

OREGON SCHOOL BOARDS ASSOCIATION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

For the Years Ended June 30, 2020 and 2019



OREGON SCHOOL BOARDS ASSOCIATION
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For the Years Ended June 30, 2020 and 2019

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 Functional Expenses	6 - 7
Statements of Cash Flows	8
Notes to Financial Statements	9 - 20
Supplementary Information:	
Schedule of Amounts Due to Others – For the Year Ended June 30, 2020	21
Schedule of Amounts Due to Others – For the Year Ended June 30, 2019	22

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, 2020 and 2019, and the related statements of activities, functional expenses 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, 2020 and 2019, 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
January 13, 2021

FINANCIAL STATEMENTS

OREGON SCHOOL BOARDS ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2020 and 2019

	2020	2019
Assets		
Current assets		
Cash and cash equivalents	\$ 5,095,491	\$ 4,289,011
Accounts receivable	547,471	202,677
Interest receivable	495,588	600,303
Prepaid expenses	37,701	125,170
Investments	73,885,301	80,005,173
Total current assets	80,061,552	85,222,334
Investment in Local Government Center Trust	1,330,157	1,246,792
Property and equipment		
Land	1,976,831	675,607
Furniture and equipment	802,254	719,523
Automobiles	299,234	247,113
Building and building improvements	1,009,364	806,954
Nondepreciable assets and work-in-process	-	105,000
	4,087,683	2,554,197
Accumulated depreciation	(683,758)	(520,824)
Property and equipment, net	3,403,925	2,033,373
Total assets	\$ 84,795,634	\$ 88,502,499
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 73,517	\$ 91,873
Accrued compensated absences	238,666	178,735
Payroll liabilities	200,172	228,420
Unearned revenue:		
Publication subscriptions	2,550	52,140
Convention and conference fees	-	32,380
Due to others	33,431	41,181
Current portion of note payable	63,238	-
Total current liabilities	611,574	624,729
Note payable	324,171	-
Total liabilities	935,745	624,729
Net assets		
Without donor restrictions	33,859,889	37,877,770
With donor restrictions	50,000,000	50,000,000
Total net assets	83,859,889	87,877,770
Total liabilities and net assets	\$ 84,795,634	\$ 88,502,499

The accompanying notes are an integral part of these statements.

OREGON SCHOOL BOARDS ASSOCIATION
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2020 and 2019

	2020		
	Without Donor Restrictions	With Donor Resctrictions	Total
Revenues and support			
Membership dues	\$ 672,290	\$ -	\$ 672,290
Insurance trusts management fees	633,018	-	633,018
Convention and conference fees	447,672	-	447,672
Publication subscriptions	350,934	-	350,934
Contract services	1,639,930	-	1,639,930
Rental revenue	37,189	-	37,189
Endowment earnings	3,975,793	-	3,975,793
Unrealized gain (loss) on investments	(3,028,927)	-	(3,028,927)
Gain on disposal of property and equipment	10,170	-	10,170
Interest income	85,433	-	85,433
Miscellaneous revenue	159,033	-	159,033
	<u>4,982,535</u>	<u>-</u>	<u>4,982,535</u>
Total revenues and support			
Expenses			
Program	6,471,481	-	6,471,481
Administration	2,528,935	-	2,528,935
	<u>9,000,416</u>	<u>-</u>	<u>9,000,416</u>
Total expenses			
Change in net assets	(4,017,881)	-	(4,017,881)
Net assets, beginning of year	<u>37,877,770</u>	<u>50,000,000</u>	<u>87,877,770</u>
Net assets, end of year	<u>\$ 33,859,889</u>	<u>\$ 50,000,000</u>	<u>\$ 83,859,889</u>

The accompanying notes are an integral part of these statements.

2019

Without Donor Restrictions	With Donor Resctrictions	Total
\$ 677,715	\$ -	\$ 677,715
696,686	-	696,686
366,358	-	366,358
439,679	-	439,679
1,792,631	-	1,792,631
39,968	-	39,968
4,668,233	-	4,668,233
2,554,505	-	2,554,505
-	-	-
27,545	-	27,545
99,647	-	99,647
11,362,967	-	11,362,967
7,129,325	-	7,129,325
2,763,132	-	2,763,132
9,892,457	-	9,892,457
1,470,510	-	1,470,510
36,407,260	50,000,000	86,407,260
\$ 37,877,770	\$ 50,000,000	\$ 87,877,770

The accompanying notes are an integral part of these statements.

