

OREGON SCHOOL BOARDS ASSOCIATION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

For the Years Ended June 30, 2017 and 2016



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TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4 - 5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 17
Supplementary Information:	
Schedules of Functional Expenses	18
Schedule of Amounts Due to Others - June 30, 2017	19
Schedule of Amounts Due to Others - June 30, 2016	20

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Oregon School Boards Association (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oregon School Boards Association as of June 30, 2017 and 2016, 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits 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 information is fairly stated in all material respects in relation to the financial statements as a whole.



Jones & Roth, P.C.
Eugene, Oregon
December 14, 2017

FINANCIAL STATEMENTS

OREGON SCHOOL BOARDS ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

	2017	As Restated 2016
Assets		
Current assets		
Cash and cash equivalents	\$ 1,156,860	\$ 1,203,419
Accounts receivable	57,807	82,394
Interest receivable	629,695	653,918
Prepaid expenses	43,278	32,005
Investments	81,944,829	80,767,365
Total current assets	83,832,469	82,739,101
Investment in Local Government Center Trust	1,315,930	1,348,496
Property and equipment		
Land	675,607	675,607
Furniture and equipment	307,960	109,421
Automobiles	209,163	226,411
Building improvements	806,954	44,191
Nondepreciable assets and work-in-process	273,250	1,018,081
	2,272,934	2,073,711
Accumulated depreciation	(167,194)	(173,272)
Property and equipment, net	2,105,740	1,900,439
Total assets	\$ 87,254,139	\$ 85,988,036
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 166,711	\$ 324,269
Accrued compensated absences	122,055	148,756
Payroll liabilities	1,611	3,371
Unearned revenue:		
Membership dues	-	109,186
Publication subscriptions	43,410	27,430
Convention and conference fees	21,895	14,210
Due to others	34,776	35,151
Total liabilities	390,458	662,373
Net assets		
Unrestricted	36,863,681	35,325,663
Temporarily restricted	50,000,000	50,000,000
Total net assets	86,863,681	85,325,663
Total liabilities and net assets	\$ 87,254,139	\$ 85,988,036

The accompanying notes are an integral part of these statements.

OREGON SCHOOL BOARDS ASSOCIATION
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2017 and 2016

	2017		
	Unrestricted	Temporarily Restricted	Total
Revenues and support			
Membership dues	\$ 722,560	\$ -	\$ 722,560
Insurance trusts management fees	556,743	-	556,743
Convention and conference fees	302,571	-	302,571
Publication subscriptions	400,499	-	400,499
Contract services	1,361,528	-	1,361,528
Rental revenue	62,336	-	62,336
Endowment earnings	5,722,249	-	5,722,249
Unrealized gain (loss) on investments	(652,333)	-	(652,333)
Interest income	11,749	-	11,749
Gain (loss) on disposal of property and equipment	25,029	-	25,029
Miscellaneous revenue	110,964	-	110,964
	<u>8,623,895</u>	<u>-</u>	<u>8,623,895</u>
Total revenues and support			
Expenses			
Program services	4,624,401	-	4,624,401
Support services	2,461,476	-	2,461,476
	<u>7,085,877</u>	<u>-</u>	<u>7,085,877</u>
Total expenses			
Change in net assets	1,538,018	-	1,538,018
Net assets, beginning of year, as restated	<u>35,325,663</u>	<u>50,000,000</u>	<u>85,325,663</u>
Net assets, end of year	<u>\$ 36,863,681</u>	<u>\$ 50,000,000</u>	<u>\$ 86,863,681</u>

As Restated 2016		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 710,892	\$ -	\$ 710,892
540,652	-	540,652
363,785	-	363,785
371,853	-	371,853
1,241,568	-	1,241,568
67,058	-	67,058
3,774,564	-	3,774,564
3,084,671	-	3,084,671
8,439	-	8,439
(37,527)	-	(37,527)
<u>94,652</u>	<u>-</u>	<u>94,652</u>
<u>10,220,607</u>	<u>-</u>	<u>10,220,607</u>
4,696,996	-	4,696,996
<u>2,142,663</u>	<u>-</u>	<u>2,142,663</u>
<u>6,839,659</u>	<u>-</u>	<u>6,839,659</u>
3,380,948	-	3,380,948
<u>31,944,715</u>	<u>50,000,000</u>	<u>81,944,715</u>
<u>\$ 35,325,663</u>	<u>\$ 50,000,000</u>	<u>\$ 85,325,663</u>

The accompanying notes are an integral part of these statements.

