

**MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON**

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2019



**12700 SW 72nd Ave.
Tigard, OR 97223**

MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2019

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MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

BOARD OF DIRECTORS

<u>BOARD OF DIRECTORS</u>	<u>TERM EXPIRES</u>
Michael Lesko, Position #1	June 30, 2023
Tina Kain, Chair, Position #2	June 30, 2021
Duane Geyer, Position #3, Chair	June 30, 2021
Don Miller, Position #4	June 30, 2021
Kelly Kessler, Position #5, Vice Chair	June 30, 2023
Tim McElrath, Position #6	June 30, 2021
Kathy Silva, Position #7	June 30, 2023

All board members will receive mail at the following address:

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

ADMINISTRATION

Dr. Rob Clark, Superintendent
Aaron Duff, Director of Business and Operations
Denyce Kelly, Business Manager

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MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

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MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

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December 23, 2019

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, 2019, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The District adopted the provisions of GASB Statement No. 88 – Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements for the year ended June 30, 2019. 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 the required supplementary 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.

The budgetary comparison schedules presented as Required Supplementary Information, as listed in the table of contents, have 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 records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America, and in our opinion are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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 and other information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CRF) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements. The supplementary information 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, and the other information, as listed in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Reports on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2019 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 December 23, 2019, 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.



TARA M KAMP, CPA
PAULY, ROGERS AND CO., P.C.

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Milton-Freewater Unified School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2019

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, 2019. 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 the Government-Wide financial statement at June 30, 2019, the District's assets plus deferred outflows of resources exceeded its liabilities plus deferred inflows of resources by \$10,721,569. The net position was increased \$5,877,040 from the June 30, 2018 balance. Most notably from the increase in capital assets with the completion of the Bond capital improvement projects. The District's investment in capital assets net of related debt increased to \$22,812,280. A deficit unrestricted net position of \$13,358,500 is due to the recognition of District pension obligations under GASB 68 and the OPEB liability for health insurance under GASB 75.
- The District maintains liquidity with cash totaling \$6,938,829. With payments on the District capital construction projects, the balance is decreased from \$11,789,562 in the previous year.
- The District relies upon the State School Fund as its primary source of operating revenue. In 2019, the State School Formula afforded District collections totaling \$15,073,309 compared to \$14,911,624 in the prior year. The increase was due to the State School Fund prior year funding reconciliation in May 2019. District enrollment remained stable at 1,713.
- At June 30, 2019, the assigned and unassigned fund balance for the General Fund was \$2,996,501 or approximately 16.2% of total General Fund expenditures (including transfers).
- In 2018-2019 the District qualified for the Child Nutrition Community Eligibility Program. All District students are afforded a free breakfast and lunch. The meal costs are offset by increased federal funding and increased District general fund support.
- The District received local grants from the Milton-Freewater Area Foundation, Oregon Community Foundation, Wildhorse Foundation and AVID. These grants supported the District music programs, career technical education programs and teacher professional development. In addition, the grants allowed for the purchase of laser engraving equipment, two Yamaha pianos and the digital information board in front of McLoughlin High School.
- 2018-2019 State grants included the Oregon School Capital Improvement Matching Program (OSCIM), High School Success (Measure 98), Outdoor School (Measure 99), CTE Revitalization, Technical Assistance Program, and Physical Education Expansion K-8 (PEEK). The OSCIM grant of \$4,000,000 helped fund District wide capital improvements. The remaining grants totaled over \$400,000 and supported educational opportunities in elementary PE, outdoor school, student internships, and high school counseling and CTE programs.

Milton-Freewater Unified School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2019

- In May 2016, the voters approved a \$12,500,000 capital bond measure. The bond measure along with the Valley Foundation Grant of \$15,000,000 and the State Facility Grant of \$4,000,000 has allowed the District to construct Gib Olinger Elementary School, a District transportation facility, a sports complex at the Grove Elementary site, as well as, update HVAC and infrastructure at Ferndale, McLoughlin High School and Central Middle School. Demolition of the old canary site began in June 2016. The bonds sold in July 2016, with a bond premium received of \$2,046,053.
- August 2018 marked the grand opening of Gib Olinger Elementary. Community, legislators, administration, staff and students gathered to dedicate the new state of the art elementary, thank the Valley Foundation and celebrate the Milton-Freewater Class of 2031 beginning its first day of kindergarten. District wide infrastructure upgrades continued through the summer and were largely completed prior to the start of the school year. The transportation facility with a two bay shop, outside washing area, pull through parking and video surveillance was in full use by October 2018.
- At June 30 2019, the District was completing the final phases of the Grove Athletic complex. This last project is expected to wrap up in the spring of 2020. As part of the June 30, 2019 capital assets, the District reported construction in progress of \$1,219,818.

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.

Milton-Freewater Unified School District
MANAGEMENT’S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2019

OVERVIEW OF THE FINANCIAL STATEMENTS (con’t)

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 position of the District changed over the year by tracking revenues, expenses and other transactions that increase or reduce net position. All changes in net position are reported as soon as the underlying event giving rise to the change occurs.

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.

Milton-Freewater Unified School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2019

OVERVIEW OF THE FINANCIAL STATEMENTS (con't)

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 19 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.

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, 2019.

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, 2019, cash totaled \$6,938,829. Receivables total \$451,729 from state contracts and grants.

Capital assets consist of the District's land, buildings, building improvements, vehicles, and equipment, which represent about 83% of total assets. For the year ended June 30, 2019, larger investments in capital assets include the completion of Gib Olinger Elementary, transportation facility, District wide infrastructure upgrades, District route bus, CTE classroom equipment, maintenance equipment and construction in progress on Grove athletic complex.

Deferred outflows of resources related to pensions and OPEB totaled \$3,809,078 and represent contributions subsequent to the measurement date combined with differences between expected and actual experience changes in assumptions (discount rate) and investment earnings.

The District's largest liability consists of the 2016 general obligation bonds and related bond premium, with a June 30, 2019 balance of \$13,495,247. In July 2016 the District sold bonds (at a \$2 million premium) to partially fund the \$32 million Gib Olinger Elementary School and related District-wide improvement projects. The Bonds coupled with a \$15 million donation from the Valley Foundation and a \$4 million grant from Oregon Department of Education completed the project funding.