OREGON SCHOOL BOARDS ASSOCIATION
 STATEMENTS OF FUNCTIONAL EXPENSES
 For the Years Ended June 30, 2020 and 2019

	2020		
	Program	Administration	Total
Salaries, benefits, and payroll taxes	\$ 4,513,931	\$ 1,442,652	5,956,583
Sub-contracts	92,010	177,070	269,080
Professional development	19,238	9,445	28,683
Meetings, conferences, and conventions	393,278	122,180	515,458
Travel	81,178	60,370	141,548
Vehicle expenses	6,536	20,428	26,964
Building expenses	77,181	46,309	123,490
Utilities	11,977	7,187	19,164
Office expenses	539,182	23,509	562,691
Computer expenses	150,415	90,249	240,664
Postage and printing	15,417	9,251	24,668
Professional fees	119,952	71,972	191,924
Insurance	71,251	42,750	114,001
Recruitment	-	14,934	14,934
Special projects	75,335	141,510	216,845
Dues and subscriptions	110,939	98,321	209,260
Depreciation	151,625	90,975	242,600
Miscellaneous	42,036	59,823	101,859
Total expenses	\$ 6,471,481	\$ 2,528,935	\$ 9,000,416

The accompanying notes are an integral part of these statements.

2019		
<u>Program</u>	<u>Administration</u>	<u>Total</u>
\$ 4,508,045	\$ 1,440,377	\$ 5,948,422
25,820	294,771	320,591
48,482	20,974	69,456
371,223	175,069	546,292
88,197	58,453	146,650
12,572	18,568	31,140
79,536	47,721	127,257
12,226	7,336	19,562
541,928	25,157	567,085
186,712	112,027	298,739
9,181	5,509	14,690
40,629	24,378	65,007
66,852	40,110	106,962
-	13,822	13,822
852,175	129,568	981,743
102,873	103,164	206,037
135,755	81,453	217,208
47,119	164,675	211,794
<u>\$ 7,129,325</u>	<u>\$ 2,763,132</u>	<u>\$ 9,892,457</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, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Change in net assets	\$ (4,017,881)	\$ 1,470,510
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	242,600	217,208
Unrealized (gain) loss on investments	3,028,927	(2,554,505)
Amortization of bond premium	235,477	283,280
Gain on disposal of property and equipment	(10,170)	-
Realized gain on sale of investments	(1,198,623)	(1,667,148)
(Increase) decrease in:		
Accounts receivable	(344,794)	(71,193)
Other current assets	192,183	(43,977)
Increase (decrease) in:		
Accounts payable	(18,356)	(190,547)
Accrued compensated absences	59,931	43,105
Payroll liabilities	(28,248)	95,888
Unearned revenue	(81,970)	13,809
Other current liabilities	(7,750)	4,956
	(1,948,674)	(2,398,614)
Net cash used by operating activities		
Cash flows from investing activities		
Purchases of investments	(10,312,791)	(6,073,257)
Proceeds from investments	14,283,517	11,741,504
Purchase of property and equipment	(1,225,742)	(105,000)
Proceeds from disposal of property and equipment	10,170	-
	2,755,154	5,563,247
Net cash provided by investing activities		
Net increase in cash and cash equivalents	806,480	3,164,633
Cash and cash equivalents, beginning of year	4,289,011	1,124,378
Cash and cash equivalents, end of year	\$ 5,095,491	\$ 4,289,011
Noncash investing and financing activities:		
Gross purchase of property and equipment	\$ (1,613,151)	\$ (105,000)
Real property financed under assumption of note payable	387,409	-
	\$ (1,225,742)	\$ (105,000)
Purchase of property and equipment		

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, incorporated 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.

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:

Net assets without donor restrictions - 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 without donor restrictions. Net assets without donor restrictions include all assets available for general purposes.