OREGON SCHOOL BOARDS ASSOCIATION
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2017 and 2016

	2017	As Restated 2016
Cash flows from operating activities		
Change in net assets	\$ 1,538,018	\$ 3,380,948
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	83,846	50,466
Unrealized loss (gain) on investments	652,333	(3,084,671)
Amortization of bond premium	326,314	337,799
Loss (gain) on disposal of property and equipment	(25,029)	37,527
Realized gain on sale of investments	(2,880,354)	(826,712)
(Increase) decrease in:		
Accounts receivable	24,587	49,817
Other current assets	12,950	(80,306)
Increase (decrease) in:		
Accounts payable	(157,558)	127,251
Accrued compensated absences	(26,701)	(17,231)
Payroll liabilities	(1,760)	(50,119)
Unearned membership dues	(109,186)	(76,662)
Unearned publication subscriptions	15,980	(12,425)
Unearned conference fees	7,685	(5,345)
Due to others	(375)	(380)
Net cash used by operating activities	(539,250)	(170,043)
Cash flows from investing activities		
Purchases of investments	(16,620,904)	(9,349,856)
Proceeds from investments	17,377,713	10,644,757
Purchase of property and equipment	(289,147)	(1,029,026)
Proceeds from disposal of property and equipment	25,029	10,151
Net cash provided by investing activities	492,691	276,026
Net increase (decrease) in cash and cash equivalents	(46,559)	105,983
Cash and cash equivalents, beginning of year	1,203,419	1,097,436
Cash and cash equivalents, end of year	\$ 1,156,860	\$ 1,203,419

The accompanying notes are an integral part of these statements.

OREGON SCHOOL BOARDS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

1. Organization

The Oregon School Boards Association (OSBA or the Association) 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 may become a member of OSBA by applying and paying the annual membership dues. Membership can be terminated by a district at any time. OSBA may terminate membership for non-payment of fees. Charter schools may become associate members with no voting rights.

OSBA is exempt from federal income taxes under Internal Revenue Code Section 115.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

OSBA's records are maintained on an accrual basis whereby revenues are recognized when earned and expenses are recognized when liabilities are incurred.

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Net assets, revenues, and expenses are classified based on the existence or absence of outside-imposed restrictions. Accordingly, the net assets of OSBA and changes therein are classified and reported 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 may be used to support general activities. At June 30, 2017 and 2016, there were no permanently restricted net assets.

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 FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Basis of Accounting and 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 schedules of functional expenses. Accordingly, certain costs are allocated among the programs and supporting services benefited.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents consist of cash balances in deposit accounts and amounts in the Oregon State Treasurer's Local Government Investment Pool. Cash equivalents are stated at cost, which approximates fair market value.

Accounts Receivable

Accounts receivable are recorded on the accrual basis of accounting and represent membership dues, amounts due from reinsurance providers, and fees for services provided, as well as miscellaneous refunds. Due to the nature of the receivables and the likelihood of collection, no allowance for uncollectible accounts is considered necessary by management.

Property and Equipment

Property and equipment are defined as assets with an initial individual cost in excess of \$5,000 and a useful life of more than one year. Property and equipment are stated at cost, less accumulated depreciation, which is computed on the straight-line method over the estimated useful lives of the assets. Donated property and equipment are recorded at estimated fair market value at the date of donation. Useful lives are as follows: 3 to 5 years for furniture and equipment and automobiles, and 15 years for building improvements. Depreciation expense for the years ended June 30, 2017 and 2016, was \$83,846 and \$50,466, respectively.

OREGON SCHOOL BOARDS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Accrued Compensated Absences

Employee vacation and sick leave policies generally provide for granting vacation and sick leave with pay. The liabilities for vested or accumulated vacation leave, compensatory time, and retirement benefits are reported on the statements of financial position. Total unpaid compensated absences at June 30, 2017 and 2016, were reported based on total vested hours multiplied by current wage rates.

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

Unearned Revenue

Unearned revenue arises when resources are received by OSBA before it has a legal claim to them, as when membership dues are received in advance. In subsequent periods, when revenue earning criteria is met, the liability for unearned revenue is removed and revenue is recognized.