Milton-Freewater Unified School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2019

GOVERNMENT-WIDE FINANCIAL ANALYSIS (con't)

The District has three PERS bond issues, from 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, 2019, the PERS bonds balance totaled \$9,210,716. The District has a full faith and credit obligation, totaling \$165,000, from 2011 bus purchases. The District has a lease payable to Santander Bank, NA, totaling \$90,022, from 2017 bus purchases. Other notes include Oregon Department of Energy (\$93,905) for 2012 energy efficiency improvement and (\$180,348) for 2016 energy efficiency improvement. Total notes payable \$274,253.

The District reported OPEB liability of \$2,090,832 to reflect the explicit and implicit rate subsidy for the District's retiree health insurance. The District offers post employment health insurance benefits as part of the collective bargaining agreement with the Milton-Freewater Education Association. That explicit benefit rate is coupled with the implicit rate produced by State Statute that requires the District to offer health insurance to retirees at the lower rate paid for current employees until the retiree turns 65 years of age. In an open, private market, retirees would pay higher premiums to cover increased healthcare costs related to their age. The lower rates enjoyed by the District's retirees creates a District OPEB liability.

The District has a net pension liability totaling \$8,507,411. The pension liability reflects the District's proportionate share of the State of Oregon's Unfunded Actuarial Liability. This liability has contracted with investment earnings and the change in assumptions.

The District also reported Deferred Inflows of Resources from the net difference between projected and actual earning on pension investments totaling \$1,623,682. The accrual is driven by the changes in proportion and differences between employer contributions and proportionate share of contributions.

At June 30, 2019 the assets and deferred outflows exceeded its liabilities and deferred inflows by \$10,721,569. The District's net position increased by \$5,877,040 from the prior year.

The majority of the District's unrestricted deficit net position (\$13,358,500) is due to the significant net pension liability noted above, along with the implementation of GASB statement No. 75, District PERS bond and general obligation bond issues. 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 previously, the District does have current and long term debt related to buildings and equipment.

Milton-Freewater Unified School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2019

GOVERNMENT-WIDE FINANCIAL ANALYSIS (con't)

The following reflects condensed information on the District's net position:

Net Position at June 30, 2019

	Governmental Activities		Difference
	2019	2018	
<u>Assets:</u>			
Cash and Cash Equivalents	\$ 6,938,829	\$ 11,789,562	\$ (4,850,733)
Taxes Receivable	210,409	194,670	15,739
Accounts Receivable	451,729	548,611	(96,882)
Capital Assets - Nondepreciable	4,692,166	22,436,722	(17,744,556)
Capital Assets - Depreciable, Net of Depreciation	31,870,381	5,164,771	26,705,610
Total Assets	<u>44,163,514</u>	<u>40,134,336</u>	<u>4,029,178</u>
<u>Deferred Outflows of Resources:</u>			
Pension & OPEB Deferred Outflows	<u>3,809,078</u>	<u>2,406,680</u>	<u>1,402,398</u>
<u>Liabilities:</u>			
Accounts Payable	707,091	3,204,975	(2,497,884)
Accrued Payroll Liability	1,067,694	1,030,604	37,090
Accrued Interest	19,075	19,408	(333)
Total OPEB Liability	2,090,832	1,677,117	413,715
Proportionate Share of Net Pension Liability	8,507,411	6,668,947	1,838,464
Bonds Payable Due in One Year	784,296	739,854	44,442
Bonds Payable Due in More Than One Year	22,450,942	23,346,423	(895,481)
Total Liabilities	<u>35,627,341</u>	<u>36,687,328</u>	<u>(1,059,987)</u>
<u>Deferred Inflows of Resources:</u>			
Net Pension related Deferrals	<u>1,623,682</u>	<u>1,009,159</u>	<u>614,523</u>
<u>Net Position</u>			
Investment in Capital Assets	22,812,280	13,351,845	9,460,435
Restricted for Capital Projects	0	0	0
Restricted for Debt Service	239,008	194,202	44,806
Restricted for Other Purposes	1,028,781	958,584	70,197
Unrestricted	<u>(13,358,500)</u>	<u>(9,660,102)</u>	<u>(3,698,398)</u>
Total Net Position	<u>\$ 10,721,569</u>	<u>\$ 4,844,529</u>	<u>\$ 5,877,040</u>

**Milton-Freewater Unified School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2019**

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, 2019 are as follows:

- Revenues improved overall, with the largest increase in the operating grants and contributions, primarily from the State OSCIM constructing matching grant of \$4 million. The state school fund rose slightly with an increase in the State biennium allocation. Due to the timing of grant funds received, district grants and local donation reported a decrease from the prior year. Interest earnings decreased slightly as bond proceeds were spent out and cash balances decreased.
- The large increase in expenses reported below is primarily due to the change in the PERS unfunded liability and OPEB liability, which reported 2019 balances of \$8,507,411 and \$2,090,832 respectively. Outside of the PERS and OPEB expense, the remaining operating expenditures increased to reflect additional grant funds, increased staffing, and the negotiated COLA increases. Overall debt service expenditures decreased slightly. While debt payments remained consistent, facilities acquisition and capital outlay reported net of debt, decreased from the prior year with the conclusion of the bond projects.

Changes in Net Position for the Year Ended June 30, 2019

	<u>2019</u>	<u>2018</u>	<u>Difference</u>
<u>Revenues:</u>			
Program Revenues			
Charges for Services	\$ 309,212	\$ 401,732	\$ (92,520)
Operating Grants & Contributions	11,796,348	7,729,162	4,067,186
General Revenues:			
Property Taxes	3,682,376	3,680,257	2,119
State School Sources	15,073,309	14,911,624	161,685
Other Federal, State and Local Sources	323,599	1,255,059	(931,460)
Intermediate Sources	51,468	46,319	5,149
Interest and Investment Earnings	344,196	354,449	(10,253)
Total Revenues	<u>31,580,508</u>	<u>28,378,602</u>	<u>3,201,906</u>
<u>Expenses:</u>			
Instruction	14,730,015	14,193,906	536,109
Support Services	8,369,444	6,953,117	1,416,327
Enterprise & Community Services	1,227,971	1,230,888	(2,917)
Debt Service	1,376,038	1,442,565	(66,527)
Total Expenses	<u>25,703,468</u>	<u>23,820,476</u>	<u>1,882,992</u>
Change in Net Position	5,877,040	4,558,126	1,318,914
Net Position, Beginning	<u>4,844,529</u>	<u>286,403</u>	<u>4,558,126</u>
Net Position, Ending	<u>\$ 10,721,569</u>	<u>\$ 4,844,529</u>	<u>\$ 5,877,040</u>

Milton-Freewater Unified School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2019

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, 2019, the District's Governmental Funds reported a combined ending fund balance of \$5,664,863. This balance decreased \$2,475,248 from the balance of \$8,140,111 in the previous year. The bulk of the prior year ending fund balance were primarily for the capital improvements to the District, the construction of Gib Olinger Elementary and the District transportation facility.