Within this category are net assets without donor restrictions for financial reporting purposes that are considered conditionally restricted by the Board, available only upon a two-thirds majority vote by the Board. These reserves are being held in an endowment with the investment earnings being made available to fund OSBA's operations. In June 2019, the Board approved a policy to reduce the amount of net assets without Board restrictions to be at least 15 percent of OSBA's approved budget with a maximum of \$10,000,000, increasing board-restricted net assets to equal all net assets without donor restrictions in excess of that amount. The amount of board-restricted net assets was \$23,859,889 and \$27,877,770 as of June 30, 2020 and 2019, respectively.

Net assets with donor restrictions – Revenue, gains and other support that have been restricted by external parties or by law are reported as net assets with donor restrictions. 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 be held in perpetuity to protect the funds in a manner consistent with the agreement. These are considered net assets with restrictions that are perpetual in nature.

OREGON SCHOOL BOARDS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

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, 2020 and 2019, was \$242,600 and \$217,208, respectively.

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, 2020 and 2019, 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.

OREGON SCHOOL BOARDS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Liquidity and Availability of Resources

Financial assets available for general expenditure, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

	2020	2019
Cash and cash equivalents	\$ 5,095,491	\$ 4,289,011
Accounts receivable	547,471	202,677
Interest receivable	495,588	600,303
Investments	73,885,301	80,005,173
	80,023,851	85,097,164
Less: Board-designated funds	(23,859,889)	(27,877,770)
Less: Net assets with restrictions held in perpetuity	(50,000,000)	(50,000,000)
Financial assets available for general expenditure	\$ 6,163,962	\$ 7,219,394

See Basis of Accounting and Presentation section of Note 2 for discussion regarding the reductions from financial assets available for general expenditure.

Recent Accounting Standards Adopted

OSBA adopted ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10)* which requires a number of changes for the reporting and disclosure requirements for financial assets and liabilities including the requirement that all non-consolidated equity investments be measured at fair value with changes in fair value recognized in change in net assets. OSBA adopted the new standard effective July 1, 2019, using a modified prospective approach in these financial statements; however the adoption of the new standard did not result in any change to previously reported financial assets or change in net assets.

Pursuant to ASU No. 2020-05, the effective date for ASU No. 2014-09 *Revenue from Contracts with Customers* (Topic 606) and all subsequently issued clarifying ASUs were delayed until July 1, 2020 and OSBA did not elect to early adopt. These ASU's replace most existing revenue recognition guidance in U.S. GAAP and requires expanded disclosures related to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. As a result, ASU 2014-09 and subsequently issued clarifying ASUs will be effective for OSBA beginning July 1, 2020.

Functional Allocation of Expenses

The Association allocates its expenses on a functional basis among its program and support services. Direct expenses are allocated using distinct cost centers. Certain shared expenses are allocated pro-rata among the different departments of the Association. Accordingly, certain costs have been allocated among the program and support services.

OREGON SCHOOL BOARDS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

3. Cash and Cash Equivalents

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

	2020	2019
Petty cash	\$ 175	\$ 175
Demand deposits	2,566,538	1,413,731
Oregon State Treasurer's Local Government Investment Pool	2,528,778	2,875,105
Total cash and cash equivalents	\$ 5,095,491	\$ 4,289,011

OSBA maintains its cash in a bank deposit account with a financial institution, at times 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, 2020 and 2019, 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 and principal is not guaranteed or insured.

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.

OREGON SCHOOL BOARDS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

4. Investments, continued

Fair Value Measurements, continued

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.

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, 2020			
	Level 1	Level 2	Level 3	Total
Debt securities:				
Governmental bonds	\$ 4,207,632	\$ -	\$ -	\$ 4,207,632
Corporate bonds	-	39,463,574	-	39,463,574
Foreign bonds and notes	-	1,921,806	-	1,921,806
Private placements	-	820,188	-	820,188
Equity securities:				
U.S. equities	19,450,870	-	-	19,450,870
International equities	4,905,951	-	-	4,905,951
Real estate investment trusts	-	-	3,115,280	3,115,280
 Total assets at fair value	 <u>\$ 28,564,453</u>	 <u>\$ 42,205,568</u>	 <u>\$ 3,115,280</u>	 <u>\$ 73,885,301</u>

