

MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2015

MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

BOARD OF DIRECTORS

<u>BOARD OF DIRECTORS</u>	<u>TERM EXPIRES</u>
Michael Lesko, Position #1, Chairman	June 30, 2019
McKenzie Marly, Position #2	June 30, 2017
Duane Geyer, Position #3	June 30, 2017
Don Miller, Position #4	June 30, 2017
Kelly Kessler, Position #5	June 30, 2019
Tim McElrath, Position #6, Vice Chairman	June 30, 2017
Tara Lewis, Position #7	June 30, 2019

All board members will receive mail at the following address:

1020 South Mill Street
Milton-Freewater, OR 97862-1343
(541) 938-3551

ADMINISTRATION

Rob Clark, Superintendent
Denyce Kelly, Director of Business Services

MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

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UMATILLA COUNTY, OREGON

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January 4, 2016

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Milton-Freewater Unified School District
Umatilla County, Oregon

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Milton-Freewater Unified School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents. The District's Financial Statements for the year ended June 30, 2014 were audited by other auditors whose report dated December 23, 2014 expressed an unmodified opinion.

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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Milton-Freewater Unified School District, as of June 30, 2015, and the respective changes in financial position and budgetary comparisons for the general fund and special revenue fund, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Milton-Freewater Unified School District adopted the provisions of GASB Statement No. 68, Accounting and Reporting for Pensions, as well as the provisions of GASB Statement No. 71, Pensions Transition for Contributions Made Subsequent to the Measurement Date, for the year ended June 30, 2015. Our opinion is not modified with respect to this matter.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and required supplemental information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The supplementary, as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The supplementary information, as listed in the table of contents, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information, as listed in the table of contents, and the schedule of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Reports on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2016 on our consideration of the internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance.

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated January 4, 2016, on our consideration of compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

A handwritten signature in black ink that reads "Matthew Graves". The signature is written in a cursive, flowing style.

MATTHEW GRAVES, CPA
PAULY, ROGERS AND CO., P.C.

Milton-Freewater Unified School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2015

As management of Milton-Freewater Unified School District, (referred to as the District) we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with the financial statements that begin with the Statement of Net Position.

FINANCIAL HIGHLIGHTS

- In an effort to be more transparent with patrons by reporting more of the District's assets and liabilities, the District converted its financial statements from the cash basis of accounting to US GAAP for the fiscal year ended June 30, 2015. With the cash basis of accounting, certain assets and their related revenues (such as capital assets, accounts receivable and revenue billed for or provided services not yet collected) and certain liabilities and their related expenditures (such as long term debt, accounts payable and expenditures for goods and services received but not yet paid, and accrued expenditures and liabilities) were not recorded in the financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported. At June 30, 2015, the Government-Wide Statement of Net Position and Statement of Activities are reported using the accrual basis of accounting or US GAAP. The Governmental fund financial statements are now reported using the modified accrual basis of accounting, where revenue is recognized when measurable and available. Expenditures are recorded when the related liability is incurred.

At June 30, 2014, net position prior to conversion totaled \$3,088,546. With the conversion, the District booked property taxes, accounts receivable, and fixed assets, net of depreciation, increasing assets by \$6.7 million. However, the District also booked accounts payable, payroll liabilities, post-employment benefits and long term debt, increasing the liabilities by \$13.6 million. After conversion, the June 30, 2014 net position (as restated) totaled a *deficit* \$3,804,035.

- The District adopted Government Accounting Standards Board's (GASB) Statement No. 68 Accounting and Financial Reporting for Pensions and GASB Statement No.71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No.68. GASB No.68 establishes standard for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures related to pensions. GASB No. 71 addresses an issue regarding application of the transition provisions of GASB No. 68.

Milton-Freewater Unified School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2015

Prior to GASB No. 68, the pension related accounting information Oregon PERS employers resided in only the footnote disclosures and the required supplementary information of the financial report. Under the GASB No. 68 standard, the employer's statement of net position includes an entry for the District's proportionate share of the system's overall unfunded pension liability or asset. This change has materially impacted the reported statement of net position.

Prior to adoption of the new GASB statements, the District's net position at June 30, 2014 totaled a *deficit* \$3,804,035 (restated, post conversion). With the implementation of the GASB statements and the inclusion of the unfunded pension liability, the District's net position is restated to total a *deficit* \$5,594,491.

- In the Government-Wide financial statement at June 30, 2015, the District's liabilities plus deferred inflows of resources outstripped total assets, causing a *deficit* totaling \$2,845,124. Although still in a deficit, the net assets were increased \$3,049,367 from the June 30, 2014 balance as restated. Most notably due from GASB 68 reporting, PERS reform and the District net pension asset totaling \$1,196,586. The District's investment in capital assets net of related debt totaled \$5,556,472.
- The District maintains liquidity with cash totaling \$3,188,364. This balance is increased from \$3,088,546 in the previous year. This increase is a result of reduced District expenditures, following reduced District enrollment.
- The District relies upon the State School Fund as its primary source of operating revenue. In 2015, the State School Formula afforded District collections totaling \$13,451,763 compared to \$13,095,310 in the prior year. Although enrollment was reduced, the overall State funding increased due to the \$6.55 billion K-12 education allocation.
- At June 30, 2015, the assigned and unassigned fund balance for the General Fund was \$2,246,226 or approximately 14% of total General Fund expenditures (including transfers).
- In May 2013, voters approved Measure 30-93, a local option property tax levy. This levy resulted in additional property tax revenue of \$176,872 as well as a state matching grant in the amount of \$182,972. Although this was significantly less than the prior year, the District was able to purchase a passenger bus, update curriculum and complete safety improvements in the buildings.

Milton-Freewater Unified School District
MANAGEMENT’S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2015

OVERVIEW OF THE FINANCIAL STATEMENTS

This management discussion and analysis is intended to serve as an introduction to the District’s basic financial statements. The District’s basic financial statements consist of three components: 1) Government-Wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the District through the use of Government-Wide statements and fund financial statements. In addition to the basic financial statements, this report also contains supplementary information that will enhance the reader’s understanding of the financial condition of the District.

The first two statements in the basic financial statements are the Government-Wide Financial Statements. They provide both short and long-term information about the District’s financial status. The next statements are Fund Financial Statements. These statements focus on the activities of the individual parts of the District. These statements provide more detail than the Government-Wide statements. There are two parts to the Fund Financial Statements: the governmental funds statements and the budgetary comparison statements.

The next section of the basic financial statements is the notes. The notes to the financial statements explain in detail some of the data contained in those statements. In addition to the basic financial statements and accompanying notes, supplementary information is provided to show details about the District’s individual funds. Budgetary information required by the Oregon Revised Statutes also can be found in this part of the statements.

Government-Wide Financial Statements

The Government-Wide financial statements are designed to provide readers with a broad overview of the District’s finances, in a manner similar to a private-sector business. In the Government-Wide financial statements, the District’s activities are in Governmental Activities which include regular and special program instructional and support services, administrative and fiscal support, and community services. These activities are primarily financed through property tax revenues, Oregon State school fund, and inter-Governmental grants. These statements include:

- The Statement of Net Position. The Statement of Net Position presents information on all of the assets and liabilities of the District at year end. The net position is what remains after the liabilities have been paid or otherwise satisfied. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.
- The Statement of Activities. The Statement of Activities presents information showing how the net assets of the District changed over the year by tracking revenues, expenses and other transactions that increase or reduce net assets. All changes in net position are reported as soon as the underlying event giving rise to the change occurs.

Milton-Freewater Unified School District
MANAGEMENT’S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2015

OVERVIEW OF THE FINANCIAL STATEMENTS (con’t)

Fund Financial Statements

The fund financial statements provide more detailed information about the District’s funds, focusing on its most significant or “major” fund – not the District as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Milton-Freewater Unified School District like other governmental entities in the State of Oregon, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the Oregon Revised Statutes.

Because the focus of governmental funds is narrower than that of the Government-Wide financial statements, it is useful to compare the information presented by governmental funds with similar information presented for statement of activities in the Government-Wide financial statements. By doing so, readers may better understand the long-term impact of the District’s near-term financing decisions. Both the governmental fund Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances are reconciled to the Government-Wide Statements and Net position and Activities

The District adopts an annual budget for its funds, as required by the Oregon Revised Statutes. The budget is a legally adopted document that incorporates input from the citizens of the District, the management of the District, and the District Board about which services to provide and how to pay for them. It also authorizes the District to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the District complied with Oregon Local Budget Law and whether or not the District succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the Statement of Revenues, Expenditures, and Changes in Fund Balances. The statement shows four columns: 1) the original budget as adopted by the District Board; 2) the final budget as amended by the District Board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges

The District maintains 16 individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and Statement of Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Special Revenue Fund, Debt Service Fund and Capital Projects Fund all of which are considered major funds under the GASB 34.

Milton-Freewater Unified School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2015

OVERVIEW OF THE FINANCIAL STATEMENTS (con't)

Notes to the Financial Statements:

The notes provide additional information that is essential to understanding the data provided in the Government-wide and fund financial statements.

Other Information

Supplementary information and other financial schedules reflect detail budget to actual analysis for the fiscal year ending June 30, 2015.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Current and Other Assets on the tables below primarily consist of cash and accounts receivable from the State. At June 30, 2015, cash totaled \$3,188,364. With the implementation of GASB 68, a net pension asset totaling \$1,196,586 was booked to reflect the District's proportionate share of the State of Oregon's Unfunded Actuarial Liability. Interestingly, the unfunded actuarial liability was actually an *overfunded actuarial liability* causing a net pension asset. This is due to State Legislate driven PERS benefit relief which has since been overturned by the Oregon Supreme Court.

Capital assets consist of the District's land, buildings, building improvements, vehicles, and equipment, represent about 55% of total assets. For the year ended June 30, 2015, larger investments in capital assets were purchased with the local option tax collected and include building improvements and transportation equipment.

The District's largest liability consists of three PERS Bond issues. The District issued bonds in 2002, 2003 and a refinance in 2011. The bonds were sold to fund or partially fund the Agencies PERS unfunded actuarial liability (UAL). At June 30, 2015, the PERS bonds balance totaled \$10,481,244. The District has two full faith and credit obligations, totaling \$785,000, from 2006 capital improvements at McLoughlin High School and Freewater Elementary School and from 2011 bus purchases. The 2006 debt will be paid off in fiscal year 2016. In addition, the District has notes payable to the Oregon Department of Energy and Community Bank for energy efficiency improvements and technology equipment, respectively, totaling 199,393.

The District offers post employment health insurance benefits as part of the collective bargaining agreement with the Milton-Freewater Education Association, resulting in a District liability at June 30, 2015 of \$519,343

The District also reported Deferred Inflows of Resources from the net difference between projected and actual earning on pension investments totaling \$1,626,424. This deferred inflow will be recognized as income over a five year period.

The majority of the District's unrestricted deficit net position (\$9,122,692) is due to the US GAAP conversion, PERS bonds and the implementation of GASB 68, as the Government-Wide

Milton-Freewater Unified School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2015

Financial Statements include District's proportionate share of the State's Unfunded Actuarial Liability and subsequent calculation of the net pension asset. This deficit net position is offset by the investment in capital assets (e.g. land, buildings, vehicles and equipment). The District uses these capital assets to provide services to students, staff, and other District residents; consequently these assets are not available for future spending. As mentioned earlier, the District does have current and long term debt related to buildings and equipment. The following reflects condensed information on the District's net position:

Net Position at June 30, 2015

	Governmental Activities		
	(As Restated)		
	<u>2015</u>	<u>2014</u>	<u>Difference</u>
Assets:			
Cash and Cash Equivalents	\$ 3,188,364	\$ 3,088,546	\$ 99,818
Taxes Receivable	188,893	180,782	8,111
Accounts Receivable	773,880	232,560	541,320
Proportionate Share of the Net Pension Asset	1,196,586	0	1,196,586
Capital Assets - Nondepreciable	1,418,336	1,418,336	0
Capital Assets - Depreciable, Net of Depreciation	4,988,797	5,051,867	(63,070)
Total Assets	<u>11,754,856</u>	<u>9,972,091</u>	<u>1,782,765</u>
Liabilities:			
Accounts Payable	83,250	189,084	(105,834)
Accrued Payroll Liability	905,326	825,913	79,413
Other Postemployment Benefits	519,343	548,098	(28,755)
Net Pension Liability	0	2,693,921	(2,693,921)
Bonds Payable Due in One Year	760,977	747,394	13,583
Bonds Payable Due in More Than One Year	10,704,660	11,465,637	(760,977)
Total Liabilities	<u>12,973,556</u>	<u>16,470,047</u>	<u>(3,496,491)</u>
Deferred Inflows of Resources:			
Net Pension related Deferrals	1,626,424	(603,465)	2,229,889
Net Position			
Investment in Capital Assets	5,556,472	5,200,004	356,468
Restricted for Capital Projects	0	124,028	(124,028)
Restricted for Debt Service	455,005	379,137	75,868
Restricted for Other Purposes	266,091	275,959	(9,868)
Unrestricted	(9,122,692)	(11,873,619)	2,750,927
Total Net Position	<u>\$ (2,845,124)</u>	<u>\$ (5,894,491)</u>	<u>\$ 3,049,367</u>

GOVERNMENT-WIDE FINANCIAL ANALYSIS (con't)

**Milton-Freewater Unified School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2015**

As noted earlier, The District's net position was restated at June 30, 2014 to reflect the conversion to the modified accrual basis of accounting and to implement GASB Statement 68 and 71. The Statements require adoption of standards for measuring and recognizing liabilities, deferred outflows/inflows of resources and expense/expenditures of pension plans. At June 30, 2015 the liabilities and deferred inflows of the District exceeded its assets by \$2,845,124. The District's net position increased by \$3,049,367 from the prior year.