3. Cash and Cash Equivalents

At June 30, cash and cash equivalents consisted of the following:

	2017	2016
Petty cash	\$ 175	\$ 175
Demand deposits	461,555	300,672
Oregon State Treasurer's Local Government Investment Pool	695,130	902,572
Total cash and cash equivalents	\$ 1,156,860	\$ 1,203,419

OSBA maintains its cash in a bank deposit account with a financial institution, some in excess of the federally insured amount of \$250,000. Financial institutions insure these balances in excess of the federally insured amount via the Oregon State Treasurer's office by designating these balances as Public Funds per Oregon Revised Statutes (ORS) Chapter 295.

The State Treasurer of the State of Oregon maintains the Oregon Short-Term Fund, of which the Local Government Investment Pool is a part. Participation by local governments is voluntary. At June 30, 2017 and 2016, the carrying value of the position in the Oregon State Treasurer's Short-Term Investment Pool approximates fair value. The investment in the Oregon Short-Term Fund is not subject to risk evaluation.

OREGON SCHOOL BOARDS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

4. Investments

Investments are stated at fair value as determined by quoted market prices and consist of mutual funds that are invested primarily in debt and equity securities.

Fair Value Measurements

OSBA uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. In cases where quoted market prices are not available, fair value is based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

FASB ASC 820 provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

In accordance with FASB ASC 820, OSBA groups its financial assets and financial liabilities generally measured at fair value based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1: Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2: Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

OREGON SCHOOL BOARDS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

4. Investments, continued

Fair Value Measurements, continued

Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following tables present OSBA's fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30:

	Assets at Fair Value as of June 30, 2017			
	Level 1	Level 2	Level 3	Total
Debt securities:				
Asset backed securities	\$ -	\$ -	\$ 1,097,130	\$ 1,097,130
Governmental bonds	3,583,086	-	-	3,583,086
Corporate bonds	-	38,476,141	-	38,476,141
Foreign bonds and notes	-	1,928,399	-	1,928,399
Private placements	-	2,801,860	-	2,801,860
Equity securities:				
US equities	25,968,811	-	-	25,968,811
International equities	5,498,003	-	-	5,498,003
Real estate investment trusts	-	-	2,591,399	2,591,399
 Total assets at fair value	 <u>\$ 35,049,900</u>	 <u>\$ 43,206,400</u>	 <u>\$ 3,688,529</u>	 <u>\$ 81,944,829</u>

	Assets at Fair Value as of June 30, 2016			
	Level 1	Level 2	Level 3	Total
Debt securities:				
Asset backed securities	\$ -	\$ -	\$ 1,148,300	\$ 1,148,300
Governmental bonds	3,790,527	-	-	3,790,527
Corporate bonds	-	38,945,077	-	38,945,077
Private placements	-	3,777,478	-	3,777,478
Equity securities:				
US equities	24,148,421	-	-	24,148,421
International equities	5,438,134	-	-	5,438,134
Real estate investment trusts	-	-	3,519,428	3,519,428
 Total assets at fair value	 <u>\$ 33,377,082</u>	 <u>\$ 42,722,555</u>	 <u>\$ 4,667,728</u>	 <u>\$ 80,767,365</u>

OREGON SCHOOL BOARDS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

4. Investments, continued

Fair Value Measurements, continued

The following tables set forth a summary of changes in the fair value of Level 3 assets for the years ended June 30, 2017 and 2016:

	<u>Asset Backed Securities</u>	<u>Real Estate Investment Trusts</u>	<u>Total</u>
Balance, July 1, 2015	\$ 1,141,130	\$ 2,976,954	\$ 4,118,084
Unrealized gain	31,015	229,456	260,471
Realized gain	-	165,264	165,264
Purchases, sales, issuances & settlements (net)	<u>(23,845)</u>	<u>147,754</u>	<u>123,909</u>
Balance, June 30, 2016	<u>1,148,300</u>	<u>3,519,428</u>	<u>4,667,728</u>
Balance, July 1, 2016	1,148,300	3,519,428	4,667,728
Unrealized loss	(26,647)	(453,005)	(479,652)
Realized gain	-	221,315	221,315
Purchases, sales, issuances & settlements (net)	<u>(24,523)</u>	<u>(696,339)</u>	<u>(720,862)</u>
Balance, June 30, 2017	<u>\$ 1,097,130</u>	<u>\$ 2,591,399</u>	<u>\$ 3,688,529</u>

Investment Objectives

OSBA's investment objectives are ranked in order of importance. No speculative activity on securities is permitted.