General Fund. The General Fund is the primary operating fund of the District. As of June 30, 2019, the assigned and unassigned fund balance was \$2,996,501. 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 16.2% of total General Fund expenditures (including transfers) for the fiscal year ending June 30, 2019.

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. 2019 grants include Measure 98, Measure 99 and CTE revitalization funds. Current state grants for title programs were slightly higher for 2019. In addition, the District transferred \$50,000 into the PERS reserve fund, to help offset rising cost of future PERS expenditures. The Special Revenue Fund balances totaled \$1,028,781.

Debt Service Fund. The Debt Service Fund is for payments on the 2016 general obligation bond and limited tax pension bonds, issued in 2002 and 2003 with refunding a portion in August 2011. In addition, the District makes payments on a Full Faith and Credit Obligation used for purchase of district school busses. Payments on other debt funded the purchase of energy efficiency projects and additional school busses. The Fund reports an ending balance of \$239,008.

Capital Projects Fund. In 2017 the District opened a new facility project fund designed for the 2016 bond and Valley grant proceeds related to the new elementary building, transportation facility and District wide improvements. The District began projects in spring 2017 with many projects completed throughout the school year. Gib Olinger Elementary grand opening was August 2018, summer district wide improvements were completed September 2018 and the transportation facility began operations in October 2018. The Grove athletic complex is on schedule to open spring 2020. Construction in Progress totals \$1,219,818 at June 30, 2019. Other capital purchases include CTE classroom equipment, maintenance equipment, district vehicles and a new route school bus. The District transferred \$350,000 into the capital projects fund for future district wide upgrades not covered by Bond proceeds. 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. The Fund reports and ending balance of \$1,400,573.

**Milton-Freewater Unified School District
MANAGEMENT’S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2019**

GENERAL FUND BUDGETARY HIGHLIGHTS

The District received 50% of its \$8.2 billion State School Fund allocation in the second year of the biennium. Coupled with the voter approved grant funds, this increased allowed the District to increase current staff levels, staff and operate a pre-school program, purchase CTE classroom equipment, honor negotiated step/COLA agreements, update district maintenance equipment and advance district technology. Most importantly, 2018-2019 brought the opening and successful completion of the first year in Gib Olinger Elementary, the opening of the transportation facility and many new classroom improvements.

For the 2018-2019 school year, the District based its budget on 1715 average daily enrollment and a beginning fund balance totaling \$2,750,000. The actual beginning fund balance totaled \$2,801,252, and the actual enrollment averaged 1713. The District maintained a full calendar and all academic as well as extra-curricular programs. The District transferred additional resources to the Capital Projects Funds for district wide improvements not covered by Bond funds as well as an additional \$50,000 to the PERS Reserve Fund to offset future PERS rate increases and an additional \$100,000 to the Food Service program to support the CEP program. The District continues to pay the 6% PERS employee portion. PERS rates remained stable from the prior year at 5.86% for T1/T2 and 0.53% for OPSRP.

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, 2019, the District’s capital assets are reported on the Statement of Net Position. New additions include Gib Olinger Elementary, transportation facility, district wide infrastructure upgrades, a new route school bus, district suburban, district maintenance vehicle, maintenance equipment and CTE classroom equipment. Construction in Progress includes construction on Grove athletic complex.

		Governmental Activities
Land	\$	3,472,348
Construction In Progress		1,219,818
Buildings & Improvements		29,995,835
Equipment & Vehicles		874,546
	\$	<u>35,562,547</u>

**Milton-Freewater Unified School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2019**

CAPITAL ASSET AND DEBT ADMINISTRATION (con't)

Long-Term Debt. As reported on the Statement of Net Position and detailed in the table below, at June 30, 2019, the District had \$23.2 million debt outstanding which is comparable to \$24.1 million last year. The District made its annual debt service payments under these obligations that included an overall reduction in the principal balance of \$851,039. See Note 5 of the Notes to the Financial Statements for more information on long-term debt obligations.

	Outstanding Debt Obligations		
	<u>2019</u>	<u>2018</u>	<u>Difference</u>
2002 Limited Tax Pension Bonds, PERS	\$ 4,274,716	\$ 4,403,097	\$ (128,381)
2003 Limited Tax Pension Bonds, PERS	4,506,000	4,695,881	(189,881)
2011 Limited Tax Pension Refunding Bonds, PERS	430,000	430,000	0
2011 Full Faith and Credit Obligation, bus purchases	165,000	240,000	(75,000)
2016 General Obligation Bond, capital improvements	11,765,000	12,035,000	(270,000)
2016 Bond Premium	1,730,247	1,841,447	(111,200)
Oregon Department of Energy Loan 2012	93,905	104,375	(10,470)
Oregon Department of Energy Loan 2016	180,348	203,276	(22,928)
Community Bank , Technology Equipment	0	0	0
Bus Lease, 2 route busses	90,022	133,201	(43,179)
Total	\$ <u>23,235,238</u>	\$ <u>24,086,277</u>	\$ <u>(851,039)</u>

Milton-Freewater Unified School District
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2019

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, 2019, the State School Fund – General Support provided 79% of the District's program resources for the General Fund. The percentage climbs to 96% when property taxes 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 District's 2019-20 budget is supported by 49% of the State's \$9.0B Basic School Support for the 2019-2021 biennium. The State's investment in K-12 education improved from \$8.2 billion in the previous biennium. The budget is based on increased enrollment at 1,750 average daily membership and a stable beginning fund balance. The projected additional funding will allow for 5 new positions including a 4th grade position, stepping stone program staffing and a maintenance/grounds position. The District will continue to utilize Measure 98 funding and CTE grants to provide for the Student Success Coach, offer additional CTE instruction and curriculum for students.

In addition, the 2019-2020 budget includes the negotiated COLA and benefits per the collective bargaining agreements. PERS rates rose from 5.86% to 9.80% on Tier 1/Tier 2 employees and 0.53% to 4.35% on OPSRP employees. The budget includes \$2.5 million dollar facility improvement funds to finish the Grove Athletic complex and annual district capital/maintenance projects.

The Oregon legislature passed the Student Success Act (SSA), which will provide significant investment in preK-12 education. The SSA will be funded with a new corporate activity tax and is projected to add \$750 million to fund the following programs:

- The Student Investment Act (SIA), which focuses on 1) student mental or behavioral needs and 2) reduction of academic disparities for improved academic achievement.
- Measure 98 (High School Success) additional funding for 9-12 grade efforts (high school graduation and career technical education).