Changes in Net Position for the Year Ended June 30, 2015

	<u>2015</u>	<u>2014</u>	<u>Difference</u>
Revenues:			
Program Revenues			
Charges for Services	\$ 467,679	\$ 1,483,318	\$ (1,015,639)
Operating Grants & Contributions	1,705,411	2,439,920	(734,509)
General Revenues:			
Property Taxes	2,698,053	2,864,479	(166,426)
State School Sources	13,851,373	12,927,019	924,354
Other Federal, State and Local Sources	404,547	204,272	200,275
Interest on Investments	27,151	26,370	781
Other	43,097	94,352	(51,255)
Total Revenues	<u>19,197,311</u>	<u>20,039,730</u>	<u>(842,419)</u>
Expenses:			
Instruction	9,520,839	11,325,456	(1,804,617)
Support Services	4,938,125	5,537,753	(599,628)
Enterprise & Community Services	761,011	941,680	(180,669)
Facility Acquisition, Construction, Capital	0	237,443	(237,443)
Debt Service	927,969	1,511,936	(583,967)
Total Expenses	<u>16,147,944</u>	<u>19,554,268</u>	<u>(3,406,324)</u>
Change in Net Position	3,049,367	485,462	2,563,905
Net Position, Beginning as Previously Reported	(5,894,491)	2,603,084	(8,497,575)
Cumulative Effect - Modified Accrual Conversion	0	(6,892,581)	6,892,581
Cumulative Effect - GASB 68 Implementation	0	(2,090,456)	2,090,456
Net Position, Ending	<u>\$ (2,845,124)</u>	<u>\$ (5,894,491)</u>	<u>\$ (3,049,367)</u>

Milton-Freewater Unified School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2015

GOVERNMENT-WIDE FINANCIAL ANALYSIS (con't)

Governmental Activities. The notable elements of the change in the District's net position for the year ended June 30, 2015 are as follows:

- Revenues were decreased in 2015 with the reduction of the local option tax levy and the related State equalization matching grant. In 2015, enrollment was reduced, however the overall State funding increased due to the \$6.55 billion K-12 education allocation. In 2014 (reported on the cash basis of accounting) the District received reimbursement of prior years' expenditures from state and federal grants. In 2015 those same grants reported revenue when earned not collected.
- The District's 2015 total expenditures decreased as the District was aligning staff to the reduced enrollment levels. In addition, with the implementation of GASB 68, PERS pension payment adjustments were applied to the Government-Wide statements in 2015, resulting in a decrease of expenditures. Facilities acquisition and capital outlay reported net of debt, was decreased from the prior year.
- The PERS rates remained flat at 8.46% for Tier1/Tier2 and 6.46% for OPSRP.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the District's Governmental Funds is to provide information on relatively short-term cash flow and funding for future basic services. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a Government's net resources available for spending at the end of a fiscal year.

At June 30, 2015, the District's Governmental Funds reported a combined ending fund balance of \$3,029,335. This balance increased \$698,026 from the restated balance of \$2,331,319 in the previous year, primarily due to the reduction in district expenditures, aligning to reduced enrollment.

General Fund. The General Fund is the primary operating fund of the District. As of June 30, 2015, the assigned and unassigned fund balance was \$2,246,226. As a measure of the fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. The fund balance represents 14% of total General Fund expenditures (including transfers) for the fiscal year ending June 30, 2015.

**Milton-Freewater Unified School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2015**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (con't)

Special Revenue Fund. Special Revenue Funds are designated for specific programs. Sources of these funds usually are contracts or grants from public and private entities. State grants for title and special education programs were slightly higher for 2015. The Special Revenue Fund balances totaled \$266,091.

Debt Service Fund. The Debt Service Fund is for payments on Limited Tax Pension Bonds, issued in 2002 and 2003 with refunding a portion in August 2011. In addition, the District makes payments on Full Faith and Credit Obligations used for various capital improvements to the District facilities. Payments on other debt funded the purchase of busses, copiers and more recently, energy efficiency projects. The Fund reports and ending balance of \$455,005

Capital Projects Fund. The District opened a new Capital Projects Fund in 2014 to record the Local Option Levy capital purchases, outside of transportation and general fund curriculum and repairs. In 2015 purchases include upgraded boiler at Mac Hi, flooring at Central Middle School and Freewater Elementary and kitchen equipment at Grove Elementary. The District's Transportation Fund collects the State Transportation Grant and then transfers money for the debt payments related to the purchases of new busses. In 2015 the fund received a transfer of local option taxes from the General fund for the purchase of a District school bus and vehicle.

GENERAL FUND BUDGETARY HIGHLIGHTS

The increased funding from the State Legislature, along with the PERS rate relief allowed the District to build a budget that included a half time Middle School Assistant Principal/Technology Coordinator, create an alternative education program and honor negotiated step/COLA increases for all staff, as well as align appropriations with the change of bases of accounting to modified accrual. The Local Option revenue allowed for improved curriculum and needed District maintenance.

For the 2014-2015 school year, the District based its budget on 1755 average daily enrollment and a beginning fund balance totaling \$1,900,000. The actual beginning fund balance totaled \$2,277,044, however the actual enrollment averaged 1680. The District utilized the increased beginning fund balance to maintain a full calendar and all academic as well as extra-curricular programs. After the PERS rate relief legislation, the 2014-2015 rates remained flat at 8.46% for T1/T2 and 6.46% for OPSRP. The District continues to pay the 6% PERS employee portion. The District offered ½ day Kindergarten in 2014-2015, but is moving to a full day program in 2015-2016.

**Milton-Freewater Unified School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2015**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The District's investment in capital assets includes land, buildings and improvements, vehicles and equipment. For the year ended June 30, 2015, the District's capital assets are reported on the Statement of Net Position, as part of the conversion to US GAAP. New additions include an upgraded boiler at Mac Hi and a food service oven at Grove Elementary. Major capital improvements funded by the 2015 local option levy include a passenger bus, district vehicle and new flooring at Freewater Elementary and Central Middle School.

	Governmental Activities
Land	\$ 1,418,336
Buildings & Improvements	4,444,421
Equipment & Vehicles	544,376
	\$ 6,407,133

Long-Term Debt. As reported on the Statement of Net Position and detailed in the table below, at June 30, 2015, the District had \$11.4 million debt outstanding which is comparable to \$12.2 million last year. The District made its annual debt service payments under these obligations that included an overall reduction in the principal balance of \$747,394. See Note 5 of the Notes to the Financial Statements for more information on long-term debt obligations.

	Outstanding Debt Obligations		
	2015	2014	Difference
2002 Limited Tax Pension Bonds, PERS	\$ 4,777,629	\$ 4,898,188	\$ (120,559)
2003 Limited Tax Pension Bonds, PERS	5,273,615	5,466,226	(192,611)
2006 Full Faith and Credit Obligation, remodeling	335,000	660,000	(325,000)
2011 Full Faith and Credit Obligation, bus purchases	450,000	515,000	(65,000)
2011 Limited Tax Pension Refunding Bonds, PERS	430,000	430,000	0
Community Bank, Photocopiers	0	5,569	(5,569)
Oregon Department of Energy Loan	133,732	142,849	(9,117)
Community Bank , Technology Equipment	65,661	95,199	(29,538)
Total	\$ 11,465,637	\$ 12,213,031	\$ (747,394)

**Milton-Freewater Unified School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2015**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

As with most school Districts, the District relies heavily on the State of Oregon's State School fund. For the year ended June 30, 2015, the State School Fund – General Support provided 80% of the District's program resources for the General Fund. The percentage climbs to 97% when property taxes, local option taxes and the State Equalization Grant are included. Besides the continued recovery of the economy to create additional State funding, the District's enrollment and ability to attract new students is crucial to stable funding.

The State Legislature passed a \$7.376B budget for the 2015-2017 biennium. With the Legislature ending after the budget was published, the District's 2015-2016 budget includes revenue from the Basic School Support Formula based on a State budget of 7.255B and a slightly higher beginning fund balance. Negotiated increases included steps and a 1.5% COLA for all certificated and classified staff. The District built the budget with 1770 students counting the kindergarteners as full time equivalent and offering a full day kindergarten program. To assist in this transition, the District is changing the configuration of the three elementary schools. Each elementary school will contain all district students for two grade levels. Grove Elementary will have all of the district's kindergarten and first grade students, Ferndale Elementary will have all of the district's second and third grade students and Freewater Elementary all the district's fourth and fifth grade students.

In October 2015 the District was awarded a \$15 million dollar grant from the Valley Foundation. The grant is to build a new elementary school and is contingent upon the District and community passing a matching grant/bond of at least \$12.5 million dollars. At the November 2015 meeting, the District's Board of Directors made commitment to run a bond issue on May 17, 2016. District and community planning is underway on an accelerated schedule to achieve the goal of passing the bond, obtaining the Grant and improving all District schools.

REQUESTS FOR INFORMATION

This financial report is designed to present the user (citizens, taxpayers, investors, and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. Questions concerning any of the information provided in this report or request for additional information should be addressed to the District's Business Office at InterMountain Education Service District at 2001 SW Nye, Pendleton, Oregon 97801.

MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

BASIC FINANCIAL STATEMENTS

MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

STATEMENT OF NET POSITION
June 30, 2015.

ASSETS

Cash and Cash Equivalents	\$	3,188,364
Property Taxes Receivable		188,893
Accounts Receivable		773,880
Proportionate Share of Net Pension Asset (PERS)		1,196,586
Capital Assets - Nondepreciable		1,418,336
Capital Assets - Depreciable, Net of Depreciation		<u>4,988,797</u>

Total Assets 11,754,856

LIABILITIES:

Accounts Payable		83,250
Payroll Liabilities		905,326
Other Postemployment Benefits		519,343
Noncurrent Liabilities		
Due within one year		760,977
Due in more than one year		<u>10,704,660</u>

Total Liabilities 12,973,556

DEFERRED INFLOWS OF RESOURCES

Net Pension Related Deferrals		<u>1,626,424</u>
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NET POSITION:

Net Investment in Capital Assets		1,764,261
Restricted for:		
Debt Service		455,005
Other		266,091
Unrestricted		<u>(5,330,481)</u>

Total Net Position \$ (2,845,124)

See accompanying notes to basic financial statements.

MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

FUNCTIONS	EXPENSES	PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	
Instruction	\$ 9,520,839	\$ 389,667	\$ 593,699	\$ (8,537,473)
Support Services	4,938,125	-	377,564	(4,560,561)
Community Services	761,011	78,012	734,148	51,149
Interest on Long-Term Debt	<u>927,969</u>	<u>-</u>	<u>-</u>	<u>(927,969)</u>
Total Governmental Activities	<u>\$ 16,147,944</u>	<u>\$ 467,679</u>	<u>\$ 1,705,411</u>	<u>(13,974,854)</u>
General Revenues				
Taxes:				
				2,698,053
				13,851,373
Income Not Restricted to Specific Programs				
				356,021
				43,097
				<u>27,151</u>
				<u>17,024,221</u>
				3,049,367
				<u>(5,894,491)</u>
				<u>\$ (2,845,124)</u>

See accompanying notes to basic financial statements.

MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

BALANCE SHEET - GOVERNMENTAL FUNDS
 June 30, 2015

	GENERAL FUND	SPECIAL REVENUE FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	TOTALS
ASSETS:					
Cash and Investments	\$ 2,671,326	\$ -	\$ 455,005	\$ 62,033	\$ 3,188,364
Property Taxes Receivable	188,893			-	188,893
Accounts Receivable	107,545	666,335			773,880
Interfund Receivable	374,890	-	-	-	374,890
Prepays		-	-	-	-
Inventory	-		-	-	-
Total Assets	\$ 3,342,654	\$ 666,335	\$ 455,005	\$ 62,033	\$ 4,526,027
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES:					
Liabilities:					
Accounts Payable	\$ 57,896	\$ 25,354	\$ -	\$ -	\$ 83,250
Payroll Liabilities	905,326	-	-	-	905,326
Interfund Payable	-	374,890	-	-	374,890
Unearned Revenue	-	-	-	-	-
Total Liabilities	963,222	400,244	-	-	1,363,466
Deferred Inflows:					
Unavailable Property Taxes	133,206				133,206
Fund Balances:					
Non-spendable	-	-	-	-	-
Restricted		266,091	455,005	-	721,096
Assigned:			-	62,033	62,033
Unassigned	2,246,226		-	-	2,246,226
Total Fund Balances	2,246,226	266,091	455,005	62,033	3,029,355
Total Liabilities, Deferred Inflows and Fund Balances	\$ 3,342,654	\$ 666,335	\$ 455,005	\$ 62,033	\$ 4,526,027

See accompanying notes to basic financial statements.

MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
YAMHILL COUNTY, OREGON

Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Position
June 30, 2015

Total Fund Balances - Governmental Funds		\$	3,029,355
The cost of capital assets (land, buildings, furniture and equipment) purchased or constructed is reported as an expenditure in governmental funds. The Statement of Net Position includes those capital assets among the assets of the District as a whole.			
Net Capital Assets			6,407,133
The District's proportionate share of the statewide actuarially determined Net Pension Asset (PERS).			
			1,196,586
Net pension related deferrals include actuarial assumptions and PERS contributions after the valuation.			
			(1,626,424)
Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long term, are reported in the Statement of Net Position.			
Long term Liabilities			
Bonds Payable	\$	(11,266,244)	
Other Post-Employment Benefits		(519,343)	
Notes Payable		(199,393)	
			<u>(11,984,980)</u>
Unearned revenue related to property taxes			<u>133,206</u>
Net Position		\$	<u><u>(2,845,124)</u></u>

See accompanying notes to basic financial statements.

