

OREGON SCHOOL BOARDS ASSOCIATION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

For the Years Ended June 30, 2019 and 2018



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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, 2019 and 2018, 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, 2019 and 2018, 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 29, 2020

FINANCIAL STATEMENTS

OREGON SCHOOL BOARDS ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2019 and 2018

	2019	2018
Assets		
Current assets		
Cash and cash equivalents	\$ 4,289,011	\$ 1,124,378
Accounts receivable	202,677	131,484
Interest receivable	600,303	628,382
Prepaid expenses	125,170	53,114
Investments	80,005,173	81,698,841
Total current assets	85,222,334	83,636,199
Investment in Local Government Center Trust	1,246,792	1,282,998
Property and equipment		
Land	675,607	675,607
Furniture and equipment	719,523	719,523
Automobiles	247,113	247,113
Building improvements	806,954	806,954
Nondepreciable assets and work-in-process	105,000	-
	2,554,197	2,449,197
Accumulated depreciation	(520,824)	(303,616)
Property and equipment, net	2,033,373	2,145,581
Total assets	\$ 88,502,499	\$ 87,064,778
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 91,873	\$ 282,420
Accrued compensated absences	178,735	135,630
Payroll liabilities	228,420	132,532
Unearned revenue:		
Membership dues	-	5,006
Publication subscriptions	52,140	44,015
Convention and conference fees	32,380	21,690
Due to others	41,181	34,991
Other liabilities	-	1,234
Total liabilities	624,729	657,518
Net assets		
Without donor restrictions	37,877,770	36,407,260
With donor restrictions	50,000,000	50,000,000
Total net assets	87,877,770	86,407,260
Total liabilities and net assets	\$ 88,502,499	\$ 87,064,778

The accompanying notes are an integral part of these statements.

OREGON SCHOOL BOARDS ASSOCIATION
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2019 and 2018

	2019		
	Without Donor Restrictions	With Donor Resctrictions	Total
Revenues and support			
Membership dues	\$ 677,715	\$ -	\$ 677,715
Insurance trusts management fees	696,686	-	696,686
Convention and conference fees	366,358	-	366,358
Publication subscriptions	439,679	-	439,679
Contract services	1,792,631	-	1,792,631
Rental revenue	39,968	-	39,968
Endowment earnings	4,668,233	-	4,668,233
Unrealized gain (loss) on investments	2,554,505	-	2,554,505
Interest income	27,545	-	27,545
Miscellaneous revenue	99,647	-	99,647
	<u>11,362,967</u>	<u>-</u>	<u>11,362,967</u>
Expenses			
Program	7,129,325	-	7,129,325
Administration	2,763,132	-	2,763,132
	<u>9,892,457</u>	<u>-</u>	<u>9,892,457</u>
Change in net assets	1,470,510	-	1,470,510
Net assets, beginning of year	<u>36,407,260</u>	<u>50,000,000</u>	<u>86,407,260</u>
Net assets, end of year	<u>\$ 37,877,770</u>	<u>\$ 50,000,000</u>	<u>\$ 87,877,770</u>

2018		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 734,209	\$ -	\$ 734,209
657,900	-	657,900
474,198	-	474,198
406,427	-	406,427
1,446,633	-	1,446,633
52,629	-	52,629
6,468,853	-	6,468,853
(3,417,176)	-	(3,417,176)
16,418	-	16,418
62,230	-	62,230
6,902,321	-	6,902,321
4,845,923	-	4,845,923
2,512,819	-	2,512,819
7,358,742	-	7,358,742
(456,421)	-	(456,421)
36,863,681	50,000,000	86,863,681
\$ 36,407,260	\$ 50,000,000	\$ 86,407,260

The accompanying notes are an integral part of these statements.