- 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.

Investment Securities Diversification

Permitted Transactions:

- A. Federally insured certificates of deposits, savings accounts, and money market funds that invest in government backed securities.
- B. Bank repurchase agreements, banker acceptances, and commercial paper.
- C. U.S. Treasury Bills and U.S. Government Securities that are backed by full faith of the U.S. government.
- D. Investment grade (BBB) or better individual corporate or municipal bonds.

OREGON SCHOOL BOARDS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

4. Investments, continued

Investment Securities Diversification, continued

Permitted Transactions, continued:

- E. Exchange traded funds.
- F. Open-end and closed-end mutual funds.
- G. 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).
- H. Master Limited Partnerships (MLPs).
- I. Real Estate Investment Trusts (REITs).

Fixed Income Securities:

- A. 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.
- B. The average duration will not exceed 10 years.
- C. The maximum investment in any one fixed income security will be limited to 5 percent of the fixed income portfolio, at time of purchase (government and agency obligations are excluded from this limitation).
- D. Commercial paper and repurchase agreements, as well as convertible securities and bonds, are considered acceptable assets.

Diversification:

- 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.

OREGON SCHOOL BOARDS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

4. Investments, continued

Investment Securities Diversification, continued

Diversification, continued:

<u>Asset Category</u>	<u>Preferred Allocation</u>	<u>Total 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.

5. 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 percent 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, 2013, is 14.09 percent of salary covered under the plan for Tier 1 and Tier 2 employees and 12.97 percent 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, 2017 and 2016, were \$689,342 and \$655,462, respectively, and were equal to the required contributions for the year.

The Association elected to contribute the 6 percent "pick-up" of the employee's portion starting January 1, 2005.

In the 2003 legislative session, the Oregon Legislative Assembly created a successor plan for PERS. The 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 FINANCIAL STATEMENTS

5. 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.

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 systems 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. As of December 31, 2016, the actuarial assumptions include an investment return of 7.20 percent, inflation of 2.50 percent, and payroll growth of 3.50 percent. As of December 31, 2015, the actuarial assumptions include an investment return of 7.50 percent, inflation of 2.50 percent, and payroll growth of 3.50 percent.

<u>Actuarial Valuation Date</u>	<u>Actuarial Liability Accrued</u>	<u>Unfunded Actuarial Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAL as a Percentage of Covered Payroll</u>
12/31/2016	\$ 6,700,024	\$ 6,700,024	69%	\$ 2,866,731	234%
12/31/2015	\$ 6,040,153	\$ 6,040,153	72%	\$ 2,922,500	207%

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

6. Investment in Local Government Center Trust

The Local Government Center Trust was established by OSBA, 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 organizations, 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 FINANCIAL STATEMENTS

6. Investment in Local Government Center Trust, continued

Investment in the Local Government Center Trust, at cost, consists of the following:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 86,177	\$ 117,181
Accounts receivable	4,720	14,710
Land and improvements	216,141	216,141
Non-depreciable assets	2,096	2,006
Building and improvements	1,878,082	1,846,316
Furniture and equipment	47,224	24,642
Less accumulated depreciation	(916,720)	(868,106)
Accounts payable	<u>(1,790)</u>	<u>(4,394)</u>
 Total investment in Local Government Center Trust	 <u>\$ 1,315,930</u>	 <u>\$ 1,348,496</u>

Separate financial statements for the Local Government Center Trust for the year ended June 30, 2017 and 2016, are available from OSBA.