On the expenditure side, the legislature also passed PERS reform, which included allowing PERS retirees to work back full time with the employers continuing to pay into the PERS system on the retirees' behalf. The legislature's intent was to reduce the pension liability with the after-retirement PERS contributions. The new law starts July 1, 2020.

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.

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MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

BASIC FINANCIAL STATEMENTS

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MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

STATEMENT OF NET POSITION
June 30, 2019

ASSETS

Cash and Cash Equivalents	\$ 6,938,829
Property Taxes Receivable	210,409
Accounts Receivable	451,729
Capital Assets - Nondepreciable	4,692,166
Capital Assets - Depreciable, Net of Depreciation	<u>31,870,381</u>
 Total Assets	 <u>44,163,514</u>

DEFERRED OUTFLOWS OF RESOURCES

Pension Related Deferrals	3,424,553
OPEB Related Deferrals	<u>384,525</u>
 Total Deferred Outflows of Resources	 <u>3,809,078</u>

LIABILITIES:

Accounts Payable	707,091
Payroll Liabilities	1,067,694
Accrued Interest	19,075
Long-Term Debt Due Within One Year	784,296
Proportionate Share of Net Pension Liability	8,507,411
Total OPEB Liability	2,090,832
Long-Term Obligations	<u>22,450,942</u>
 Total Liabilities	 <u>35,627,341</u>

DEFERRED INFLOWS OF RESOURCES

Pension Related Deferrals	<u>1,623,682</u>
 Total Deferred Inflows of Resources	 <u>1,623,682</u>

NET POSITION

Net Investment in Capital Assets	22,812,280
Restricted for:	
Debt Service	239,008
Other	1,028,781
Unrestricted	<u>(13,358,500)</u>
 Total Net Position	 <u>\$ 10,721,569</u>

See accompanying notes to basic financial statements.

MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019

FUNCTIONS	EXPENSES	PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	
Instruction	\$ 14,730,015	\$ 303,539	\$ 6,399,789	\$ (8,026,687)
Support Services	8,369,444	-	4,487,429	(3,882,015)
Community Services	1,227,971	5,673	909,130	(313,168)
Interest on Long-Term Debt	1,376,038	-	-	(1,376,038)
Total Governmental Activities	<u>\$ 25,703,468</u>	<u>\$ 309,212</u>	<u>\$ 11,796,348</u>	<u>(13,597,908)</u>

General Revenues

Property Taxes, Levied for General Purposes	2,965,182
Property Taxes, Levied for Debt Service	717,194
State Sources	15,073,309
Income Not Restricted to Specific Programs	
Local Sources	323,599
Intermediate Sources	51,468
Interest and Investment Earnings	344,196
Total General Revenues	<u>19,474,948</u>
Changes in Net Position	5,877,040
Net Position - Beginning	<u>4,844,529</u>
Net Position - Ending	<u>\$ 10,721,569</u>

See accompanying notes to basic financial statements.

MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

BALANCE SHEET - GOVERNMENTAL FUNDS
 June 30, 2019

	GENERAL FUND	SPECIAL REVENUE FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	TOTALS
ASSETS:					
Cash and Investments	\$ 3,984,634	\$ 742,139	\$ 231,115	\$ 1,980,941	\$ 6,938,829
Property Taxes Receivable	171,454	-	38,955	-	210,409
Accounts Receivable	128,629	323,100	-	-	451,729
Total Assets	\$ 4,284,717	\$ 1,065,239	\$ 270,070	\$ 1,980,941	\$ 7,600,967
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES:					
Liabilities:					
Accounts Payable	\$ 90,265	\$ 36,458	\$ -	\$ 580,368	\$ 707,091
Payroll Liabilities	1,067,694	-	-	-	1,067,694
Total Liabilities	1,157,959	36,458	-	580,368	1,774,785
Deferred Inflows:					
Unavailable Property Taxes	130,257	-	31,062	-	161,319
Fund Balances:					
Restricted	-	1,028,781	239,008	-	1,267,789
Assigned	-	-	-	1,400,573	1,400,573
Unassigned	2,996,501	-	-	-	2,996,501
Total Fund Balances	2,996,501	1,028,781	239,008	1,400,573	5,664,863
Total Liabilities, Deferred Inflows and Fund Balances	\$ 4,284,717	\$ 1,065,239	\$ 270,070	\$ 1,980,941	\$ 7,600,967

See accompanying notes to basic financial statements.

MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Position
June 30, 2019

Total Fund Balances - Governmental Funds \$ 5,664,863

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 36,562,547

Long-term liabilities not payable in the current year are not reported as governmental fund liabilities. Interest on long-term debt is not accrued in the governmental funds, but rather is recognized as an expenditure when due.

Long term Liabilities

Bonds Payable	\$ (22,870,964)	
Accrued Interest	(19,075)	
Notes Payable	(274,252)	
Leases Payable	<u>(90,022)</u>	
		(23,254,313)

Long-term pension and OPEB assets/liabilities note payable in current year are not reported as governmental fund liabilities. Actuarial changes create the deferred out flows and inflows of resources. These consist of:

PERS net pension liability	\$ (8,507,411)	
PERS pension related deferred outflows	3,424,553	
PERS pension related deferred inflows	(1,623,682)	
OPEB net pension liability	(2,090,832)	
OPEB pension related deferred outflows	<u>384,525</u>	
		(8,412,847)

Unearned revenue related to property taxes 161,319

Net Position \$ 10,721,569

See accompanying notes to basic financial statements.

MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2019

	GENERAL FUND	SPECIAL REVENUE FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	TOTALS
REVENUES:					
From Local Sources	\$ 3,604,539	\$ 320,833	\$ 2,097,916	\$ 5,087,516	\$ 11,110,804
From Intermediate Sources	51,468	-	-	-	51,468
From State Sources	14,956,149	384,554	-	4,164,580	19,505,283
From Federal Sources	55,457	2,163,992	-	-	2,219,449
Total Revenues	18,667,613	2,869,379	2,097,916	9,252,096	32,887,004
EXPENDITURES:					
Current:					
Instruction	11,385,936	1,421,781	-	82,235	12,889,952
Support Services	6,333,368	366,153	-	104,490	6,804,011
Community Services	2,573	1,072,002	-	-	1,074,575
Facilities Acquisition and Construction	-	-	-	2,793,414	2,793,414
Debt Service	-	-	2,227,410	-	2,227,410
Capital Outlay	176,036	83,696	-	9,341,779	9,601,511
Total Expenditures	17,897,913	2,943,632	2,227,410	12,321,918	35,390,873
Excess of Revenues Over, (Under) Expenditures	769,700	(74,253)	(129,494)	(3,069,822)	(2,503,869)
OTHER FINANCING SOURCES (USES)					
Sale of or Compensation for Loss of					
Fixed Assets	-	-	-	28,621	28,621
Transfers In	5,550	150,000	174,300	350,000	679,850
Transfers Out	(580,000)	(5,550)	-	(94,300)	(679,850)
Total Other Financing Sources (Uses)	(574,450)	144,450	174,300	284,321	28,621
Net Change in Fund Balance	195,250	70,197	44,806	(2,785,501)	(2,475,248)
Beginning Fund Balance	2,801,251	958,584	194,202	4,186,074	8,140,111
Ending Fund Balance	\$ 2,996,501	\$ 1,028,781	\$ 239,008	\$ 1,400,573	\$ 5,664,863

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, 2019

Total Net Changes in Fund Balances - Governmental Funds \$ (2,475,248)

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	\$ 774,461	
Changes in Accrued Interest	333	
Principal payments on leases payable	43,180	
Principal payments on notes payable	<u>33,398</u>	
		851,372

Loss on disposal of fixed capital assets is capitalized as an expenditure on the statement of activities. (622,769)

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		10,973,501
Depreciation Expense		(1,389,678)

Revenue reported in in the funds is on the modified accrual basis however property taxes are not deferred in the statement of activities. 4,166

The pension and OPEB expense represents the change in net pension asset (liability) from year to year due to change in total pension liability and the fair value of the pension plan net position available to pay pension benefits

PERS pension expense		(1,435,114)
OPEB pension expense		<u>(29,190)</u>

Change in Net Position of Governmental Activities \$ 5,877,040

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 is 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, 2019.

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)

CASH AND CASH EQUIVALENTS

The cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

FAIR VALUE INPUTS AND METHODOLOGIES AND HIERARCHY

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Observable inputs are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are developed based on the best information available about the assumptions market participants would use in pricing the asset. The classification of securities within the fair value hierarchy is based up on the activity level in the market for the security type and the inputs used to determine their fair value, as follows:

Level 1 – unadjusted price quotations in active markets/exchanges for identical assets or liabilities that each Fund has the ability to access

Level 2 – other observable inputs (including, but not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, loss severities, credit risks and default rates) or other market–corroborated inputs)

Level 3 – unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available (including each Fund’s own assumptions used in determining the fair value of investments)

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the fair value hierarchy classification is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

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.

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 acquisition 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. Capital assets were depreciated, in prior years, using the straight-line method over the following useful lives:

Buildings and improvements	10 to 50 years
Equipment and vehicles	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.

COMPENSATED ABSENCES

The liability for accrued vacation benefits is considered immaterial by management for reporting purposes and 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.

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 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.

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NET POSITION (CONTINUED)

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 and grants.

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. The District has one item that qualifies under this reporting requirement: pension-related deferrals.

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 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. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available. Additionally, Deferred Inflows of resources related to the 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).

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUND BALANCE (CONTINUED)

- 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, 2019.

2. CASH AND INVESTMENTS

DEPOSITS

Deposits with financial institutions are comprised of bank demand deposits. The total bank balance per the bank statements is \$3,086,843 which \$264,102 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 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.

Investments in the Local Government Investment Pool (LGIP) are included in the Oregon Short-Term Fund, which is an external investment pool that is not a 2a-7-like external investment pool, and is not registered with the U.S. Securities and Exchange Commission as an investment company. Fair value of the LGIP is calculated at the same value as the number of pool shares owned. The unit of account is each share held, and the value of the position would be the fair value of the pool's share price multiplied by the number of shares held. Investments in the Short-Term Fund are governed by ORS 294.135, Oregon Investment Council, and portfolio guidelines issued by the Oregon Short-Term Fund Board, which establish diversification

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)

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's compliance with all portfolio guidelines can be found in their annual report when issued.

The LGIP seeks to exchange shares at \$1.00 per share; an investment in the LGIP is neither insured nor guaranteed by the FDIC or any other government agency. Although the LGIP seeks to maintain the value of share investments at \$1.00 per share, it is possible to lose money by investing in the pool. We intend to measure these investments at book value since it approximates fair value. The pool is comprised of a variety of investments. These investments are characterized as a level 2 fair value measurement in the Oregon Short Term Fund's audited financial report. Amounts in the State Treasurer's Local Government Investment Pool are not required to be collateralized. The audited financial reports of the Oregon Short Term Fund can be found here:

[http://www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-\(OSTF\).aspx](http://www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-(OSTF).aspx)

If the link has expired please contact the Oregon Short Term Fund directly.

Cash and Investments at June 30, 2019 (recorded at fair value) consisted of:

Demand Deposits:				
Checking	\$	2,354,662	Governmental Funds	\$ 6,938,829
Petty Cash		400		
Investments				
LGIP		<u>4,583,767</u>		
Total	\$	<u>6,938,829</u>	Total	<u>\$ 6,938,829</u>

There were the following investments and maturities at June 30, 2019:

Investment Type	Fair Value	Investment Maturities (in months)		
		Less than 3	3-17	18-59
State Treasurer's Investment Pool	\$ 4,583,767	\$ 4,583,767	\$ -	\$ -
Total	\$ 4,583,767	\$ 4,583,767	\$ -	\$ -

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, 2019, none of the bank balance was exposed to custodial credit risk because it was fully insured.

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)