OREGON SCHOOL BOARDS ASSOCIATION
 STATEMENTS OF FUNCTIONAL EXPENSES
 For the Years Ended June 30, 2019 and 2018

	2019		
	Program	Administration	Total
Salaries, benefits, and payroll taxes	\$ 4,508,045	\$ 1,440,377	5,948,422
Sub-contracts	25,820	294,771	320,591
Professional development	48,482	20,974	69,456
Meetings, conferences, and conventions	371,223	175,069	546,292
Travel	88,197	58,453	146,650
Vehicle expenses	12,572	18,568	31,140
Building expenses	79,536	47,721	127,257
Utilities	12,226	7,336	19,562
Office expenses	541,928	25,157	567,085
Computer expenses	186,712	112,027	298,739
Postage and printing	9,181	5,509	14,690
Professional fees	40,629	24,378	65,007
Insurance	66,852	40,110	106,962
Recruitment	-	13,822	13,822
Special projects	852,175	129,568	981,743
Dues and subscriptions	102,873	103,164	206,037
Depreciation	135,755	81,453	217,208
Miscellaneous	47,119	164,675	211,794
Total expenses	\$ 7,129,325	\$ 2,763,132	\$ 9,892,457

2018		
<u>Program</u>	<u>Administration</u>	<u>Total</u>
\$ 3,752,305	\$ 1,383,988	\$ 5,136,293
82,350	266,271	348,621
35,059	32,011	67,070
355,647	160,081	515,728
59,530	60,658	120,188
9,105	18,462	27,567
75,335	45,201	120,536
10,874	6,524	17,398
36,439	21,864	58,303
110,252	66,151	176,403
13,788	8,273	22,061
57,093	34,256	91,349
49,376	29,625	79,001
-	12,059	12,059
-	133,860	133,860
90,974	111,946	202,920
85,264	51,158	136,422
22,532	70,431	92,963
<u>\$ 4,845,923</u>	<u>\$ 2,512,819</u>	<u>\$ 7,358,742</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, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ 1,470,510	\$ (456,421)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	217,208	136,422
Unrealized (gain) loss on investments	(2,554,505)	3,417,176
Amortization of bond premium	283,280	293,678
Realized gain on sale of investments	(1,667,148)	(3,590,207)
(Increase) decrease in:		
Accounts receivable	(71,193)	(73,677)
Other current assets	(43,977)	(8,523)
Increase (decrease) in:		
Accounts payable	(190,547)	246,718
Accrued compensated absences	43,105	13,575
Payroll liabilities	95,888	(89)
Unearned revenue	13,809	5,406
Other current liabilities	4,956	1,449
Net cash used by operating activities	(2,398,614)	(14,493)
Cash flows from investing activities		
Purchases of investments	(6,073,257)	(13,242,454)
Proceeds from investments	11,741,504	13,400,728
Purchase of property and equipment	(105,000)	(176,263)
Net cash provided (used) by investing activities	5,563,247	(17,989)
Net increase (decrease) in cash and cash equivalents	3,164,633	(32,482)
Cash and cash equivalents, beginning of year	1,124,378	1,156,860
Cash and cash equivalents, end of year	\$ 4,289,011	\$ 1,124,378

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 \$27,877,770 and \$15,762,867 as of June 30, 2019 and 2018, 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

Recent Accounting Standard Adopted

During the year ended June 30, 2019, the Organization adopted the provisions of the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) No. 2016-14: *Presentation of Financial Statements of Not-for-Profit Entities*. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, a statement of functional expenses and new disclosures were added regarding liquidity and availability of resources.

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, 2019 and 2018, was \$217,208 and \$136,422, 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, 2019 and 2018, were reported based on total vested hours multiplied by current wage rates.

OREGON SCHOOL BOARDS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Accrued Compensated Absences, continued

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.

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:

	2019	2018
Cash and cash equivalents	\$ 4,289,011	\$ 1,124,378
Accounts receivable	202,677	131,484
Interest receivable	600,303	628,382
Investments	80,005,173	81,698,841
	85,095,840	83,583,085
Less: Board-designated funds	(27,877,770)	(15,762,867)
Less: Net assets with restrictions held in perpetuity	(50,000,000)	(50,000,000)
Financial assets available for general expenditure	\$ 7,218,070	\$ 17,820,218

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

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.

Reclassifications

Certain amounts within the financial statements have been reclassified for comparative purposes to conform to 2019 presentation. The reclassifications had no effect on the reported change in net assets for either year presented.

OREGON SCHOOL BOARDS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

3. Cash and Cash Equivalents

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

	2019	2018
Petty cash	\$ 175	\$ 175
Demand deposits	1,413,731	195,705
Oregon State Treasurer's Local Government Investment Pool	2,875,105	928,498
Total cash and cash equivalents	\$ 4,289,011	\$ 1,124,378

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, 2019 and 2018, 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.