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2015

	GENERAL FUND	SPECIAL REVENUE FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	TOTALS
REVENUES:					
From Local Sources	\$ 3,140,240	\$ 505,724	\$ 1,180,463	\$ -	\$ 4,826,427
From Intermediate Sources	36,634	6,463	-	-	43,097
From State Sources	13,684,918	93,352	-	73,103	13,851,373
From Federal Sources	48,526	1,628,126	-	-	1,676,652
Total Revenues	16,910,318	2,233,665	1,180,463	73,103	20,397,549
EXPENDITURES:					
Instruction	10,139,715	1,135,279	-	-	11,274,994
Support Services	5,521,594	205,365	-	120,985	5,847,944
Community Services	2,682	898,540	-	-	901,222
Facilities Acquisition and Construction	-	-	-	-	-
Debt Service	32,394	-	1,533,643	109,326	1,675,363
Capital Outlay	-	-	-	-	-
Total Expenditures	15,696,385	2,239,184	1,533,643	230,311	19,699,523
Excess of Revenues Over, (Under) Expenditures	1,213,933	(5,519)	(353,180)	(157,208)	698,026
OTHER FINANCING SOURCES (USES)					
Transfers In	-	-	429,050	129,706	558,756
Transfers Out	(471,606)	-	-	(87,150)	(558,756)
Total Other Financing Sources (Uses)	(471,606)	-	429,050	42,556	-
Net Change in Fund Balance	742,327	(5,519)	75,870	(114,652)	698,026
Beginning Fund Balance (restated)	1,503,899	271,610	379,135	176,685	2,331,329
Ending Fund Balance	<u>\$ 2,246,226</u>	<u>\$ 266,091</u>	<u>\$ 455,005</u>	<u>\$ 62,033</u>	<u>\$ 3,029,355</u>

See accompanying notes to basic financial statements.

MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
to the Statement of Activities
For the Year Ended June 30, 2015

Total Net Changes in Fund Balances - Governmental Funds \$ 698,026

Repayment of bond principal, capital leases and vested compensated absences is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Additions to bond principal, capital leases and vested compensated absences is an expense for the Statement of Net Position but not the governmental funds.

Principal payments on debt	\$	703,170	
Changes in Other Post-Employment Benefits		28,755	
Principal payments on notes payable		44,224	
			776,149

Fixed asset additions are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is capitalized and allocated over their estimated useful lives as depreciation expense. This is the amount by which capital assets additions exceeds depreciation.

Capital Asset Additions		249,225	
Depreciation Expense		(312,295)	

Revenue reported in in the funds is on the modified accrual basis however property taxes are not deferred in the statement of activities. (22,356)

Payment of unfunded pension obligation was originally reported in the governmental funds as an expenditure. In the Statement of Activities the amount to be charged each year as an expense over the estimated expense incurred to pay the obligation is amortized, rather than expensed at the time of prepayment of PERS funding. 1,660,618

Change in Net Position of Governmental Activities \$ 3,049,367

See accompanying notes to basic financial statements.

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the district's accounting policies are described below.

REPORTING ENTITY

Milton-Freewater Unified School District (the District) is a municipal corporation governed by a separately elected seven-member board authorized to transact all business on the District's behalf. The District is a primary government exercising financial accountability for all public education within its boundaries. The Board approves administrative officials. The daily functioning is under supervision of the Superintendent. As required by generally accepted accounting principles, all activities have been included in the basic financial statements.

The financial statements include all funds and account groups. The District is not financially accountable for any other governmental entity. Financial accountability is determined in accordance with criteria set forth in GAAP and Governmental Accounting Standards Board (GASB) Statement No. 61. Financial accountability is based primarily on the authority to appoint a voting majority of an organization's governing board, ability to impose its will on that organization, the potential for that organization to provide specific financial benefits or impose specific financial burdens and that organization's fiscal dependency. There are no component units.

GOVERNMENT-WIDE FINANCIAL STATEMENTS (GWFS)

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all the non-fiduciary activities. The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Under terms of grant agreements, certain programs are funded by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted resources available to finance the program. It is policy to first apply cost reimbursement grant resources to such programs and then general revenues. In the process of aggregating data for the Statement of Net Position and Statement of Activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables were eliminated to minimize the "grossing up" effect on assets and liabilities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Program revenues included in the Statement of Activities derive directly from the program itself or from parties outside the District's taxpayers or citizenry, as a whole; program revenues reduce the cost of the function to be financed from general revenues. Program revenues include 1) charges to customers who purchase or use goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

All direct expenses by function are reported in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENT-WIDE FINANCIAL STATEMENTS (GWFS) (CONTINUED)

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

FUND FINANCIAL STATEMENTS

The accounts are organized and operated on the basis of funds. A fund is a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

GOVERNMENTAL FUND TYPES

Governmental funds are used to account for general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are “measurable and available”). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, interfund transactions, and certain compensated absences and claims and judgments which are recognized as expenditures because they will be liquidated with expendable financial resources.

Revenues susceptible to accrual are interest, state, county and local shared revenue and federal and state grants. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The following major governmental funds are reported:

GENERAL FUND

This fund accounts for all financial resources and expenditures except those required to be accounted for in another fund. The principal revenue sources are property taxes and an apportionment from the State of Oregon School Support Fund.

SPECIAL REVENUE FUND

This fund consists of all special revenue funds established to account for revenues and expenditures related to grants, student activities and other special revenues.

DEBT SERVICE FUND

This fund accounts for the property tax revenues related to debt service and makes the debt service payments on the general obligation bonds.

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENTAL FUND TYPES (CONTINUED)

CAPITAL PROJECTS FUND

This fund accounts for activities related to the acquisition, construction, equipping and furnishing of facilities. Principal revenue sources are proceeds from the sale of bonds and interest earnings.

BUDGETS

A budget is prepared and legally adopted for each governmental fund type on the modified accrual basis of accounting in the main program categories required by Oregon Local Budget Law. The budgets for all budgeted funds are adopted on a basis consistent with generally accepted accounting principles except that property taxes received after year-end are not considered budgetary resources in the funds, inventory is expensed when purchased, capital outlay is reported as an expenditure rather than capitalized, depreciation and amortization are not recorded and debt, vacation pay, and OPEB obligations are expensed when paid instead of when incurred.

The budget process begins early in each fiscal year with the establishment of the budget committee. Recommendations are developed through early spring with the budget committee approving the budget in late spring. Public notices of the budget hearing are generally published in spring with a public hearing being held approximately three weeks later. The Board may amend the budget prior to adoption. However, budgeted expenditures for each fund may not be increased by more than ten percent without re-publication. The budget is then adopted, appropriations are made, and the tax levy declared no later than June 30th.

Expenditure budgets are appropriated at the following levels for each fund: Instruction, Support Services, Enterprise & Community Services, Other Uses - Debt Service and Interfund Transfers, and Operating Contingency.

Expenditures cannot legally exceed the adopted appropriation levels except in the case of grants which could not be estimated at the time of budget adoption. Appropriations lapse at the fiscal year-end. Management may amend line items in the budget without Board approval as long as appropriation levels (the legal level of control) are not changed. Supplemental appropriations may occur if the Board approves them due to unforeseen circumstances which could not be determined at the time the budget was adopted.

Budget amounts shown in the basic financial statements reflect the original budgeted appropriation amounts. Expenditures of the various funds were within authorized appropriations for the year ended June 30, 2015.

PROPERTY TAXES RECEIVABLE

Real and personal property taxes attach as an enforceable lien on property as of January 1. All taxes levied as of the lien date and are payable in three installments on November 15, February 15, and May 15. Taxes unpaid and outstanding on May 16 are considered delinquent.

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCOUNTS AND OTHER RECEIVABLES

Accounts and other receivables are comprised primarily of State school support and claims for reimbursement of costs under various federal and state grants. No allowance for uncollectible accounts has been recorded because all receivables are considered by management to be collectible.

GRANTS

Unreimbursed expenditures due from grantor agencies are reflected in the basic financial statements as receivables and revenues. Grant revenues are recorded at the time eligible expenditures are incurred. Cash received from grantor agencies in excess of related grant expenditures are recorded as unearned revenue on the statement of net position and the balance sheet.

SUPPLY INVENTORIES

School food and other cafeteria supplies are stated at average invoice cost. Commodities purchased from the United States Department of Agriculture in the Food Service Fund are included in inventories at USDA wholesale value. Supplies are accounted for based on the purchase method. Donated commodities consumed during the year are reported as revenues and expenditures. The amount of unused donated commodities at balance sheet date is considered immaterial by management for reporting purposes.

CAPITAL ASSETS

Capital assets include land, buildings & improvements, and vehicles & equipment, and are recorded at original cost or estimated original cost. Donated capital assets are recorded at their estimated fair market value on the date donated. Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Interest incurred during construction is not capitalized. The cost of routine maintenance and repairs that do not add to the value of the assets or materially extend asset lives are charged to expenditures as incurred and not capitalized. Prior to fiscal year 2014-15, the District's financial reports were presented on the cash basis of accounting, and therefore no depreciation was recorded. Beginning July 1, 2014, the District reports in the government-wide financial statements using the economic resources method, which includes capitalization of assets and depreciation using the straight-line method over the following useful lives:

Buildings and improvements	10 to 50 years
Equipment	5 to 20 years

In the government fund financial statements, capital assets are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Accordingly, capital assets are not capitalized and related depreciation is not reported in the governmental fund financial statements.

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

COMPENSATED ABSENCES

The liability for accrued vacation benefits reported in the government-wide statements consists of unpaid, accumulated annual vacation, the rate at which vacation is earned is determined by the employee's length of employment. The early retirement liability has been calculated using the accrual method for benefit amounts due to former employees who currently are receiving early-termination benefits. Early retirement benefits are available to a limited number of employees each year.

All payables and accrued liabilities are reported on the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full form current financial resources are reported as obligation of the funds.

USE OF ESTIMATES

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

LONG-TERM OBLIGATIONS

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

RETIREMENT PLANS

PERS

Substantially all of the District's employees are participants in the State of Oregon Public Employees Retirement System (PERS). For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about fiduciary net position of PERS and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. GASB Statements 68 and 71 have been implemented as of July 1, 2014.

There is a deferred compensation plan available to its employees wherein they may execute an individual agreement with the District for amounts earned by them to not be paid until a future date when certain

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
PERS (CONTINUED)

circumstances are met. These circumstances are: termination by reason of death, disability, resignation, or retirement. Payment to the employee will be made over a period not to exceed 15 years. The deferred compensation plan is one, which is authorized under IRC Section 457 and has been approved in its specifics by a private ruling from the Internal Revenue Service. The assets of the plan are held by the administrator for the sole benefit of the plan participants and are not considered assets and liabilities of the District.

EARLY RETIREMENT (OPEB)

Certificated employees hired prior to August 1, 2014 who have reached age 55 or have 20 years of full-time employment in Oregon's public schools, the last 15 years of which have been in the District, are eligible for early retirement benefits which are funded and charged to expenditures as payments become due to early retirees.

NET POSITION

Net position comprises the various net earnings from operations, nonoperating revenues, expenses and contributions of capital. Net position is classified in the following three categories:

Net Investment in Capital Assets – consists of all capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – consists of external constraints placed on asset use by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. There are assets restricted for capital projects, debt service, food service and unemployment retiree reserve.

Unrestricted – consists of all other assets that are not included in the other categories previously mentioned.

The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net positions that applies to future periods and so will not be recognized as an outflow of resources (expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under the modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues for property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Additionally, Deferred Inflows of resources related to the

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

pension plan include differences between expected and actual experience, changes of assumptions, differences between projects and actual earning, and contributions subsequent to the measurement date.

FUND BALANCE

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved/undesignated were replaced with five classifications – nonspendable, restricted, committed, assigned, and unassigned.

- Nonspendable fund balance represents amounts that are not in a spendable form. The nonspendable fund balance represents inventories.
- Restricted fund balance represents amounts that are legally restricted by outside parties for a specific purpose (such as debt covenants, grant requirements, donor requirements, or other governments) or are restricted by law (constitutionally or by enabling legislation).
- Committed fund balance represents funds formally set aside by the governing body for a particular purpose. The use of committed funds would be approved by resolution.
- Assigned fund balance represents amounts that are constrained by the expressed intent to use resources for specific purposes that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body or by an official to whom that authority has been given by the governing body.
- Unassigned fund balance is the residual classification of the General Fund. Only the General Fund may report a positive unassigned fund balance. Other governmental funds would report any negative residual fund balance as unassigned.

The District has approved the following order of spending regarding fund balance categories: Restricted resources are spent first when both restricted and unrestricted (committed, assigned or unassigned) resources are available for expenditures. When unrestricted resources are spent, the order of spending is committed (if applicable), assigned (if applicable) and unassigned.

There were no committed fund balances as of June 30, 2015.

2. CASH AND INVESTMENTS

DEPOSITS

Deposits with financial institutions are comprised of bank demand deposits. The total bank balance per the bank statements is \$973,872, of which \$269,130 is covered by federal depository insurance. The remainder is covered by the collateral held in a multiple financial institutions collateral pool administered by the Oregon State Treasurer. The insurance and collateral requirements for deposits are established by banking regulations and Oregon law. State statutes (ORS 295.002) allow public officials to deposit public funds in one or more depositories currently qualified pursuant to ORS 295.001 to 295.108. As long as the bank depository has

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)
DEPOSITS(CONTINUED)

entered into an agreement (ORS 295.008(2)(b)) and has deposited securities pursuant to state statutes (ORS 295.015(1)), there may be deposits at any one bank depository and its branches, a sum in excess of the amount insured by the Federal Deposit Insurance Corporation.

INVESTMENTS

State statutes governing cash management are followed. Statutes authorize investing in banker's acceptances, time certificates of deposit, repurchase agreements, obligations of the United States and its agencies and instrumentalities, and the Oregon State Treasurer's Local Government Investment Pool.