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, 2019, 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 Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Property Taxes	\$ 171,454	\$ -	\$ 38,955	\$ -	\$ 210,409
Accounts Receivable	128,629	323,100	-	-	451,729
Total	<u>\$ 300,083</u>	<u>\$ 323,100</u>	<u>\$ 38,955</u>	<u>\$ -</u>	<u>\$ 662,138</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 July 1, 2018	Additions	Deletions	Balance June 30, 2019
Capital assets not being depreciated:				
Land & Land Improvements	\$ 1,833,827	\$ 1,638,521	\$ -	\$ 3,472,348
Construction in Progress	20,602,895	10,352,503	(29,735,580)	1,219,818
Total capital assets not being depreciated	<u>22,436,722</u>	<u>11,991,024</u>	<u>(29,735,580)</u>	<u>4,692,166</u>
Capital assets being depreciated:				
Buildings and Improvements	55,848,805	28,419,124	(5,373,474)	78,894,455
Vehicles & Equipment	1,904,633	298,933	(10,000)	2,193,566
Total capital assets being depreciated	<u>57,753,438</u>	<u>28,718,057</u>	<u>(5,383,474)</u>	<u>81,088,021</u>
Less total accumulated depreciation for:				
Buildings and Improvements	51,446,062	1,203,263	(4,750,705)	47,898,620
Vehicles & Equipment	1,142,605	186,415	(10,000)	1,319,020
Total accumulated depreciation	<u>52,588,667</u>	<u>1,389,678</u>	<u>(4,760,705)</u>	<u>49,217,640</u>
Total capital assets being depreciated, net	<u>5,164,771</u>	<u>27,328,379</u>	<u>(622,769)</u>	<u>31,870,381</u>
Total Capital Assets, Net	<u>\$ 27,601,493</u>			<u>\$ 36,562,547</u>
Depreciation by Function				
Instruction	\$ 862,501			
Support	455,275			
Enterprise and Community Service	71,902			
Total	<u>\$ 1,389,678</u>			

5. LONG-TERM OBLIGATIONS

A summary of debt transactions of the year ended June 30, 2019 is as follows:

Issue Date	Interest Rates	Issue Amount	Outstanding July 1, 2018	Issued	Matured and Redeemed	Outstanding June 30, 2019	Due Within One Year
Bonds							
2002 Pension Bond		\$ 6,124,639	\$ 4,403,097	\$ -	\$ 128,381	\$ 4,274,716	\$ 129,716
2003 Pension Bond		7,189,061	4,695,881	-	189,880	4,506,001	190,604
2011 Pension Bond		-	430,000	-	-	430,000	-
2016 GO Bond		12,500,000	12,035,000	-	270,000	11,765,000	305,000
Direct Borrowings and Placements							
FF Series 2011		670,000	240,000	-	75,000	165,000	80,000
Notes Payables		-	307,651	-	33,398	274,253	34,587
Other							
Lease Payable		221,605	133,201	-	43,180	90,021	44,389
Bond Premium	N/A	2,046,053	1,841,447	-	111,200	1,730,247	-
Total Governmental Activities			<u>\$ 24,086,277</u>	<u>\$ -</u>	<u>\$ 851,039</u>	<u>\$ 23,235,238</u>	<u>\$ 784,296</u>

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

5. LONG-TERM OBLIGATIONS (CONTINUED)

BONDS

2002, 2003, and 2011 PERS Bond and Refunding

Bond proceeds of the PERS bonds were paid to the Oregon Public Employees Retirement System (OPERS) and placed in a separate investment account (a “side account”) for the benefit of the District. The investment earnings of this account reduce the amount due to OPERS by the District, resulting in a reduction of the OPERS rate charge against covered District payroll.

Unlike the District’s general obligation bonds, the 2002/03/11 pension bonds are not covered under the OSBG program. The OSBG does not guarantee payment of principal, premium or interest on pension bonds or other debt that is not a voter-approved general obligation bond.

An intercept agreement with the State of Oregon was required as a condition of issuance; therefore, a portion of the District’s State School Fund support is withheld on a monthly basis and provided to the Series 2002/03/11 Trustee (“Trustee”) for payment of bond principal and interest. The Series 2002/03/11 Pension Bonds are limited tax bonds and pension bond payments are not subject to acceleration even in default. In the event of a default by one or more issuers of the series, the Trustee may exercise any remedy available at law or in equity; however, each series 2002/03/11 issuer is responsible solely for its own pension bond payments and related fees or charges.

The District’s obligations under the 2002/03/11 pension bond issuance shall terminate if and when the following has occurred:

- Prepayment in full of the District’s Series 2002/03/11 Pension Bonds
- Legal defeasance of the District’s Series 2002/03/11 Pension Bond obligations

2016 General Obligation Bond

The District’s General Obligation Bond principal and interest payments are guaranteed under the Oregon School Bond Guaranty (OSBG) program. Article XI-K of the Constitution of the State of Oregon allows the State to guarantee the general obligation bonded indebtedness of school districts, education service districts, and community college districts in order to secure lower interest costs on general obligation bonds of such districts. Payment of the principal of and interest on the bonds when due is guaranteed by the full faith and credit of the State under the provisions of the Oregon School Bond Guaranty Act – Oregon Revised Statutes (ORS) 328.321 to 328.356.

The Debt Management Division of the Office of the State Treasurer administers the OSBG program. If the District were to fail to transfer sufficient moneys to meet a scheduled debt service payment to the bond paying agent at least 15 days before the payment due date, the Treasurer’s Office would step in to make the required transfer on or before the scheduled payment date. The Treasurer’s Office would then seek to recover from the District the amount transferred by:

- Intercepting any payments from the General Fund, the State School Fund, the income of the Common School Fund and any other source of operating moneys provided by or through the State to the District, and;
- Exercising the rights of a secured creditor in any money or assets pledged by the District to secure its reimbursement obligation to the State.

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

5. LONG-TERM OBLIGATIONS (CONTINUED)

BONDS (CONTINUED)

The authority of the Treasurer's Office to intercept payments under the OSBG Act has priority over all claims against money provided by the State to the District, including any claim based on a funds diversion agreement under ORS 238.698.

DIRECT BORROWINGS AND PLACEMENTS

2011 Full Faith & Credit Obligations, Bus

In 2011 the District entered into a Full Faith and Credit loan in the amount of \$670,000 in order to purchase Busses for District use. The loan is to be paid back by the District in semi-annual payments until paid, through 2021. The busses purchased are collateral for the loan in case of termination of, or default on the loan.

2016 Bus Lease - Santander

In 2016 the District entered a Bus Lease with Santander Bank in the amount of \$221,605 in order to better service the District's transportation needs. In the event of a default, the following remedies apply:

- Lessor declares all sums due and to become due hereunder, during the District's current fiscal period, immediately due and payable, without notice or demand.
- Lessor can sue for and recover all payments then accrued or thereafter accruing with respect to the Vehicles.
- Lessor may take possession of vehicles without demand or notice wherever it/they might be located, with or without legal process, and retain it free from any claims of the District.
- Lessor may terminate lease.
- Lessor may pursue any other remedy at law or in equity.

All of the foregoing remedies are cumulative and may be exercised concurrently or separately.