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, 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>

OREGON SCHOOL BOARDS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

4. Investments, continued

Fair Value Measurements, continued

	Assets at Fair Value as of June 30, 2018			
	Level 1	Level 2	Level 3	Total
Debt securities:				
Asset backed securities	\$ -	\$ -	\$ 1,049,160	\$ 1,049,160
Governmental bonds	4,448,630	-	-	4,448,630
Corporate bonds	-	41,755,496	-	41,755,496
Foreign bonds and notes	-	1,739,508	-	1,739,508
Private placements	-	1,527,528	-	1,527,528
U.S. federal agencies	-	973,534	-	973,534
Equity securities:				
U.S. equities	21,382,943	-	-	21,382,943
International equities	6,828,753	-	-	6,828,753
Real estate investment trusts	-	-	1,993,289	1,993,289
Total assets at fair value	<u>\$ 32,660,326</u>	<u>\$ 45,996,066</u>	<u>\$ 3,042,449</u>	<u>\$ 81,698,841</u>

The following tables set forth a summary of changes in the fair value of Level 3 assets for the years ended June 30, 2019 and 2018:

	Asset Backed Securities	Real Estate Investment Trusts	Total
Balance, July 1, 2017	\$ 1,097,130	\$ 2,591,399	\$ 3,688,529
Unrealized loss	(22,689)	(554,342)	(577,031)
Realized gain	-	248,009	248,009
Purchases, sales, settlements and other reductions (net)	(25,281)	(291,777)	(317,058)
Balance, June 30, 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)	(1,063,745)	-	(1,063,745)
Balance, June 30, 2019	<u>\$ -</u>	<u>\$ 2,274,998</u>	<u>\$ 2,274,998</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

Investment Securities Diversification, 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. 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, 2017, is 23.53 percent of salary covered under the plan for Tier 1 and Tier 2 employees and 15.85 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, 2019 and 2018, were \$902,496 and \$775,222, respectively, and were equal to the required contributions for the year.

OREGON SCHOOL BOARDS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

5. Retirement Plans, continued

Plan Description, continued

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.

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, 2018 and 2017, 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>
12/31/2018	\$ 8,701,013	\$ 8,701,013	68%	\$ 3,693,299	236%
12/31/2017	\$ 5,993,349	\$ 5,993,349	73%	\$ 2,899,793	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:

	2019	2018
Cash and cash equivalents	\$ 39,060	\$ 40,738
Accounts receivable	5,727	7,122
Land and improvements	270,534	270,533
Non-depreciable assets	22,304	-
Building and improvements	1,896,369	1,891,518
Furniture and equipment	47,225	47,224
Accumulated depreciation	(1,031,573)	(972,895)
Accounts payable	(2,854)	(1,242)
Total investment in Local Government Center Trust	\$ 1,246,792	\$ 1,282,998

Separate financial statements for the Local Government Center Trust for the years ended June 30, 2019 and 2018, are available from OSBA.

7. Related Party Transactions

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:

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

OREGON SCHOOL BOARDS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

7. Related Party Transactions, continued

The following transactions occurred during the period beginning July 1, 2017 and ending June 30, 2018, 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	\$ 10,395
Local Government Center Trust	Expenses	107,124
OSBA Property and Casualty Coverage for Education	Accounts payable	158,094
OSBA Property and Casualty Coverage for Education	Administration charges	657,900
OSBA Property and Casualty Coverage for Education	Legal services	899,808
Special Districts Association of Oregon	Salaries and benefits	106,485

8. 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 year ended June 30, 2019. \$500,000 will be due in the years ending June 30, 2020 and 2021, respectively.

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
 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	10,150
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>

OREGON SCHOOL BOARDS ASSOCIATION
 SCHEDULE OF AMOUNTS DUE TO OTHERS
 For the Year Ended June 30, 2018

Property and Casualty Coverage for Education (PACE)

Revenues:		
PACE day		\$ 3,925
Expenses:		
Other		<u>5,450</u>
Expenses in excess of revenues		(1,525)
Balance - July 1, 2017		<u>4,575</u>
Balance - June 30, 2018		<u>3,050</u>

Oregon Council of School Attorneys

Revenues:		
Dues		<u>15,410</u>
Expenses:		
Dues		13,595
Other		<u>75</u>
Total expenses		<u>13,670</u>
Revenues in excess of expenses		1,740
Balance - July 1, 2017		<u>30,201</u>
Balance - June 30, 2018		<u>31,941</u>
Total amounts due to others		<u>\$ 34,991</u>