$471,789 and \$378,232, respectively, and were equal to the required contributions for the year.



OREGON SCHOOL BOARDS ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

6. RETIREMENT PLANS (CONTINUED)

Plan Description (Continued)

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.

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.

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, 2007, 2009, and 2011) 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 6.9% in 2012 to 4.5% in 2029, and a consumer price inflation component of 2.75%. The schedule of funding progress is presented below.

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b)-(a) AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
12/31/11	\$ -	\$ 4,023,333	\$ 4,023,333	0%	\$ 2,478,779	162%
12/31/10	-	3,194,931	3,194,931	0%	2,433,875	131%

The actuary has determined that there is no implicit subsidy to recognize.

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.

OREGON SCHOOL BOARDS ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

**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.

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

	June 30, 2013	June 30, 2012
Cash on deposit	\$ 217,302	\$ 212,648
Accounts receivable	10,820	38,410
Land and improvements	216,141	216,142
Building & Improvements	1,681,813	1,673,924
Furniture and equipment	24,642	24,642
Less depreciation	(724,448)	(677,151)
Accounts payable	(3,647)	(29,547)
Total Investment in Local Government Center Trust	\$ 1,422,623	\$ 1,459,068

Separate financial statements for the Local Government Center Trust for the year ended June 30, 2013 are available from the Oregon School Boards Association.

**9. RELATED PARTY TRANSACTIONS**

The following transactions occurred during the period beginning July 1, 2012 and ending June 30, 2013 between the Association and other organizations which were related through common ownership, boards, and management:

Company Name	Type of Receivable/Payable or Revenue	Amount
Legal Assistance Trust	Accounts receivable	\$ 16,379
OSBA property and Casualty Coverage for Education	Accounts receivable	76,003
Local Government Center Trust	Accounts payable	13,559
Local Government Center Trust	Rental Income	72,098 *
OSBA property and Casualty Coverage for Education	Administration Charges	326,012 *
OSBA property and Casualty Coverage for Education	Legal Services	556,203 *

\* Revenues do not include accounts receivable at June 30, 2013

OREGON SCHOOL BOARDS ASSOCIATION

NOTES TO BASIC FINANCIAL STATEMENTS

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9. RELATED PARTY TRANSACTIONS (CONTINUED)

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

<u>Organization Name</u>	<u>Type of Receivable/Payable or Revenue</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
Local Government Center Trust	Rental Income	107,954 *
OSBA property and Casualty Coverage for Education	Administration Charges	326,012 *
OSBA property and Casualty Coverage	Legal Services	472,114 *

\* Revenues do not include accounts receivable at June 30, 2012

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 10, 2013, 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**

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OREGON SCHOOL BOARDS ASSOCIATION

SCHEDULE OF FUNCTIONAL EXPENSES

For the year ended June 30, 2013

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	<u>Total</u>
Program Expenses:	
Executive	\$ 747,349
Human Resources	395,140
Communications	560,196
Legislative	297,214
Board Development	663,079
Policy	404,976
Executive Search	109,968
Legal	<u>879,765</u>
Total Program Expenses	<u>4,057,687</u>
Support Expenses:	
Administration	<u>1,488,499</u>
Total Support Expenses	<u>1,488,499</u>
Total Expenses	<u><u>\$ 5,546,186</u></u>

OREGON SCHOOL BOARDS ASSOCIATION

SCHEDULE OF FUNCTIONAL EXPENSES

For the year ended June 30, 2012

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	<u>Total</u>
Program Expenses:	
Executive	\$ 661,567
Human Resources	598,059
Communications	333,474
Legislative	466,571
Board Development	440,655
Policy	574,719
Executive Search	117,467
Legal	<u>783,023</u>
Total Program Expenses	<u>3,975,535</u>
Support Expenses:	
Administration	<u>1,406,550</u>
Total Support Expenses	<u>1,406,550</u>
Total Expenses	<u><u>\$ 5,382,085</u></u>

**OREGON SCHOOL BOARDS ASSOCIATION**

**SCHEDULE OF AMOUNTS DUE TO OTHERS**

For the year ended June 30, 2013

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**PERS EMPLOYER ALLIANCE**

Revenues:	
Litigation fees	<u>\$ 42,353</u>
Total Revenues	<u>42,353</u>
Expenses:	
Legal	<u>46,815</u>
Total Expenses	<u>46,815</u>
Expenses in excess of revenue	(4,462)
Balance - July 1, 2012	<u>5,484</u>
Balance - June 30, 2013	<u><u>\$ 1,022</u></u>

**OREGON COUNCIL OF SCHOOL ATTORNEYS**

Revenues:	
Dues	\$ 9,415
Expenses	
Dues	15,444
Other	<u>150</u>
Total Expenses	<u>15,594</u>
Revenues in excess of expenses	(6,179)
Balance - July 1, 2012	<u>29,912</u>
Balance - June 30, 2013	<u><u>\$ 23,733</u></u>

Total Amounts Due to Others \$ 24,755



**OREGON SCHOOL BOARDS ASSOCIATION**

**SCHEDULE OF AMOUNTS DUE TO OTHERS**

For the year ended June 30, 2012

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**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><u>\$ 5,484</u></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><u>\$ 29,912</u></u>
Total Amounts Due to Others	<u><u>\$ 35,396</u></u>