7. Related Party Transactions

The following transactions occurred during the period beginning July 1, 2016 and ending June 30, 2017, between the Association and other organizations which were related through common ownership, boards, and management:

<u>Company Name</u>	<u>Type of Revenue or Payable / Receivable Balance</u>	<u>Amount</u>
Local Government Center Trust	Accounts payable	\$ 7,456
Local Government Center Trust	Expenses	120,686
OSBA Property and Casualty Coverage for Education	Administration charges	556,743
OSBA Property and Casualty Coverage for Education	Legal services	1,011,494

OREGON SCHOOL BOARDS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

7. Related Party Transactions, continued

The following transactions occurred during the period beginning July 1, 2015 and ending June 30, 2016, between the Association and other organizations which were related through common ownership, boards, and management:

Company Name	Type of Revenue or Payable / Receivable Balance	Amount
Local Government Center Trust	Accounts payable	\$ 20,173
Local Government Center Trust	Expenses	165,807
OSBA Property and Casualty Coverage for Education	Administration charges	540,652
OSBA Property and Casualty Coverage for Education	Legal services	881,176
OSBA Property and Casualty Coverage for Education	Accounts payable	50,764

8. Prior Period Restatement

During the year ended June 30, 2017, the Association began accruing investment income on its equities portfolio for the year ended June 30, 2016. This restatement resulted in the prior year interest receivable, total assets and endowment earnings being understated. The Association adjusted its accrued interest and related revenue as of and for the year ended June 30, 2016. As a result, the following line items have been restated for 2016.

	<u>Originally Reported</u>	<u>As Restated</u>
Interest receivable	\$ 556,412	\$ 653,918
Total current assets	82,641,595	82,739,101
Total assets	85,890,530	85,988,036
Unrestricted net assets	35,228,157	35,325,663
Total net assets	85,228,157	85,325,663
Total liabilities and net assets	85,890,530	85,988,036
Endowment earnings	3,677,058	3,774,564
Total revenues and support	10,123,101	10,220,607
Change in net assets	3,283,442	3,380,948
Net assets, end of year	85,228,157	85,325,663

9. Subsequent Events

Management evaluates events and transactions that occur after the statement of financial position date as potential subsequent events. Management has performed this evaluation through the date of the independent auditor's report.

SUPPLEMENTARY INFORMATION

OREGON SCHOOL BOARDS ASSOCIATION
 SCHEDULES OF FUNCTIONAL EXPENSES
 For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Program services		
Executive	\$ 572,810	\$ 512,606
Human Resources	351,942	648,141
Communications	579,770	626,813
Legislative	641,022	585,342
Board development	944,969	824,838
Policy	555,337	596,319
Legal	<u>978,551</u>	<u>902,937</u>
Total program services	4,624,401	4,696,996
Support services		
Administration	<u>2,461,476</u>	<u>2,142,663</u>
Total expenses	<u>\$ 7,085,877</u>	<u>\$ 6,839,659</u>

OREGON SCHOOL BOARDS ASSOCIATION
 SCHEDULE OF AMOUNTS DUE TO OTHERS
 For the Year Ended June 30, 2017

Property and Casualty Coverage for Education (PACE)

Revenues:	
PACE day	\$ 5,475
Expenses:	
Other	<u>6,300</u>
Expenses in excess of revenues	(825)
Balance - July 1, 2016	<u>5,400</u>
Balance - June 30, 2017	<u>4,575</u>

Oregon Council of School Attorneys

Revenues:	
Dues	<u>15,430</u>
Expenses:	
Dues	12,830
Other	<u>2,150</u>
Total expenses	<u>14,980</u>
Revenues in excess of expenses	450
Balance - July 1, 2016	<u>29,751</u>
Balance - June 30, 2017	<u>30,201</u>
Total amounts due to others	<u><u>\$ 34,776</u></u>

OREGON SCHOOL BOARDS ASSOCIATION
 SCHEDULE OF AMOUNTS DUE TO OTHERS
 For the Year Ended June 30, 2016

Property and Casualty Coverage for Education (PACE)

Revenues:		
PACE day	\$	5,550
Expenses:		
Other		<u>2,805</u>
Revenues in excess of expenses		2,745
Balance - July 1, 2015		<u>2,655</u>
Balance - June 30, 2016		<u>5,400</u>

Oregon Council of School Attorneys

Revenues:		
Dues		<u>11,350</u>
Expenses:		
Dues		15,290
Other		<u>375</u>
Total expenses		<u>15,665</u>
Expenses in excess of revenues		(4,315)
Balance - July 1, 2015		<u>34,066</u>
Balance - June 30, 2016		<u>29,751</u>
Total amounts due to others	\$	<u><u>35,151</u></u>