2012 and 2016 Oregon Department of Energy Loans

The District entered a loan with the Oregon Department of Energy in 2012 and 2016 in order to purchase a new HVAC system and other energy upgrades. In the event of a default, the Department may cease disbursements, accelerate maturity date, pay liens with undisbursed proceeds, foreclose lien against collateral, pursue and exercise any other remedy available by law. The loan will terminate once all borrowings and obligations are fulfilled and payment is made in full. The Department may accelerate maturity date and declare unpaid principal and interest due immediately as the result of legislature and loan agreement voided. The HVAC system and energy upgrades may be used as collateral in case of default.

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

5. LONG-TERM OBLIGATIONS (CONTINUED)

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

Fiscal Year Ended	2002 PERS Bond		2003 PERS Bond	
	Principal	Interest	Principal	Interest
2020	\$ 129,716	\$ 493,399	\$ 190,604	\$ 561,905
2021	-	251,960	188,686	598,822
2022	465,000	229,410	188,411	639,097
2023	520,000	203,928	188,300	679,209
2024	585,000	175,380	695,000	212,509
2025-2029	2,575,000	336,608	3,055,000	409,241
	<u>\$ 4,274,716</u>	<u>\$ 1,690,685</u>	<u>\$ 4,506,001</u>	<u>\$ 3,100,783</u>

Fiscal Year Ended	FF Series 2011		2011 PERS Refunding		2016 GO Bond	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 80,000	\$ 12,750	\$ -	\$ 17,695	\$ 305,000	\$ 464,150
2021	85,000	8,750	430,000	17,695	340,000	455,000
2022	-	-	-	-	375,000	444,800
2023	-	-	-	-	415,000	429,800
2024	-	-	-	-	460,000	413,200
2025-2029	-	-	-	-	3,020,000	1,753,000
2030-2035	-	-	-	-	4,520,000	1,035,800
2035-2040	-	-	-	-	2,330,000	141,400
	<u>\$ 165,000</u>	<u>\$ 21,500</u>	<u>\$ 430,000</u>	<u>\$ 35,390</u>	<u>\$ 11,765,000</u>	<u>\$ 5,137,150</u>

Fiscal Year Ended	Notes Payables		Lease Payable	
	Principal	Interest	Principal	Interest
2020	\$ 34,587	\$ 9,065	\$ 44,389	\$ 2,521
2021	35,836	7,818	45,632	1,279
2022	37,112	6,542	-	-
2023	38,433	5,221	-	-
2024	39,795	3,859	-	-
2025-2028	88,490	3,540	-	-
	<u>\$ 274,253</u>	<u>\$ 36,045</u>	<u>\$ 90,021</u>	<u>\$ 3,800</u>

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

6. DEFINED PENSION BENEFIT PLAN

Plan Description – The Oregon Public Employees Retirement System (PERS) consists of a single cost-sharing multiple-employer 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:

<https://www.oregon.gov/pers/Documents/Financials/CAFR/2018-CAFR.pdf>

If the link is expired please contact Oregon PERS for this information.

- 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.

A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment with a participating employer (age 45 for police and fire members). General service employees may retire after reaching age 55. Police and fire members are eligible after reaching age 50. Tier 1 general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Police and fire member benefits are reduced if retirement occurs prior to age 55 with fewer than 25 years of service. Tier 2 members are eligible for full benefits at age 60. The ORS Chapter 238 Defined Benefit Pension Plan is closed to new members hired on or after August 29, 2003.
 - 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 disabled 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.

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

6. DEFINED PENSION BENEFIT PLAN (CONTINUED)

- 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.
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, 2015 actuarial valuation, which became effective July 1, 2017. The state of Oregon and certain schools, community colleges, and political subdivision have made unfunded actuarial liability payments and their rates have been reduced. Employer contributions for the year ended June 30, 2019 were \$233,458, excluding amounts to fund employer specific liabilities. In addition approximately \$572,654 in employee contributions were paid or picked up by the District in fiscal 2019. At June 30, 2019, the District reported a net pension liability of \$8,507,411 for its proportionate share of the net pension liability. The pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation dated December 31, 2016. 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. As of the measurement date of June 30, 2018 and 2017, the District's proportion was .056 percent and .049 percent, respectively. Pension expense for the year ended June 30, 2019 was \$1,435,114.

The rates in effect for the year ended June 30, 2019 were:

- (1) Tier 1/Tier 2 – 5.86%
- (2) OPSRP general services – 0.53%

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

6. DEFINED PENSION BENEFIT PLAN (CONTINUED)

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Difference between expected and actual experience	\$ 289,397	\$ -
Changes in assumptions	1,977,957	-
Net difference between projected and actual earnings on pension plan investments	-	377,777
Net changes in proportionate share	890,008	250,404
Differences between District contributions and proportionate share of contributions	33,733	995,501
Subtotal - Amortized Deferrals (below)	<u>3,191,095</u>	<u>1,623,682</u>
District contributions subsequent to measuring date	233,458	-
Deferred outflow (inflow) of resources	<u>\$ 3,424,553</u>	<u>\$ 1,623,682</u>

The amount of contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2020.

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>
2020	\$ 978,925
2021	671,764
2022	(205,095)
2023	69,723
2024	52,095
Thereafter	-
Total	<u>\$ 1,567,412</u>

All assumptions, methods and plan provisions used in these calculations are described in the Oregon PERS system-wide GASB 68 reporting summary dated March 4, 2019. Oregon PERS produces an independently audited CAFR which can be found at:

<https://www.oregon.gov/pers/Documents/Financials/CAFR/2018-CAFR.pdf>

Actuarial Valuations – The employer contribution rates effective July 1, 2017 through June 30, 2019, 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,

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

6. DEFINED PENSION BENEFIT PLAN (CONTINUED)

which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 16 years.

Actuarial Methods and Assumptions:

Valuation Date	December 31, 2016 rolled forward to June 30, 2018
Experience Study Report	2016, Published July 26, 2017
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	2.50 percent
Investment rate of return	7.20 percent
Projected salary increase	3.50 percent overall payroll growth
Cost of Living Adjustment	Blend of 2% COLA and graded COLA (1.25%/.15%) in accordance with Moro decision, blend based on service.
Mortality	Healthy retirees and beneficiaries: RP-2014 Healthy annuitant, sex-distinct, generational with Unisex, Social Security Data Scale, with collar adjustments and set-backs as described in the valuation. Active members: RP-2014 Employees, sex-distinct, generational with Unisex, Social Security Data Scale, with collar adjustments and set-backs as described in the valuation. Disabled retirees: RP-2014 Disabled retirees, sex-distinct, generational with Unisex, Social Security Data Scale.

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 2016 Experience Study which is reviewed for the four-year period ending December 31, 2016.