The State Treasurer's Local Government Investment Pool is not registered with the U.S. Securities and Exchange Commission as an investment company. The Oregon Revised Statutes and the Oregon Investment Council govern the State's investment policies. The State Treasurer is the investment officer for the Council and is responsible for all funds in the State Treasury. These funds must be invested, and the investments managed, as a prudent investor would, exercising reasonable care, skill and caution. Investments in the Fund are further governed by portfolio guidelines issued by the Oregon Short-Term Fund Board (OSTFB), which establish diversification percentages and specify the types and maturities of investments. The portfolio guidelines permit securities lending transactions as well as investments in repurchase agreements and reverse repurchase agreements. The fund was in compliance with all portfolio guidelines at June 30, 2015.

Amounts in the State Treasurer's Local Government Investment Pool are not required to be collateralized. Investments are valued at fair value as required by GASB 31. As of June 30, 2015 the fair value of the position in the LGIP approximates the fair value of the pool shares as reported in the Oregon Short Term Fund audited financial statements. There were no known violations of legal or contractual provisions for deposits and investments during the fiscal year.

Cash and Investments at June 30, 2015 (recorded at fair value) consisted of:

Demand Deposits:			
Checking	\$ 682,488	Governmental Funds	\$ 682,489
Savings	-	Fiduciary Funds	2,505,875
Petty Cash	-		
Certificate of Deposit	-		
Investments			
LGIP	<u>2,505,875</u>		
Total	<u>\$ 3,188,364</u>	Total	<u>\$ 3,188,364</u>

There were the following investments and maturities at June 30, 2015:

Investment Type	Fair Value	Investment Maturities (in months)		
		Less than 3	3-17	18-59
State Treasurer's Investment Pool	\$ 2,505,875	\$ 2,505,875	\$ -	\$ -
Total	<u>\$ 2,505,875</u>	<u>\$ 2,505,875</u>	<u>\$ -</u>	<u>\$ -</u>

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)

Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, deposits may not be returned. The District does not have a deposit policy for custodial credit risk. As of June 30, 2015, none of the bank balance was exposed to custodial credit risk because it was fully insured.

Interest Rate Risk

Oregon Revised Statutes require investments to not exceed a maturity of 18 months, except when the local government has adopted a written investment policy that was submitted to and reviewed by the OSTFB. There are no investments that have a maturity date beyond three months.

Credit Risk – Investments

Oregon Revised Statutes does not limit investments as to credit rating for securities purchased from US Government Agencies or USGSE. The State Investment Pool is not rated.

Concentration of Credit Risk

At June 30, 2015, 100% of total investments were in the State Treasurer’s Investment Pool. State statutes do not limit the percentage of investments in this instrument.

3. ACCOUNTS/GRANTS RECEIVABLE

Special revenue fund grants receivable are comprised of claims for reimbursement of costs under various federal and state grant programs. Property taxes are levied and become a lien on all taxable property as of January 1. Taxes unpaid and outstanding on May 16 are considered delinquent. No allowance for uncollectible accounts has been recorded because all receivables are considered by management to be collectible.

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>	<u>Total</u>
Property Taxes	\$ 188,893	\$ -	\$ -	\$ -	\$ 188,893
Accounts Receivable	107,545	666,335	-	-	773,880
Total	<u>\$ 296,438</u>	<u>\$ 666,335</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 962,773</u>

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

4. CAPITAL ASSETS

Capital assets activity for the year was as follows:

	Balance (Restated) July 1, 2014	Additions	Deletions	Balance June 30, 2015
Capital assets not being depreciated:				
Land	\$ 1,418,336	\$ -	\$ -	\$ 1,418,336
Total capital assets not being depreciated	<u>1,418,336</u>	<u>-</u>	<u>-</u>	<u>1,418,336</u>
Capital assets being depreciated:				
Buildings and Improvements	55,208,565	121,590	-	55,330,155
Vehicles & Equipment	<u>1,221,598</u>	<u>127,635</u>	<u>-</u>	<u>1,349,233</u>
Total capital assets being depreciated	<u>56,430,163</u>	<u>249,225</u>	<u>-</u>	<u>56,679,388</u>
Less total accumulated depreciation for:				
Buildings and Improvements	50,668,539	217,195	-	50,885,734
Vehicles & Equipment	<u>709,757</u>	<u>95,100</u>	<u>-</u>	<u>804,857</u>
Total accumulated depreciation	<u>51,378,296</u>	<u>312,295</u>	<u>-</u>	<u>51,690,591</u>
Total capital assets being depreciated, net	<u>107,808,459</u>	<u>(63,070)</u>	<u>-</u>	<u>4,988,797</u>
Total Capital Assets, Net	<u>\$ 6,470,203</u>			<u>\$ 6,407,133</u>

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

5. LONG-TERM OBLIGATIONS

A summary of debt transactions of the year ended June 30, 2015 is as follows:

Issue Date	Interest Rates	Issue Amount	Outstanding July 1, 2014	Issued	Matured and Redeemed	Outstanding June 30, 2015	Due Within One Year
2002 Pension Bond		\$ -	\$ 4,898,188	\$ -	\$ 120,559	\$ 4,777,629	\$ 123,421
2003 Pension Bond		-	5,466,226	-	192,611	5,273,615	192,711
2006 FF&C Bond		2,795,000	660,000	-	325,000	335,000	335,000
FF Series 2011		670,000	515,000	-	65,000	450,000	70,000
2011 Pension Bond		-	430,000	-	-	430,000	-
Notes Payables		-	243,617	-	44,224	199,393	39,865
Early Retirement	N/A	N/A	-	-	-	-	-
Total Governmental Activities			<u>\$ 12,213,031</u>	<u>\$ -</u>	<u>\$ 747,394</u>	<u>\$ 11,465,637</u>	<u>\$ 760,997</u>

Future maturities of unmaturred bond principal and interest for fiscal years ending June 30 are as follows:

Fiscal Year Ended	2002 PERS Bond		2003 PERS Bond		2006 FF&C	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 120,559	\$ 367,556	\$ 192,611	\$ 394,897	\$ 325,000	\$ 29,700
2016	123,421	389,694	192,711	424,797	335,000	15,075
2017	125,016	413,099	192,440	455,069		
2018	126,095	437,020	192,583	489,926		
2019	128,381	464,734	189,880	522,629		
2020-2024	1,669,716	1,354,077	1,451,001	2,691,542		
2025-2029	2,575,000	336,608	3,055,000	409,241	-	-
	<u>\$ 4,868,188</u>	<u>\$ 3,762,788</u>	<u>\$ 5,466,226</u>	<u>\$ 5,388,101</u>	<u>\$ 660,000</u>	<u>\$ 44,775</u>

Fiscal Year Ended	FF Series 2011		2011 PERS Refunding	
	Principal	Interest	Principal	Interest
2015	\$ 65,000	\$ 27,225	\$ -	\$ 17,695
2016	70,000	24,300	-	17,695
2017	70,000	22,325	-	17,695
2018	70,000	20,000	-	17,695
2019	75,000	16,500	-	17,695
2020-2024	165,000	21,500	430,000	35,390
2025-2029	-	-	-	-
	<u>\$ 515,000</u>	<u>\$ 131,850</u>	<u>\$ 430,000</u>	<u>\$ 123,865</u>

For further detail on debt service, see the 'Schedule of Long Term Debt Transactions' and 'Schedule of Future Requirements of Long Term' in the Other Information section of this report.

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

6. PENSION PLAN

Plan Description – The Oregon Public Employees Retirement System (PERS) consists of a single cost-sharing multiple-employee defined benefit plan. All benefits of the system are established by the legislature pursuant to Oregon Revised Statute (ORS) Chapters 238 and 238A. Oregon PERS produces an independently audited Comprehensive Annual Financial Report which can be found at: http://www.oregon.gov/pers/Pages/section/financial_reports/financials.aspx.

- a. **PERS Pension (Chapter 238).** The ORS Chapter 238 Defined Benefit Plan is closed to new members hired on or after August 29, 2003.
 - i) Pension Benefits. The PERS retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary. A percentage (2.0 percent for police and fire employees, and 1.67 percent for general service employees) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefits results.
 - ii) Death Benefits. Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance, provided on or more of the following contributions are met:
 - member was employed by PERS employer at the time of death,
 - member died within 120 days after termination of PERS covered employment,
 - member died as a result of injury sustained while employed in a PERS-covered job, or
 - member was on an official leave of absence from a PERS-covered job at the time of death.
 - iii) Disability Benefits. A member with 10 or more years of creditable service who becomes disable from other than duty-connected causes may receive a non-duty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member (including PERS judge members) for disability benefits regardless of the length of PERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 (55 for police and fire members) when determining the monthly benefit.
 - iv) Benefit Changes After Retirement. Members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in the market value equity investments. Under ORS 238.360 monthly benefits are adjusted annually through cost-of-living changes. The cap on the COLA will vary based on the amount of the annual benefit.

- b) **OPSRP Pension Program (OPSRP DB).** The ORS Chapter 238A Defined Benefit Pension Program provides benefits to members hired on or after August 29, 2003.

- i) Pension Benefits. This portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age:

Police and fire: 1.8 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for police and fire members is age 60 or age 53 with 25 years of retirement credit. To be classified as a police and fire member, the individual must have been employed continuously as a police and fire member for at least five years immediately preceding retirement.

General service: 1.5 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65, or age 58 with 30 years of retirement credit.

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

6. PENSION PLAN(CONTINUED)

A member of the pension program becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, and, if the pension program is terminated, the date on which termination becomes effective.

- ii) Death Benefits. Upon the death of a non-retired member, the spouse or other person who is constitutionally required to be treated in the same manner as the spouse, receives for life 50 percent of the pension that would otherwise have been paid to the deceased member.
- iii) Disability Benefits. A member who has accrued 10 or more years of retirement credits before the member becomes disabled or a member who becomes disabled due to job-related injury shall receive a disability benefit of 45 percent of the member's salary determined as of the last full month of employment before the disability occurred.
- iv) Benefit Changes After Retirement. Under ORS 238A.210 monthly benefits are adjusted annually through cost-of-living changes. The cap on the COLA will vary based on the amount of the annual benefit.

Contributions – PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. The funding policy applies to the PERS Defined Benefit Plan and the Other Postemployment Benefit Plans. Employer contribution rates during the period were based on the December 31, 2011 actuarial valuation, which became effective July 1, 2013.

At June 30, 2015, the District reported a net pension asset of \$12,462,938 for its proportionate share of the net pension asset. The pension asset was measured as of December 31, 2012, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2012, the District's proportion was .052 percent.

	Deferred Outflow of Resources	Deferred Inflow of Resources
	\$	\$
Difference between expected and actual experience	-	-
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	2,308,925
Changes in proportion and differences between District contributions and proportionate share of contributions	55,405	-
	<hr/>	<hr/>
Subtotal - Amortized Deferrals (below)	-	2,253,520
	<hr/>	<hr/>
District contributions subsequent to measurement date	-	-
	<hr/>	<hr/>
Net deferred outflow (inflow) of resources		\$ (2,253,520)

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

6. PENSION PLAN(CONTINUED)

Amounts reported as deferred outflows or inflow of resources related to pension will be recognized in pension expense as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2016	\$ (565,187)
2017	\$ (565,187)
2018	\$ (565,187)
2019	\$ (565,187)
2020	\$ 7,229
Thereafter	-
Total	<u>\$ (2,253,520)</u>

All assumptions, methods and plan provisions used in these calculations are described in the Oregon PERS system-wide GASB 68 reporting summary dated July 29, 2015. Oregon PERS produces an independently audited CAFR which can be found at:

http://www.oregon.gov/pers/Pages/section/financial_reports/financial.aspx.

Actuarial Valuations – The employer contribution rates effective July 1, 2013 through June 30, 2015, were set using the entry age normal actuarial cost method. For the Tier One/Tier Two component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (1) an amount for normal cost (estimated amount necessary to finance benefits earned by employees during the current service year), (2) an amount for the amortization unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial liabilities being amortized over 20 years.

For the OPSRP Pension Program component of the PERS Defined Benefit Plan, this method produced an employer rate consisting of (a) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (b) an actuarially determined amount for funding a disability benefit component, and (c) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 16 years.

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

6. PENSION PLAN(CONTINUED)

Actuarial Methods and Assumptions:

Valuation date	December 31, 2012 rolled forward to June 30, 2014
Experience Study Report	2012, Published September 18, 2013
Actuarial cost method	Entry Age Normal
Amortization method	Amortized as a level percentage of payroll as layered amortization bases over a closed period; Tier One/Tier Two UAL is amortized over 20 years and OPSRP pension UAL is amortized over 16 years
Asset valuation method	Market value of assets
Inflation rate	2.75 percent
Investment rate of return	7.75 percent
Projected salary increase	3.75 percent overall payroll growth; salaries for individuals are assumed to grow at 3.75 percent plus assumed rates of merit/longevity increases based on service
Mortality	Healthy retirees and beneficiaries: RP-2000 Sex-distinct, generational per Scale AA, with collar adjustments and set-backs as described in the valuation. Active members: Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation. Disabled retirees: Mortality rates are a percentage (65% for males and 90% for females) of the RP-2000 static combined disabled mortality sex-distinct table.

Actuarial valuations of an ongoing plan involve estimates of value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years. The method and assumptions shown are based on the 2012 Experience Study which is reviewed for the four-year period ending December 31, 2012.

Discount Rate – The discount rate used to measure the total pension liability was 7.75 percent for the Defined Benefit Pension Plan. The projection of cash flows used to determine the discount rate assumed that contributions from the plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Defined Benefit Pension Plan was applied to all periods of projected benefit payments to determine the total pension liability.