OREGON SCHOOL BOARDS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

4. Investments, continued

Fair Value Measurements, continued

	Assets at Fair Value as of June 30, 2019			
	Level 1	Level 2	Level 3	Total
Debt securities:				
Governmental bonds	\$ 5,123,869	\$ -	\$ -	\$ 5,123,869
Corporate bonds	-	41,832,828	-	41,832,828
Foreign bonds and notes	-	1,755,799	-	1,755,799
Private placements	-	1,745,955	-	1,745,955
U.S. federal agencies	-	1,012,020	-	1,012,020
Equity securities:				
U.S. equities	19,825,955	-	-	19,825,955
International equities	6,433,749	-	-	6,433,749
Real estate investment trusts	-	-	2,274,998	2,274,998
 Total assets at fair value	 <u>\$ 31,383,573</u>	 <u>\$ 46,346,602</u>	 <u>\$ 2,274,998</u>	 <u>\$ 80,005,173</u>

The following tables set forth a summary of changes in the fair value of Level 3 assets for the years ended June 30, 2020 and 2019:

	Asset Backed Securities	Real Estate Investment Trusts	Total
Balance, July 1, 2018	\$ 1,049,160	\$ 1,993,289	\$ 3,042,449
Unrealized gain	14,585	281,709	296,294
Purchases, sales, settlements and other reductions (net)	<u>(1,063,745)</u>	<u>-</u>	<u>(1,063,745)</u>
Balance, June 30, 2019	-	2,274,998	2,274,998
Unrealized gain	-	134,309	134,309
Purchases, sales, settlements and other reductions (net)	<u>-</u>	<u>705,973</u>	<u>705,973</u>
Balance, June 30, 2020	<u>\$ -</u>	<u>\$ 3,115,280</u>	<u>\$ 3,115,280</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.

OREGON SCHOOL BOARDS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

4. Investments, continued

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.
- 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.

OREGON SCHOOL BOARDS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

4. Investments, continued

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.

<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. Note Payable

During the year ended June 30, 2020, OSBA assumed an installment note payable as part of a purchase of real property.

At June 30, note payable consisted of the following:

	<u>2020</u>	<u>2019</u>
Note payable to Bellinger Bros, LLC with principal and interest payments of \$7,500 beginning July 2020 and principal and interest payments of \$7,000 beginning September 2020, interest rate at 6.00%. Final payment of principal and interest due November 2025, secured by land and building.	\$ 387,409	\$ -
Current portion	<u>(63,238)</u>	<u>-</u>
Note payable, net of current portion	<u>\$ 324,171</u>	<u>\$ -</u>

OREGON SCHOOL BOARDS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

5. Note Payable, continued

Annual maturities of note payable obligations in each of the next five years and thereafter are as follows:

<u>For the Year Ending December 31,</u>		
2021	\$	63,238
2022		66,355
2023		70,447
2024		74,792
2025		79,405
Thereafter		<u>33,172</u>
Total	\$	<u>387,409</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 ORS Chapter 238. ORS 238.620 establishing 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, 2019, is 28.02 percent of salary covered under the plan for Tier 1 and Tier 2 employees and 20.31 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, 2020 and 2019, were \$1,065,873 and \$902,496, 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

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.

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, 2019, and 2018, the actuarial assumptions include an investment return of 7.20 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>
12/31/2019	\$ 7,484,166	\$ 7,484,166	71%	\$ 3,647,493	205%
12/31/2018	\$ 8,701,013	\$ 8,701,013	68%	\$ 3,693,299	236%

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

7. 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 purchases of property and equipment, reimbursements for other services provided, and monthly payments for reserve purposes.

OREGON SCHOOL BOARDS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

7. Investment in Local Government Center Trust, continued

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

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 68,511	\$ 39,060
Accounts receivable	7,777	5,727
Land and improvements	270,534	270,534
Non-depreciable assets	-	22,304
Building and improvements	2,026,352	1,896,369
Furniture and equipment	60,196	47,225
Accumulated depreciation	(1,097,135)	(1,031,573)
Accounts payable	<u>(6,078)</u>	<u>(2,854)</u>
Total investment in Local Government Center Trust	<u>\$ 1,330,157</u>	<u>\$ 1,246,792</u>

Separate financial statements for the Local Government Center Trust for the years ended June 30, 2020 and 2019, are available from OSBA.