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

6. PENSION PLAN(CONTINUED)

Sensitivity of the District’s proportionate share of the net pension liability to changes in the discount rate – The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent than the current rate.

	1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 2,533,936	\$ (1,196,586)	\$ (4,351,732)

Changes in Plan Provisions Subsequent to Measurement Date: The Oregon Supreme Court on April 30, 2015, ruled in the Moro decision, that the provisions of Senate Bill 861, signed into law in October 2013, that limited the post-retirement COLA on benefits accrued prior to the signing of the law were unconstitutional. Benefits could be modified prospectively, but not retrospectively. As a result, those who retired before the bills were passed will continue to receive a COLA tied to the Consumer Price Index that normally results in a 2% increase annually. PERS will make restoration payments to those benefit recipients. PERS members who have accrued benefits before and after the effective dates of the 2013 legislation will have a blended COLA rate when they retire. Oregon Public Employees Retirement System Notes to the Schedules of Employer Allocations and Pension Amounts by Employer As of and for the Fiscal Year Ended June 30, 2014. This is a change in benefit terms subsequent to the measurement date of June 30, 2014, which will be reflected in the next year’s actuarial valuations. The impact of the Moro decision on the total pension liability and employer’s net pension liability (asset) has not been fully determined. However, PERS’ third-party actuaries have estimated the impact of the Moro decision under one possible methodology, which is summarized below (dollars in millions). Estimates have been rounded to the nearest \$10 million.

	June 30, 2014 Measurement Date for all PERS Employers (in millions)	
	Pre- Moro	Post- Moro
Net pension liability		
Total pension liability	\$ 63,135	\$ 68,050
Fiduciary net position	65,402	65,400
Net pension liability (asset)	-2,267	2,650

Additional disclosures related to Oregon PERS not applicable to specific employers are available online at the below website, or by contacting PERS at the following address: PO BOX 23700 Tigard, OR 97281-3700,

http://www.oregon.gov/pers/EMP/docs/er_general_information/opers_gasb_68_disclosure_information_revised.pdf

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

7. RESTATEMENT OF PRIOR YEAR NET POSITION

Beginning fund balances were restated due to a change in the basis of accounting from cash basis to modified accrual. Ending cash basis fund balances for all governmental funds were reported as \$3,088,546 as of June 30, 2014, and were restated by negative \$757,217 to account for prior year accruals, to \$2,331,329.

Secondly, due to the implementation of GASB Statements 68 and 71, a restatement of the prior year net position was required to record the net pension liability at the prior measurement date and reclassify prior year pension contributions from expenses to deferred outflows:

Net position-Beginning as previously reported	\$ 3,088,546
Change in basis of accounting in the governmental funds	(757,217)
Proportionate share of net pension liability at prior measurement date	(2,693,921)
Net outflow/(inflows) of resources (prior year employer contributions)	603,465
Prior year Capital Assets	6,470,203
Prior year Long-Term Debt	(12,213,031)
Prior Year Deferred Taxes	155,555
Prior Year Other Post-Employment Benefits	(548,091)
Net position-Beginning as restated	\$ (5,894,491)

8. OTHER POST-EMPLOYMENT BENEFITS

Plan Description - The District has a closed post-employment health insurance subsidy plan with fewer than 100 total participants which has been accounted for using the alternative method under GASB Statement No. 45. Total discounted liabilities for future benefit payments as of June 30, 2015 were \$519,343. Payments made on the plan during the current year were \$155,769.

9. COMMITMENTS AND CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amount, if any to be immaterial. A substantial portion of operating funding is received from the State of Oregon. State funding is determined through state wide revenue projections that are paid to individual school districts based on pupil counts and other factors in the state school fund revenue formula. Since these projections and pupil counts fluctuate, there can be increases or decreases in revenue. Due to these future uncertainties at the state level, the future effect on operations cannot be determined.

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

10. RISK MANAGEMENT

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters. The District has joined with other school districts in the state, which are participating members of United Schools Insurance Program of Oregon, a public entity risk pool currently operating as a common risk management and insurance program for member governments. The District has an annually renewable contract to pay United Schools Insurance Program of Oregon an annual premium for its general liability, property liability, automobile liability, boiler and machinery, comprehensive crime, and umbrella insurance coverage.

The District carries commercial insurance for all other losses, including workers' compensation and employee health and accident insurance. Premiums to the health insurance company are paid through a combination of employer contributions and payroll withholdings for eligible employees. The District came under the State Unemployment Act as of July 1, 1974. The District has elected to pay State Unemployment insurance to the State of Oregon to pay for any claims paid to former employees. There have been no significant reductions in coverage from the prior years and settlements have not exceeded insurance coverage in the past three years.

11. INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2015 were as follows:

	<u>Transfers Out</u>	<u>Transfers In</u>
General Fund	\$ 471,606	\$ -
Debt Service Fund	-	429,050
Capital Projects Fund	87,150	129,706
	<u>\$ 558,756</u>	<u>\$ 558,756</u>

12. PROPERTY TAX LIMITATIONS

The State of Oregon imposes a constitutional limit on property taxes for schools and non-school government operations. School operations included community colleges, local school districts, and education service districts. The limitation provided that property taxes for school operations are limited to \$5.00 for each \$1,000 of property market value. The limitation does not apply to taxes levied for principal and interest on general obligation bonded debt. The result of this requirement has been that school districts have become more dependent upon state funding and less dependent upon property tax revenues as their major source of operating revenue.

The State further reduced property taxes by replacing the previous constitutional limits on tax bases with a rate and value limit in 1997. This reduction is accomplished by rolling property values back to their 1995-96 values less 10% and limiting future tax value growth of each property to no more than 3% per year, subject to certain exceptions. Taxes levied to support bonded debt are exempted from the reductions. The State Constitution sets restrictive voter approval requirements for most tax and many fee increases and new bond issues, and requires the State to minimize the impact to school districts from the impact of the tax cuts.

MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

REQUIRED SUPPLEMENTARY INFORMATION

MILTON-FREEWATER UNIFIED SCHOOL DISTRICT #7
UMATILLA COUNTY, OREGON

REQUIRED SUPPLEMENTARY INFORMATION
 For the fiscal year ended June 30, 2015

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Year Ended June 30,	(a) Employer's proportion of the net pension liability (NPL)	(b) Employer's proportionate share of the net pension liability (NPL)	(c) District covered payroll	(b/c) NPL as a percentage of covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2015	0.052789420 %	\$ (1,196,586)	\$ 8,017,133	(14.9) %	103.6 %
2014	0.052789420 %	2,693,921	7,916,933	34.0	92.0

The amounts presented for each fiscal year were actuarial determined at 12/31 and rolled forward to the measurement date.

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

SCHEDULE OF CONTRIBUTIONS

Year	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)	Employer's covered payroll	Contributions as a percent of covered payroll
2015	\$ 627,097	\$ 627,097	\$ -	\$ 8,017,133	7.8 %
2014	603,465	603,465	-	7,916,933	7.6

The amounts presented for each fiscal year were actuarial determined at 12/31 and rolled forward to the measurement date.

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 For the Year Ended June 30, 2015

	<u>GENERAL FUND</u>			VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	
REVENUES:				
Local Sources	\$ 3,108,300	\$ 3,108,300	\$ 3,140,240	\$ 31,940
Intermediate Sources	38,000	38,000	36,634	(1,366)
State Sources	13,923,590	13,923,590	13,684,918	(238,672)
Federal Sources	3,300	3,300	48,526	45,226
Total Revenues	17,073,190	17,073,190	16,910,318	(162,872)
EXPENDITURES:				
Instruction	10,727,469	10,874,469	(1) 10,139,715	734,754
Support Services	6,044,390	5,894,390	(1) 5,521,594	372,796
Community & Enterprise	2,350	5,350	(1) 2,682	2,668
Debt Service	33,000	33,000	(1) 32,394	606
Contingencies	1,415,581	1,415,581	(1) -	1,415,581
Total Expenditures	18,222,790	18,222,790	15,696,385	2,526,405
Excess of Revenues Over (Under) Expenditures	(1,149,600)	(1,149,600)	1,213,933	2,363,533
OTHER FINANCING SOURCES (USES)				
Transfers Out	(750,400)	(750,400)	(1) (471,606)	278,794
Total Other Financing Sources (Uses)	(750,400)	(750,400)	(471,606)	278,794
Net Change in Fund Balance	(1,900,000)	(1,900,000)	742,327	2,642,327
Beginning Fund Balance (Restated)	1,900,000	1,900,000	1,503,899	(396,101)
Ending Fund Balance	\$ -	\$ -	\$ 2,246,226	\$ 2,246,226

(1) Appropriation Level

MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 For the Year Ended June 30, 2015

<u>SPECIAL REVENUE FUNDS</u>				
REVENUES:	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE POSITIVE (NEGATIVE)</u>
Local Sources	\$ 535,500	\$ 585,500	\$ 505,724	\$ (79,776)
Intermediate Sources	10,000	13,000	6,463	(6,537)
State Sources	14,500	14,500	93,352	78,852
Federal Sources	<u>1,913,860</u>	<u>1,910,860</u>	<u>1,628,126</u>	<u>(282,734)</u>
Total Revenues	<u>2,473,860</u>	<u>2,523,860</u>	<u>2,233,665</u>	<u>(290,196)</u>
EXPENDITURES:				
Instruction	1,093,227	1,198,227 (1)	1,135,279	62,948
Support Services	364,043	314,543 (1)	205,365	109,178
Community & Enterprise	<u>1,066,590</u>	<u>1,061,090 (1)</u>	<u>898,540</u>	<u>162,550</u>
Total Expenditures	<u>2,523,860</u>	<u>2,573,860</u>	<u>2,239,184</u>	<u>334,676</u>
Revenues Over (Under) Expenditures	<u>(50,000)</u>	<u>(50,000)</u>	<u>(5,519)</u>	<u>44,480</u>
Net Change in Fund Balance	(50,000)	(50,000)	(5,519)	44,480
Beginning Fund Balance (Restated)	<u>50,000</u>	<u>50,000</u>	<u>271,610</u>	<u>221,610</u>
Ending Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 266,091</u>	<u>\$ 266,091</u>

(1) Appropriation Level

MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

SUPPLEMENTARY INFORMATION

MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 For the Year Ended June 30, 2015

<u>DEBT SERVICE FUND</u>				
REVENUES:	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>TOTAL</u>	<u>VARIANCE POSITIVE (NEGATIVE)</u>
Local Sources	\$ 1,095,500	\$ 1,095,500	\$ 1,180,463	\$ 84,963
Total Revenues	<u>1,095,500</u>	<u>1,095,500</u>	<u>1,180,463</u>	<u>84,963</u>
EXPENDITURES:				
Debt Service	<u>1,576,400</u>	<u>1,576,400</u> (1)	<u>1,533,643</u>	<u>42,757</u>
Total Expenditures	<u>1,576,400</u>	<u>1,576,400</u>	<u>1,533,643</u>	<u>42,757</u>
Revenues Over (Under) Expenditures	<u>(480,900)</u>	<u>(480,900)</u>	<u>(353,180)</u>	<u>127,720</u>
Other Financing Sources, (Uses)				
Transfers In	<u>475,900</u>	<u>475,900</u>	<u>429,050</u>	<u>(46,850)</u>
Total Other Financing Sources	<u>475,900</u>	<u>475,900</u>	<u>429,050</u>	<u>(46,850)</u>
Net Change in Fund Balance	(5,000)	(5,000)	75,870	80,870
Beginning Fund Balance (Restated)	<u>5,000</u>	<u>5,000</u>	<u>379,135</u>	<u>374,135</u>
Ending Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 455,005</u>	<u>\$ 455,005</u>

(1) Appropriation Level

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 For the Year Ended June 30, 2015

<u>CAPITAL PROJECTS FUND</u>				
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>TOTAL</u>	<u>VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES:				
State Sources	\$ 114,367	\$ 114,367	\$ 73,103	\$ (41,264)
Total Revenues	<u>114,367</u>	<u>114,367</u>	# <u>73,103</u>	<u>(41,264)</u>
EXPENDITURES:				
Support Services	164,367	164,367	120,985	43,382
Facilities Acquisition & Construction	<u>550,000</u>	<u>550,000</u>	<u>109,326</u>	<u>440,674</u>
Total Expenditures	<u>714,367</u>	<u>714,367</u>	<u>230,311</u>	<u>484,056</u>
Revenues Over, (Under) Expenditures	(600,000)	(600,000)	(157,208)	442,792
Other Financing Sources, (Uses)				
Transfers Out	(92,500)	(92,500) (1)	(87,150)	5,350
Sale of or Compensation for Loss	5,500	5,500		
Transfers In	<u>367,000</u>	<u>367,000</u>	<u>129,706</u>	<u>(237,294)</u>
Total Other Financing Sources, (Uses)	<u>280,000</u>	<u>280,000</u>	<u>42,556</u>	<u>(231,944)</u>
Net Change in Fund Balance	(320,000)	(320,000)	(114,652)	210,848
Beginning Fund Balance (Restated)	<u>320,000</u>	<u>320,000</u>	<u>176,685</u>	<u>(143,315)</u>
Ending Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 62,033</u>	<u>\$ 67,533</u>