8. Related Party Transactions

The following transactions occurred during the period beginning July 1, 2019 and ending June 30, 2020, 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 receivable	\$ 8,815
Local Government Center Trust	Property and equipment	141,369
Local Government Center Trust	Operating expenses	190,093
OSBA Property and Casualty Coverage for Education	Accounts receivable	463,153
OSBA Property and Casualty Coverage for Education	Sponsorship	50,000
OSBA Property and Casualty Coverage for Education	Administration charges	633,018
OSBA Property and Casualty Coverage for Education	Legal services	1,205,669
OSBA Property and Casualty Coverage for Education	Expenses	1,675
Special Districts Association of Oregon	Salaries and benefits	68,512

The following transactions occurred during the period beginning July 1, 2018 and ending June 30, 2019, between the Association and other organizations which were related through common ownership, boards, and management:

OREGON SCHOOL BOARDS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

8. Related Party Transactions, continued

Company Name	Type of Revenue or Payable / Receivable Balance	Amount
Local Government Center Trust	Accounts receivable	\$ 7,252
Local Government Center Trust	Accounts payable	11,184
Local Government Center Trust	Expenses	132,799
OSBA Legal Assistance Trust	Accounts receivable	4,894
OSBA Property and Casualty Coverage for Education	Sponsorship	50,000
OSBA Property and Casualty Coverage for Education	Administration charges	696,686
OSBA Property and Casualty Coverage for Education	Legal services	1,276,253
Special Districts Association of Oregon	Salaries and benefits	172,939

Revenue from OSBA Property and Casualty Coverage for Education (PACE) accounted for 38 percent and 18 percent of total revenues and support for the years ended June 30, 2020 and 2019, respectively. Accounts receivable from PACE accounted for 85 percent of receivables as of June 30, 2020. There were no receivables from PACE as of June 30, 2019.

9. Funding Agreement

During the year ended June 30, 2019, the Association entered into an agreement with the Oregon Association of School Business Officials (OASBO), to assist in providing funds to OASBO for the purpose of acquiring data analytic products for school districts throughout the state of Oregon. As part of this agreement, the Association will pay a total sum of \$1,500,000 over the course of 3 years so that OASBO can make requisite purchases under the agreement. The installments are due in July of each year. \$500,000 was paid during the years ended June 30, 2020 and 2019. \$500,000 will be due in the year ending June 30, 2021.

10. Uncertainties

The COVID-19 virus outbreak in the United States has resulted in significant economic uncertainties. As of the date of the independent auditor's report, the Association has not yet experienced significant disruption in its operation as a result of this health crisis. However, a prolonged crisis could change those circumstances and might result in a negative impact to the Trust. The likelihood and extent of any such financial impact cannot be reasonably estimated at this time.

11. 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
 SCHEDULE OF AMOUNTS DUE TO OTHERS
 For the Year Ended June 30, 2020

Property and Casualty Coverage for Education (PACE)

Revenues:		
PACE day		\$ 225
Expenses:		
Other		<u>3,375</u>
Expenses in excess of revenues		(3,150)
Balance - July 1, 2019		<u>3,150</u>
Balance - June 30, 2020		<u>-</u>

Oregon Council of School Attorneys

Revenues:		
Dues		8,120
Expenses:		
Dues		<u>12,720</u>
Expenses in excess of revenues		(4,600)
Balance - July 1, 2019		<u>38,031</u>
Balance - June 30, 2020		<u>33,431</u>
Total amounts due to others		<u><u>\$ 33,431</u></u>

OREGON SCHOOL BOARDS ASSOCIATION
 SCHEDULE OF AMOUNTS DUE TO OTHERS
 For the Year Ended June 30, 2019

Property and Casualty Coverage for Education (PACE)

Revenues:	
PACE day	\$ 4,350
Expenses:	
Other	<u>4,250</u>
Revenues in excess of expenses	100
Balance - July 1, 2018	<u>3,050</u>
Balance - June 30, 2019	<u>3,150</u>

Oregon Council of School Attorneys

Revenues:	
Dues	<u>10,150</u>
Expenses:	
Dues	<u>4,060</u>
Revenues in excess of expenses	6,090
Balance - July 1, 2018	<u>31,941</u>
Balance - June 30, 2019	<u>38,031</u>
Total amounts due to others	<u><u>\$ 41,181</u></u>