(1) Appropriation Level

MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA, OREGON

SCHEDULE OF PROPERTY TAX TRANSACTIONS AND BALANCES
OF TAXES UNCOLLECTED

For the Year Ended June 30, 2015

TAX YEAR	ORIGINAL LEVY OR BALANCE UNCOLLECTED 7/1/14	DEDUCT DISCOUNTS	ADJUSTMENTS TO ROLLS	ADD INTEREST	CASH COLLECTIONS BY COUNTY TREASURER	BALANCE UNCOLLECTED OR UNSEGREGATED 6/30/15
<u>GENERAL FUND:</u>						
Current:						
2014-2015	\$ 2,811,326	\$ (71,665)	\$ (12,542)	\$ 1,391	\$ 2,716,326	\$ 155,514
Prior Years:						
2013-2014	97,088	-	(1,451)	4,632	51,961	48,308
2012-2013	43,678	-	(1,100)	5,991	48,116	453
2011-2012	22,604	-	(851)	7,621	35,631	(6,257)
2010-2011	11,859	-	(176)	5,881	19,951	(2,387)
Prior Years:	5,553	-	(52)	1,236	13,475	(6,738)
Total Prior	180,782	-	(3,630)	25,361	169,134	33,379
Total General Fund	<u>\$ 2,992,108</u>	<u>\$ (71,665)</u>	<u>\$ (16,172)</u>	<u>\$ 26,752</u>	<u>\$ 2,885,460</u>	<u>\$ 188,893</u>
RECONCILIATION TO REVENUE:						GENERAL FUND
Cash Collections by County Treasurer Above						\$ 2,885,460
Accrual of Receivables:						
June 30, 2014						(43,867)
June 30, 2015						55,687
Total Revenue						<u>\$ 2,897,280</u>

MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

OTHER INFORMATION

2014- 15 DISTRICT AUDIT REVENUE SUMMARY
Milton-Freewater Unified School District

Revenue from Local Sources

	Fund 100	Fund 200	Fund 300	Fund 400	Fund 500	Fund 600	Fund 700
1110 Ad Valorem Taxes Levied by District	\$ 2,720,408						
1120 Local Option Ad Valorem Taxes Levied by District	176,872						
1130 Construction Exise Tax							
1190 Penalties and Interest on Taxes							
1200 Rev from Local Gov't Units Other Than Districts							
1310 Regular Day School Tuition							
1320 Adult/Continuing Education Tuition							
1330 Summer School Tuition							
1400 Transportation Fees							
1500 Earnings on Investments	24,327	243	2,581				
1600 Food Service		78,012					
1700 Extracurricular Activities	34,879	354,788					
1800 Community Services Activities							
1910 Rentals	12,876						
1920 Contributions and Donations From Private Sources	14,904	62,381					
1930 Rental or Lease Payments From Private Contractors							
1940 Services Provided Other Local Education Agencies	1,129						
1950 Textbook Sales and Rentals							
1960 Recovery of Prior Years' Expenditure	27,822	4,184					
1970 Services Provided Other Funds			1,177,882				
1980 Fees Charged to Grants	24,737						
1990 Miscellaneous	102,286	6,116					
Total Revenue from Local Sources	\$ 3,140,240	\$ 505,724	\$ 1,180,463	\$ -	\$ -	\$ -	\$ -

Revenue from Intermediate Sources

	Fund 100	Fund 200	Fund 300	Fund 400	Fund 500	Fund 600	Fund 700
2101 County School Funds	\$ 36,634						
2102 Education Service District Apportionment							
2105 Natural Gas, Oil, and Mineral Receipts							
2199 Other Intemediate Sources							
2200 Restricted Revenue		6,463					
2800 Revenue in Lieu of Taxes							
2900 Revenue for/on Behalf of the District							
Total Revenue from Intermediate Sources	\$ 36,634	\$ 6,463	\$ -	\$ -	\$ -	\$ -	\$ -

Revenue from State Sources

	Fund 100	Fund 200	Fund 300	Fund 400	Fund 500	Fund 600	Fund 700
3101 State School Fund - General Support	\$ 13,283,791						
3102 State School Fund - School Lunch Match		11,000					
3103 Common School Fund	167,972						
3104 State Managed County Timber							
3199 Other Unrestricted Grants-in-Aid							
3204 Driver Education							
3222 State School Fund (SSF) Transportation Equipment				73,103			
3299 Other Restricted Grants-in-Aid	233,155	82,352					
3800 Revenue in Lieu of Taxes							
3900 Revenue for/on Behalf of the District							
Total Revenue from State Sources	\$ 13,684,918	\$ 93,352	\$ -	\$ 73,103	\$ -	\$ -	\$ -

Revenue from Federal Sources

	Fund 100	Fund 200	Fund 300	Fund 400	Fund 500	Fund 600	Fund 700
4100 Unrestricted Revenue Direct From the Federal Government							
4200 Unrestricted Revenue From the Federal Government Through the State							
4300 Restricted Revenue From the Federal Government							
4500 Restricted Revenue From the Federal Government Through the State	191	1,570,235					
4700 Grants-In-Aid From the Federal Government Through Other Intermediate Agencies	45,587						
4801 Federal Forest Fees	2,748						
4802 Impact Aid to School Districts for Operation (PL 874)							
4803 Coos Bay Wagon Road Funds							
4899 Other Revenue in Lieu of Taxes							
4900 Revenue for/on Behalf of the District		57,891					
Total Revenue from Federal Sources	\$ 48,526	\$ 1,628,126	\$ -	\$ -	\$ -	\$ -	\$ -

Revenue from Other Sources

	Fund 100	Fund 200	Fund 300	Fund 400	Fund 500	Fund 600	Fund 700
5100 Long Term Debt Financing Sources							
5200 Interfund Transfers			429,050	129,706			
5300 Sale of or Compensation for Loss of Fixed Assets							
5400 Resources - Beginning Fund Balance	1,503,899	271,610	379,135	176,685			
Total Revenue from Other Sources	\$ 1,503,899	\$ 271,610	\$ 808,185	\$ 306,391	\$ -	\$ -	\$ -

Grand Totals

\$ 18,414,217	\$ 2,505,275	\$ 1,988,648	\$ 379,494	\$ -	\$ -	\$ -
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**2014-15 DISTRICT AUDIT EXPENDITURE SUMMARY
MILTON-FREEWATER UNIFIED SCHOOL DISTRICT**

Fund: 100 - General Fund

Instruction Expenditures	Totals	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
1111 Primary, K-3	\$ 3,702,721	\$ 2,066,947	\$ 1,343,931		\$ 291,843			
1112 Intermediate Programs	-							
1113 Elementary Extracurricular	2,239	1,100	411		728			
1121 Middle/Junior High Programs	1,818,639	1,064,817	681,218	920	71,684			
1122 Middle/Junior High School Extracurricular	83,624	55,865	21,577	5,388	744		50	
1131 High School Programs	1,919,230	1,126,876	713,750	7,323	70,432		849	
1132 High School Extracurricular	329,356	203,143	68,679	47,956	6,923		2,655	
1140 Pre-Kindergarten Programs	-							
1210 Programs for the Talented and Gifted	8,157	6,026	2,131					
1220 Restrictive Programs for Students with Disabilities	-							
1250 Less Restrictive Programs for Students with Disabilities	-							
1260 Early Intervention	1,326,796	683,352	632,656	7,188	3,600			
1271 Remediation	-							
1272 Title I	-							
1280 Alternative Education	47,221			47,221				
1291 English Second Language Programs	878,653	487,827	390,110		716			
1292 Teen Parent Program	-							
1293 Migrant Education	23,079	14,708	8,328		43			
1294 Youth Corrections Education	-							
1299 Other Programs	-							
1300 Adult/Continuing Education Programs	-							
1400 Summer School Programs	-							
Total Instruction Expenditures	\$ 10,139,715	\$ 5,710,661	\$ 3,862,791	\$ 115,996	\$ 446,713	\$ -	\$ 3,554	\$ -

Support Services Expenditures	Totals	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
2110 Attendance and Social Work Services	\$ 98,889	\$ 43,451	\$ 44,581	\$ 10,627	\$ 230			
2120 Guidance Services	198,674	111,163	84,078	519	2,914			
2130 Health Services	1,387			500	887			
2140 Psychological Services	77,408	55,647	21,761					
2150 Speech Pathology and Audiology Services	-							
2160 Other Student Treatment Services	-							
2190 Service Direction, Student Support Services	169,944	110,551	58,043		560		790	
2210 Improvement of Instruction Services	1,514			1,311	24		179	
2220 Educational Media Services	50,907	23,055	23,293		4,559			
2230 Assessment & Testing	746			746				
2240 Instructional Staff Development	60,104	18,067	16,437	16,316	9,284			
2310 Board of Education Services	125,811			76,745	4,852		44,214	
2320 Executive Administration Services	298,213	188,423	95,149	5,371	7,233		2,037	
2410 Office of the Principal Services	1,174,555	719,267	418,803	12,511	19,243		4,731	
2490 Other Support Services - School Administration	1,529	1,131	398					
2510 Direction of Business Support Services	-							
2520 Fiscal Services	250,912	80,072	56,787	103,373	2,317	1,864	6,499	
2540 Operation and Maintenance of Plant Services	1,656,997	470,088	369,920	601,981	79,526		135,482	
2546 Student Safety	-							
2550 Student Transportation Services	764,584	330,224	265,978	83,084	70,434		14,864	
2570 Internal Services	58,282			42,133	1,922	13,904	323	
2610 Direction of Central Support Services	-							
2630 Information Services	-							
2640 Staff Services	176,254	7,200	166,943	1,939	172			
2642 Recruitment of Staff	-							
2660 Technology Services	354,884	34,775	17,431	166,308	136,370			
2670 Records Management Services	-							
2690 Other Support Services - Central	-							
2700 Supplemental Retirement Program	-							
Total Support Services Expenditures	\$ 5,521,594	\$ 2,193,114	\$ 1,639,602	\$ 1,123,464	\$ 340,527	\$ 15,768	\$ 209,119	\$ -

Enterprise and Community Services Expenditures	Totals	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
3100 Food Services	\$ -							
3200 Other Enterprise Services	-							
3300 Community Services	2,682			2,682				
3500 Custody and Care of Children Services	-							
Total Enterprise and Community Services Expenditures	\$ 2,682	\$ -	\$ -	\$ 2,682	\$ -	\$ -	\$ -	\$ -

Facilities Acquisition and Construction Expenditures	Totals	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
4110 Service Area Direction	\$ -							
4120 Site Acquisition and Development Services	-							
4150 Building Acquisition, Construction, and Improvement Services	-							
4190 Other Facilities Construction Services	-							
Total Facilities Acquisition and Construction Expenditures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Other Uses Expenditures	Totals	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
5100 Debt Service	\$ 32,394						\$ 32,394	
5200 Transfers of Funds	471,606							471,606
5300 Apportionment of Funds by ESD	-							
5400 PERS UAL Bond Lump Sum	-							
Total Other Uses Expenditures	\$ 504,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 32,394	\$ 471,606

Grand Total	\$ 16,167,991	\$ 7,903,775	\$ 5,502,393	\$ 1,242,142	\$ 787,240	\$ 15,768	\$ 245,067	\$ 471,606
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**2014-15 DISTRICT AUDIT EXPENDITURE SUMMARY
MILTON-FREEWATER UNIFIED SCHOOL DISTRICT**

Fund: 200 - Special Revenue

Instruction Expenditures

	Totals	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
1111 Primary, K-3	\$ 97,842	\$ 19,093	\$ 5,666		\$ 72,198		\$ 885	
1112 Intermediate Programs	-							
1113 Elementary Extracurricular	80,011				80,011			
1121 Middle/Junior High Programs	2,175			2,175				
1122 Middle/Junior High School Extracurricular	53,962				53,962			
1131 High School Programs	-							
1132 High School Extracurricular	241,718				230,243	11,475		
1140 Pre-Kindergarten Programs	-							
1210 Programs for the Talented and Gifted	-							
1220 Restrictive Programs for Students with Disabilities	-							
1250 Less Restrictive Programs for Students with Disabilities	171,565	97,227	74,338					
1260 Early Intervention	-							
1271 Remediation	-							
1272 Title I	454,784	241,626	162,860		30,670		19,628	
1280 Alternative Education	-							
1291 English Second Language Programs	33,222			39	32,430		753	
1292 Teen Parent Program	-							
1293 Migrant Education	-							
1294 Youth Corrections Education	-							
1299 Other Programs	-							
1300 Adult/Continuing Education Programs	-							
1400 Summer School Programs	-							
Total Instruction Expenditures	\$ 1,135,279	\$ 357,946	\$ 242,864	\$ 2,214	\$ 499,514	\$ 11,475	\$ 21,266	\$ -

Support Services Expenditures

	Totals	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
2110 Attendance and Social Work Services	\$ -							
2120 Guidance Services	-							
2130 Health Services	-							
2140 Psychological Services	-							
2150 Speech Pathology and Audiology Services	-							
2160 Other Student Treatment Services	-							
2190 Service Direction, Student Support Services	-							
2210 Improvement of Instruction Services	10,228	6,346	3,882					
2220 Educational Media Services	-							
2230 Assessment & Testing	-							
2240 Instructional Staff Development	182,566	63,832	22,048	74,273	20,958		1,455	
2310 Board of Education Services	-							
2320 Executive Administration Services	-							
2410 Office of the Principal Services	-							
2490 Other Support Services - School Administration	4,524	3,365	1,159					
2510 Direction of Business Support Services	-							
2520 Fiscal Services	-							
2540 Operation and Maintenance of Plant Services	3,773			3,500	273			
2550 Student Transportation Services	-							
2570 Internal Services	-							
2610 Direction of Central Support Services	-							
2620 Planning, Research, Development, Evaluation Services, Grant Writing and Statistical Services	-							
2630 Information Services	-							
2640 Staff Services	765			500	265			
2660 Technology Services	520				520			
2670 Records Management Services	-							
2690 Other Support Services - Central	2,989						2,989	
2700 Supplemental Retirement Program	-							
Total Support Services Expenditures	\$ 205,365	\$ 73,543	\$ 27,089	\$ 78,273	\$ 22,016	\$ -	\$ 4,444	\$ -

Enterprise and Community Services Expenditures

	Totals	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
3100 Food Services	\$ 888,230	183,882	138,578	478,141	60,049	22,325	5,255	
3200 Other Enterprise Services	-							
3300 Community Services	10,310			9,466	844			
3500 Custody and Care of Children Services	-							
Total Enterprise and Community Services Expenditures	\$ 898,540	\$ 183,882	\$ 138,578	\$ 487,607	\$ 60,893	\$ 22,325	\$ 5,255	\$ -

Facilities Acquisition and Construction Expenditures

	Totals	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
4110 Service Area Direction	\$ -							
4120 Site Acquisition and Development Services	-							
4150 Building Acquisition, Construction, and Improvement Services	-							
4190 Other Facilities Construction Services	-							
Total Facilities Acquisition and Construction Expenditures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Other Uses Expenditures

	Totals	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
5100 Debt Service	\$ -							
5200 Transfers of Funds	-							
5300 Apportionment of Funds by ESD	-							
5400 PERS UAL Bond Lump Sum	-							
Total Other Uses Expenditures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Grand Total

\$ 2,239,184	\$ 615,371	\$ 408,531	\$ 568,094	\$ 582,423	\$ 33,800	\$ 30,965	\$ -
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**2014-15 DISTRICT AUDIT EXPENDITURE SUMMARY
MILTON-FREEWATER UNIFIED SCHOOL DISTRICT**

Fund: 300 - Debt Service

Instruction Expenditures	Totals	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
1111 Primary, K-3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1112 Intermediate Programs	-	-	-	-	-	-	-	-
1113 Elementary Extracurricular	-	-	-	-	-	-	-	-
1121 Middle/Junior High Programs	-	-	-	-	-	-	-	-
1122 Middle/Junior High School Extracurricular	-	-	-	-	-	-	-	-
1131 High School Programs	-	-	-	-	-	-	-	-
1132 High School Extracurricular	-	-	-	-	-	-	-	-
1140 Pre-Kindergarten Programs	-	-	-	-	-	-	-	-
1210 Programs for the Talented and Gifted	-	-	-	-	-	-	-	-
1220 Restrictive Programs for Students with Disabilities	-	-	-	-	-	-	-	-
1250 Less Restrictive Programs for Students with Disabilities	-	-	-	-	-	-	-	-
1260 Early Intervention	-	-	-	-	-	-	-	-
1271 Remediation	-	-	-	-	-	-	-	-
1272 Title I	-	-	-	-	-	-	-	-
1280 Alternative Education	-	-	-	-	-	-	-	-
1291 English Second Language Programs	-	-	-	-	-	-	-	-
1292 Teen Parent Program	-	-	-	-	-	-	-	-
1293 Migrant Education	-	-	-	-	-	-	-	-
1294 Youth Corrections Education	-	-	-	-	-	-	-	-
1299 Other Programs	-	-	-	-	-	-	-	-
1300 Adult/Continuing Education Programs	-	-	-	-	-	-	-	-
1400 Summer School Programs	-	-	-	-	-	-	-	-
Total Instruction Expenditures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Support Services Expenditures	Totals	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
2110 Attendance and Social Work Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2120 Guidance Services	-	-	-	-	-	-	-	-
2130 Health Services	-	-	-	-	-	-	-	-
2140 Psychological Services	-	-	-	-	-	-	-	-
2150 Speech Pathology and Audiology Services	-	-	-	-	-	-	-	-
2160 Other Student Treatment Services	-	-	-	-	-	-	-	-
2190 Service Direction, Student Support Services	-	-	-	-	-	-	-	-
2210 Improvement of Instruction Services	-	-	-	-	-	-	-	-
2220 Educational Media Services	-	-	-	-	-	-	-	-
2230 Assessment & Testing	-	-	-	-	-	-	-	-
2240 Instructional Staff Development	-	-	-	-	-	-	-	-
2310 Board of Education Services	-	-	-	-	-	-	-	-
2320 Executive Administration Services	-	-	-	-	-	-	-	-
2410 Office of the Principal Services	-	-	-	-	-	-	-	-
2490 Other Support Services - School Administration	-	-	-	-	-	-	-	-
2510 Direction of Business Support Services	-	-	-	-	-	-	-	-
2520 Fiscal Services	-	-	-	-	-	-	-	-
2540 Operation and Maintenance of Plant Services	-	-	-	-	-	-	-	-
2550 Student Transportation Services	-	-	-	-	-	-	-	-
2570 Internal Services	-	-	-	-	-	-	-	-
2610 Direction of Central Support Services	-	-	-	-	-	-	-	-
2620 Planning, Research, Development, Evaluation Services, Grant Writing and Statistical Services	-	-	-	-	-	-	-	-
2630 Information Services	-	-	-	-	-	-	-	-
2640 Staff Services	-	-	-	-	-	-	-	-
2660 Technology Services	-	-	-	-	-	-	-	-
2670 Records Management Services	-	-	-	-	-	-	-	-
2690 Other Support Services - Central	-	-	-	-	-	-	-	-
2700 Supplemental Retirement Program	-	-	-	-	-	-	-	-
Total Support Services Expenditures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Enterprise and Community Services Expenditures	Totals	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
3100 Food Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3200 Other Enterprise Services	-	-	-	-	-	-	-	-
3300 Community Services	-	-	-	-	-	-	-	-
3500 Custody and Care of Children Services	-	-	-	-	-	-	-	-
Total Enterprise and Community Services Expenditures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Facilities Acquisition and Construction Expenditures	Totals	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
4110 Service Area Direction	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4120 Site Acquisition and Development Services	-	-	-	-	-	-	-	-
4150 Building Acquisition, Construction, and Improvement Services	-	-	-	-	-	-	-	-
4190 Other Facilities Construction Services	-	-	-	-	-	-	-	-
Total Facilities Acquisition and Construction Expenditures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Other Uses Expenditures	Totals	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
5100 Debt Service	\$ 1,533,643						1,533,643	
5200 Transfers of Funds	-							
5300 Apportionment of Funds by ESD	-							
5400 Bond Lump Sum	-							
Total Other Uses Expenditures	\$ 1,533,643	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,533,643	\$ -

Grand Total	\$ 1,533,643	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,533,643	\$ -
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**2014 - 15 DISTRICT AUDIT EXPENDITURE SUMMARY
MILTON-FREEWATER UNIFIED SCHOOL DISTRICT**

Fund: 400 - Capital Projects

	Totals	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
Instruction Expenditures								
1111 Primary, K-3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1112 Intermediate Programs	-	-	-	-	-	-	-	-
1113 Elementary Extracurricular	-	-	-	-	-	-	-	-
1121 Middle/Junior High Programs	-	-	-	-	-	-	-	-
1122 Middle/Junior High School Extracurricular	-	-	-	-	-	-	-	-
1131 High School Programs	-	-	-	-	-	-	-	-
1132 High School Extracurricular	-	-	-	-	-	-	-	-
1140 Pre-Kindergarten Programs	-	-	-	-	-	-	-	-
1210 Programs for the Talented and Gifted	-	-	-	-	-	-	-	-
1220 Restrictive Programs for Students with Disabilities	-	-	-	-	-	-	-	-
1250 Less Restrictive Programs for Students with Disabilities	-	-	-	-	-	-	-	-
1260 Early Intervention	-	-	-	-	-	-	-	-
1271 Remediation	-	-	-	-	-	-	-	-
1272 Title I	-	-	-	-	-	-	-	-
1280 Alternative Education	-	-	-	-	-	-	-	-
1291 English Second Language Programs	-	-	-	-	-	-	-	-
1292 Teen Parent Program	-	-	-	-	-	-	-	-
1293 Migrant Education	-	-	-	-	-	-	-	-
1294 Youth Corrections Education	-	-	-	-	-	-	-	-
1299 Other Programs	-	-	-	-	-	-	-	-
1300 Adult/Continuing Education Programs	-	-	-	-	-	-	-	-
1400 Summer School Programs	-	-	-	-	-	-	-	-
Total Instruction Expenditures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Support Services Expenditures								
2110 Attendance and Social Work Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2120 Guidance Services	-	-	-	-	-	-	-	-
2130 Health Services	-	-	-	-	-	-	-	-
2140 Psychological Services	-	-	-	-	-	-	-	-
2150 Speech Pathology and Audiology Services	-	-	-	-	-	-	-	-
2160 Other Student Treatment Services	-	-	-	-	-	-	-	-
2190 Service Direction, Student Support Services	-	-	-	-	-	-	-	-
2210 Improvement of Instruction Services	-	-	-	-	-	-	-	-
2220 Educational Media Services	-	-	-	-	-	-	-	-
2230 Assessment & Testing	-	-	-	-	-	-	-	-
2240 Instructional Staff Development	-	-	-	-	-	-	-	-
2310 Board of Education Services	-	-	-	-	-	-	-	-
2320 Executive Administration Services	-	-	-	-	-	-	-	-
2410 Office of the Principal Services	-	-	-	-	-	-	-	-
2490 Other Support Services - School Administration	-	-	-	-	-	-	-	-
2510 Direction of Business Support Services	-	-	-	-	-	-	-	-
2520 Fiscal Services	-	-	-	-	-	-	-	-
2540 Operation and Maintenance of Plant Services	-	-	-	-	-	-	-	-
2550 Student Transportation Services	120,985	-	-	-	-	120,985	-	-
2570 Internal Services	-	-	-	-	-	-	-	-
2610 Direction of Central Support Services	-	-	-	-	-	-	-	-
2620 Planning, Research, Development, Evaluation Services, Grant Writing and Statistical Services	-	-	-	-	-	-	-	-
2630 Information Services	-	-	-	-	-	-	-	-
2640 Staff Services	-	-	-	-	-	-	-	-
2660 Technology Services	-	-	-	-	-	-	-	-
2670 Records Management Services	-	-	-	-	-	-	-	-
2690 Other Support Services - Central	-	-	-	-	-	-	-	-
2700 Supplemental Retirement Program	-	-	-	-	-	-	-	-
Total Support Services Expenditures	\$ 120,985	\$ -	\$ -	\$ -	\$ -	\$ 120,985	\$ -	\$ -
Enterprise and Community Services Expenditures								
3100 Food Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3200 Other Enterprise Services	-	-	-	-	-	-	-	-
3300 Community Services	-	-	-	-	-	-	-	-
3500 Custody and Care of Children Services	-	-	-	-	-	-	-	-
Total Enterprise and Community Services Expenditures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Facilities Acquisition and Construction Expenditures								
4000 Professional and Technical Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4110 Service Area Direction	-	-	-	-	-	-	-	-
4120 Site Acquisition and Development Services	-	-	-	-	-	-	-	-
4150 Building Acquisition, Construction, and Improvement Services	109,326	-	-	23,626	-	85,700	-	-
4190 Other Facilities Construction Services	-	-	-	-	-	-	-	-
Total Facilities Acquisition and Construction Expenditures	\$ 109,326	\$ -	\$ -	\$ 23,626	\$ -	\$ 85,700	\$ -	\$ -
Other Uses Expenditures								
5100 Debt Service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5200 Transfers of Funds	87,150	-	-	-	-	-	-	87,150
5300 Apportionment of Funds by ESD	-	-	-	-	-	-	-	-
5400 Bond Lump Sum	-	-	-	-	-	-	-	-
Total Other Uses Expenditures	\$ 87,150	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 87,150
Grand Total	\$ 317,461	\$ -	\$ -	\$ 23,626	\$ -	\$ 206,685	\$ -	\$ 87,150

MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
 UMATILLA COUNTY, OREGON

SUPPLEMENTAL INFORMATION
 As Required by The Oregon Department of Education
 For The Year Ended June 30, 2015

A.	Energy bills for heating - all funds:		<u>Objects 325 and 326</u>
		Function 2540	\$ 276,910
		Function 2550	
B.	Replacement of equipment - General Fund:		<u>Amount</u>
	Include all General Fund expenditures in Object 542, except for the following exclusions:		\$ 15,768
	Exclude these functions:		
	1113, 1122 & 1132 Co-curricular activities	4150	Construction
	1140 Pre-kindergarten	2550	Pupil transportation
	1300 Continuing education	3100	Food service
	1400 Summer school	3300	Community services



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January 4, 2016

Independent Auditors' Report Required by Oregon State Regulations

We have audited the basic financial statements of the Milton-Freewater Unified School District as of and for the year ended June 30, 2015, and have issued our report thereon dated January 4, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards.

Compliance

As part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to the following:

- **Deposit of public funds with financial institutions (ORS Chapter 295)**
- **Indebtedness limitations, restrictions and repayment.**
- **Budgets legally required (ORS Chapter 294).**
- **Insurance and fidelity bonds in force or required by law.**
- **Programs funded from outside sources.**
- **Authorized investment of surplus funds (ORS Chapter 294).**
- **Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).**
- **State school fund factors and calculation.**

In connection with our testing nothing came to our attention that caused us to believe the Milton-Freewater Unified School District was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations.

OAR 162-10-0230 Internal Control

In planning and performing our audit, we considered the internal controls over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the internal controls over financial reporting.

This report is intended solely for the information and use of the Board of Directors and management and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.

A handwritten signature in black ink that reads "Matthew Graves". The signature is written in a cursive style with a large initial 'M' and a long, sweeping underline.

MATTHEW GRAVES, CPA
PAULY, ROGERS AND CO., P.C.

MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON
GRANT COMPLIANCE REVIEW

Milton-Freewater Unified School District #7
Schedule of Federal Awards
For the Fiscal Year Ended June 30, 2015

Federal Grantor Pass through Grantor	Program Title	Grant Period	CFDA Number	Grant Amount	2014-15 Revenues	2014-15 Expenditures
Direct Federal Grants - General Fund:						
	Federal Forest Fees	2014-2015	10.665	\$ 2,748	\$ 2,748	\$ 2,748
		Total		\$ 2,748	\$ 2,748	\$ 2,748
U.S. Department of Education - General Fund:						
Passed through Oregon State Department of Education:						
	100 IDEA - SPR & I					
	27930	8/1/13 - 6/30/14	84.027	\$ 1,950	\$ -	\$ -
	32160	8/1/14 - 6/30/15	84.027	\$ 1,925	\$ 190	\$ 190
		Total		\$ 3,875	\$ 190	\$ 190
	100 IDEA Enhancement					
	33746	10/1/14 - 9/30/15	84.027	\$ 2,652	\$ -	\$ -
		Total		\$ 2,652	\$ -	\$ -
Passed through InterMountain Education Service District						
	100 Title I C Migrant					
	IMESD 29959	7/1/13-9/30/14	84.011	\$ 21,478	\$ 21,478	\$ -
	IMESD 33600	7/1/14-9/30/15	84.011	\$ 9,313	\$ 9,313	\$ 9,313
	100 Title I C Migrant Summer					
	IMESD 31058	7/1/13-9/30/14	84.011	\$ 14,796	\$ 14,796	\$ 14,796
		Total		\$ 45,587	\$ 45,587	\$ 24,109
Total General Fund				\$ 54,862	\$ 48,525	\$ 27,047
U.S. Department of Education - Special Revenue Fund:						
Passed through Oregon State Department of Education:						
	201 Title I-A :					
	28170	7/1/13 - 9/30/14	84.010	513,246	64,896	64,896
	32628	7/1/14 - 9/30/15	84.010	513,246	449,448	449,448
		Total		\$ 1,026,492	\$ 514,344	\$ 514,344
	203 Title III - English Language Acquisition					
	30026	7/1/13 - 9/30/14	84.365	\$ 54,652	\$ 17,637	\$ 17,637
	32341	7/1/14 - 9/30/15	84.365	\$ 50,407	\$ 20,545	\$ 20,545
		Total		\$ 105,059	\$ 38,182	\$ 38,182
	206 Title II-A Improving Teacher Quality:					
	28688	7/1/13 - 9/30/14	84.367	\$ 87,453	\$ 22,070	\$ 22,070
	28688	7/1/13 - 9/30/14	84.367	\$ 87,453	\$ 57,700	\$ 57,700
		Total		\$ 174,906	\$ 79,770	\$ 79,770
	207 Title VI-B Rural and Low Income Schools					
	29934	7/1/13 - 9/30/14	84.358	\$ 35,062	\$ 18,842	\$ 18,842
	33856	7/1/14 - 9/30/15	84.358	\$ 35,255	\$ 18,769	\$ 18,769
		Total		\$ 70,317	\$ 37,611	\$ 37,611
	209 Priority Focus (Title 1-A)					
	28638	8/1/12 - 9/30/13	84.010	\$ 25,100	\$ 18,557	\$ 18,557
	32780	7/1/14 - 9/30/15	84.010	\$ 39,384	\$ 34,932	\$ 34,932
		Total		\$ 64,484	\$ 53,489	\$ 53,489
	210 Oregon Reads Priority Focus					
	29352	7/1/14 - 9/30/15	84.010	\$ 40,000	\$ 5	\$ 5
		Total		\$ 40,000	\$ 5	\$ 5
Passed through InterMountain Education Service District						
	260 Children w/disabilities - IDEA Part B:					
	33288	7/1/13 - 9/30/15	84.027	\$ 277,506	\$ 170,579	\$ 170,579
		Total		\$ 277,506	\$ 170,579	\$ 170,579

Milton-Freewater Unified School District #7
Schedule of Federal Awards
For the Fiscal Year Ended June 30, 2015

Federal Grantor	Program Title	Grant Period	CFDA Number	Grant Amount	2014-15	
Pass through Grantor					Revenues	Expenditures
<u>U.S. Department of Agriculture - Special Revenue Fund:</u>						
Passed through Oregon State Department of Education:						
	NSLP Equipment 2	31958	10.579	\$	10,316	\$ 10,316
	National Sch Breakfast	3013001	10.553	\$	148,110	\$ 148,110
	National School Lunch	3013001	10.555	\$	473,907	\$ 473,907
	CIL-Child Care Food	3013001	10.558	\$	14,524	\$ 14,524
	Nat Schl Lunch Summer	3013001	10.559	\$	29,400	\$ 29,400
	Cash for Commodities	3013001	10.555	\$	57,891	\$ 57,891
	Total			\$	-	\$ 734,148
					\$	723,981 less 10.579
<u>Total Special Revenue Funds</u>				\$	1,758,764	\$ 1,628,128
Total Federal Financial Assistance				\$	<u>1,813,626</u>	\$ <u>1,676,653</u>
						\$ <u>1,655,175</u>



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January 4, 2016

To the Board of Directors
Milton-Freewater Unified School District
Umatilla County, Oregon

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Milton-Freewater Unified School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the basic financial statements, and have issued our report thereon dated January 4, 2016..

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



MATTHEW GRAVES, CPA
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January 4, 2016

To the Board of Directors
Milton-Freewater Unified School District
Umatilla County, Oregon

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Report on Compliance for Each Major Federal Program

We have audited Milton-Freewater Unified School Districts compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the major federal programs for the year ended June 30, 2015. The major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of compliance.

Opinion on Each Major Federal Program

In our opinion, Milton-Freewater Unified School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



MATTHEW GRAVES, CPA
PAULY, ROGERS AND CO., P.C.

MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

SCHEDULE CURRENT AND PRIOR FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2015

Section I – Summary of Auditor’s Results

Financial Statements

Type of Auditor’s report issued: Unmodified
Internal control over financial reporting:
• Material weakness(es) identified? _____ Yes x No
• Significant deficiency(ies) identified that are not considered to be material weaknesses _____ Yes x None Reported
Noncompliance material to financial statements noted? _____ Yes x No
Any GAGAS audit findings disclosed that are required to be reported in accordance with section 505(d)(2) of OMB Circular A-133? _____ Yes x No

Federal Awards

Internal control over major programs:
• Material weakness(es) identified? _____ Yes x No
• Significant deficiency(ies) identified that are not considered to be material weaknesses _____ Yes x None Reported
Type of auditor’s report issued on compliance for major programs: Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? _____ Yes x No

Identification of major programs

CFDA NUMBER(S):
10.553, 10.555, 10.559
84.010

NAME OF FEDERAL PROGRAM CLUSTER:
Child Nutrition Cluster
Title IA

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? _____ Yes x No

**MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON
SCHEDULE FINDINGS AND QUESTIONED COSTS**

For the Year Ended June 30, 2015

SECTION II – CURRENT YEAR FINANCIAL STATEMENT FINDINGS

None Reported

SECTION III – CURRENT SINGLE AUDIT FINDINGS

None Reported

SECTION IV – PRIOR YEAR SINGLE AUDIT FINDINGS

2014-FS-1 Employee Time-and-Effort Documentation (Material Weakness)

CFDA #: 84.010

Program Title: Title I Grants to Local Educational Agencies

Pass-Through Entity Identifying Number: Oregon Department of Education #25290, #28170, #26912, and #29934

Grant Period: 7/1/12 – 9/30/13, 7/1/13 – 9/30/14, 8/1/12 – 9/30/13, and 7/1/13 – 9/30/14

Compliance Requirement: Allowable Costs / Cost Principles

Condition: During our tests of controls over compliance and substantive tests of compliance, we noted that one Teacher and seven Paraprofessionals did not have their salaries and associated payroll costs properly certified for time-and-effort that were charged to the Title IA Fund #201 and the Focus Grant Fund #209 for the months of July through September 2013 and February through June 2014. In addition, per review of an Administrator's "Monthly Time and Effort" forms, we noted that the forms did not document the allocation of actual hours worked between the Title IA Fund #201 and the General Fund #100. Only his hours for Title IA were documented, and the hours that were documented for every month were exactly 16 hours per month, or 10%, which was the budgeted allocation for his salary and associated payroll costs to the Title IA Fund #201. Lastly, the Administrator's time-and-effort certifications were not signed by a Supervisor.

Criteria: Per the "Department of Education" Part 4 cross-cutting section of the March 2014 *OMB Circular A-133*

Compliance Supplement and *OMB Circular A-87*, time-and-effort requirements for all employees must fall under one of the two following circumstances: (1) An employee who works solely on a single cost objective must furnish a semi-annual certification that he/she has been engaged solely in activities that support the single cost objective; or (2) An employee who works in part on a single cost objective and in part on a Federal program whose administrative funds have not been consolidated or on activities funded from other revenue sources must maintain time and effort distribution records documenting the portion of time and effort dedicated to the single cost objective and each program or other cost objective supported by non-consolidated Federal funds or other revenue sources. Updated guidance recently issued by the Department of Education clarifies that employees who are paid from multiple funding sources (one of which is a federal source) may document time-and-effort in one of two ways: (1) If an employee has a schedule that varies from one day to the next, the employee must document hours worked on activities funded from each source on a daily basis. This personnel activity report is done after the actual work is performed and is signed monthly by the employee and the supervisor; or (2) In lieu of monthly personnel activity reports, an employee on a fixed schedule may submit two documents on a semi-annual basis – one certifying the funding sources being charged and the other showing the established fixed schedule. A document showing the established fixed schedule in most educational settings would be the employee's daily schedule of classes and duties. In addition, *OMB Circular A-87* states that budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards.

Cause: The Teacher and Paraprofessionals all completed time-and-effort certifications on February 20, 2014 to cover the period October 1, 2013 through January 24, 2014. The months of July through September 2013 and February through June 2014 were simply overlooked on having time-and-effort certifications completed for these employees. In addition, it appears that the Administrator used the same time-and-effort form as the employees with fixed schedules would use semi-annually; however he filled out this form monthly (with no established work schedule to attach) rather than using a time-and-effort form similar to a time sheet, that would document his actual hours worked on a daily basis by source as required for an employee who has a schedule that varies from one day to the next.

Effect: These employees' salaries and associated payroll costs that were charged to the Title IA Fund #201 and the Focus Grant Fund #209 were not properly certified for their time-and-effort to be in compliance with the Allowable Costs / Cost Principles compliance requirement for the Title I Grants to Local Educational Agencies Federal program.

Questioned Costs: This finding resulted in \$30,152 total in questioned costs from our testing in our sample. When you extrapolate this noncompliance finding to the total population of the July through September 2013 and February through June 2014 paychecks for the Teacher and Paraprofessionals and 100% of the Administrator's paychecks for the 2013-2014 fiscal year that were charged to the Title IA Fund #201 and the Focus Grant Fund #209, the total questioned costs are \$160,261.

Recommendation: We recommend that all employees who have their salaries and associated payroll costs charged to any Title I Grants to Local Educational Agencies Fund have time-and-effort certifications properly completed to be in compliance with the Allowable Costs / Cost Principles compliance requirement for the Title I Grants to Local Educational Agencies Federal program.

Views of Responsible Officials and Planned Corrective Actions: The District agrees with the finding. Every effort will be made to make sure that the District has time-and-effort certifications for all Title I employees and that these certifications are complete. For 2014-2015 the Title I program clerical support will report directly to the District Superintendent, who is the new Title I program administrator. Improved documentation procedures are being reviewed, including a semi-annual check list of all required paperwork and reporting.

Current Status – This finding was tested during the audit and found to have been corrected in the current fiscal year.

2014-FS-2 Contract for Title I Services to Eligible Private School Students (Other Noncompliance Comment)

CFDA #: 84.010

Program Title: Title I Grants to Local Educational Agencies

Pass-Through Entity Identifying Number: Oregon Department of Education #25290 and #28170

Grant Period: 7/1/12 – 9/30/13 and 7/1/13 – 9/30/14

Compliance Requirement: Special Tests and Provisions Participation of Private School Children

Condition: During our tests of controls over compliance and substantive tests of compliance, we noted that the District paid a third-party provider \$18 per hour for Title IA tutoring services at Milton-Stateline Adventist School for eligible private school students during the 2013-2014 fiscal year; however there was no approved contract to support the \$18 per hour rate she was paid.

Criteria: Per the "Department of Education" Part 4 cross-cutting section of the March 2014 *OMB Circular A-133 Compliance Supplement* and OMB Circular A-87, if the District provides services to eligible private school students under an arrangement with a third-party provider, the District must retain proper administration and control by having a written contract that: (1) Describes the services to be provided; and (2) Provides that the District retains ownership of materials, equipment, and property purchased with Federal funds.

Cause: Management was not aware that a written contract was required. The \$18 per hour rate was a verbal

agreement with the third-party provider.

Effect: All of the third-party provider's costs that were charged to the Title IA Fund #201 did not have her \$18 per hour rate properly approved in writing to be in compliance with the Special Tests and Provisions Participation of Private School Children compliance requirement for the Title I Grants to Local Educational Agencies Federal program.

Questioned Costs: This finding resulted in \$4,752 total in questioned costs from our testing in our sample. When you extrapolate this noncompliance finding to the total population of 100% of the Accounts Payable checks paid to this third-party provider for the 2013-2014 fiscal year charged to the Title IA Fund #201, the total questioned costs is \$7,035.

Recommendation: We recommend that the District have a written contract agreement that is signed by the Superintendent and the third-party provider that describes the Title I services to be provided to the eligible private school students and provides that the District retains ownership of materials, equipment, and property purchased with Federal funds to be in compliance with the Special Tests and Provisions Participation of Private School Children compliance requirement for the Title I Grants to Local Educational Agencies Federal program.

Views of Responsible Officials and Planned Corrective Actions: The District agrees with the finding. The District has drafted up a written contract with the third-party provider for Title I tutoring services for the 2014-2015 fiscal year.

Current Status – This finding was tested during the audit and found to have been corrected in the current fiscal year.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes federal grant activity and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.