Assumed Asset Allocation:

Asset Class/Strategy	Low Range	High Range	OIC Target
Cash	0.0%	3.0%	0.0%
Debt Securities	15.0%	25.0%	20.0%
Public Equity	32.5%	42.5%	37.5%
Real Estate	9.5%	15.5%	12.5%
Private Equity	13.5%	21.5%	17.5%
Alternative Investments	0.0%	12.5%	12.5%
Opportunity Portfolio	0.0%	3.0%	0.0%
Total			100.0%

(Source: June 30, 2018 PERS CAFR; p. 98)

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

6. DEFINED PENSION BENEFIT PLAN (CONTINUED)

Long-Term Expected Rate of Return:

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2015, revised as of June 7, 2017, the PERS Board reviewed long-term assumptions developed by both Milliman’s capital market assumptions team and the Oregon Investment Council’s (OIC) investment advisors. The table below shows Milliman’s assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC’s description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

Asset Class	Target Allocation	Compound Annual (Geometric) Return
Core Fixed Income	8.00%	3.49%
Short-Term Bonds	8.00%	3.38%
Bank/Leveraged Loans	3.00%	5.09%
High Yield Bonds	1.00%	6.45%
Large/Mid Cap US Equities	15.75%	6.30%
Small Cap US Equities	1.31%	6.69%
Micro Cap US Equities	1.31%	6.80%
Developed Foreign Equities	13.13%	6.71%
Emerging Market Equities	4.13%	7.45%
Non-US Small Cap Equities	1.88%	7.01%
Private Equity	17.50%	7.82%
Real Estate (Property)	10.00%	5.51%
Real Estate (REITS)	2.50%	6.37%
Hedge Fund of Funds - Diversified	2.50%	4.09%
Hedge Fund - Event-driven	0.63%	5.86%
Timber	1.88%	5.62%
Farmland	1.88%	6.15%
Infrastructure	3.75%	6.60%
Commodities	1.88%	3.84%
<i>Assumed Inflation - Mean</i>		2.50%

(Source: June 30, 2018 PERS CAFR; p. 72)

Discount Rate – The discount rate used to measure the total pension liability as of the measurement date of June 30, 2018 and 2017, was 7.20 percent and 7.50 percent, respectively, 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. DEFINED PENSION BENEFIT 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 7.20 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 (6.20 percent) or 1-percentage-point higher (8.20 percent) than the current rate.

	1% Decrease (6.20%)	Discount Rate (7.20%)	1% Increase (8.20%)
District's proportionate share of the net pension liability	\$ 14,217,491	\$ 8,507,411	\$ 3,794,207

Changes Subsequent to the Measurement Date

As described above, GASB 67 and GASB 68 require the Total Pension Liability to be determined based on the benefit terms in effect at the Measurement Date. Any changes to benefit terms that occurs after that date are reflected in amounts reported for the subsequent Measurement Date. However, Paragraph 80f of GASB 68 requires employers to briefly describe any changes between the Measurement Date and the employer's reporting date that are expected to have a significant effect on the employer's share of the collective Net Pension Liability, along with an estimate of the resulting change, if available.

There are no changes subsequent to the June 30, 2018 Measurement Date that meet this requirement and thus would require a brief description under the GASB standard.

Deferred Compensation Plan

A deferred compensation plan is available to 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 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 or liabilities of the District.

OPSRP Individual Account Program (OPSRP IAP)

Plan Description:

Employees of the District are provided with pensions through OPERS. All the benefits of OPERS are established by the Oregon legislature pursuant to Oregon Revised Statute (ORS) Chapters 238 and 238A. Chapter 238 Defined Benefit Pension Plan is closed to new members hired on or after August 29, 2003. Chapter 238A created the Oregon Public Service Retirement Plan (OPSRP), which consists of the Defined Benefit Pension Program and the Individual Account Program (IAP). Membership includes public employees hired on or after August 29, 2003. PERS members retain their existing defined benefit plan accounts, but member contributions are deposited into the member's IAP account. OPSRP is part of OPERS, and is administered by the OPERS Board.

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

6. DEFINED PENSION BENEFIT PLAN (CONTINUED)

Pension Benefits:

Participants in OPERS defined benefit pension plans also participate in their defined contribution plan. An IAP member becomes vested on the date the employee account is established or on the date the rollover account was established. If the employer makes optional employer contributions for a member, the member 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, the date the IAP is terminated, the date the active member becomes disabled, or the date the active member dies. Upon retirement, a member of the OPSRP IAP may receive the amounts in his or her employee account, rollover account, and vested employer account as a lump-sum payment or in equal installments over a 5-, 10-, 15-, 20-year period or an anticipated life span option. Each distribution option has a \$200 minimum distribution limit.

Death Benefits:

Upon the death of a non-retired member, the beneficiary receives in a lump sum the member's account balance, rollover account balance, and vested employer optional contribution account balance. If a retired member dies before the installment payments are completed, the beneficiary may receive the remaining installment payments or choose a lump-sum payment.

Contributions:

Employees of the District pay six (6) percent of their covered payroll. The District did not make any optional contributions to member IAP accounts for the year ended June 30, 2019.

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

<http://www.oregon.gov/pers/EMP/Pages/GASB.aspx>

7. OTHER POST-EMPLOYMENT BENEFIT PLAN – (RHIA)

Plan Description

As a member of Oregon Public Employees Retirement System (OPERS) the District contributes to the Retirement Health Insurance Account (RHIA) for each of its eligible employees. RHIA is a cost-sharing multiple-employer defined benefit other postemployment benefit plan administered by OPERS. RHIA pays a monthly contribution toward the cost of Medicare companion health insurance premiums of eligible retirees. Oregon Revised Statute (ORS) 238.420 established this trust fund. Authority to establish and amend the benefit provisions of RHIA reside with the Oregon Legislature. The plan is closed to new entrants after January 1, 2004. OPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Oregon Public Employees Retirement System, PO Box 23700, Tigard, OR 97281-3700.

Funding Policy

Because RHIA was created by enabling legislation (ORS 238.420), contribution requirements of the plan members and the participating employers were established and may be amended only by the Oregon Legislature. ORS require that an amount equal to \$60 dollars or the total monthly cost of Medicare companion health insurance premiums coverage, whichever is less, shall be paid from the Retirement Health Insurance Account established by the employer, and any monthly cost in excess of \$60 dollars shall be paid by the eligible retired member in the manner provided in ORS 238.410. To be eligible to receive this monthly

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

7. OTHER POST-EMPLOYMENT BENEFIT PLAN – (RHIA) (CONTINUED)

payment toward the premium cost the member must: (1) have eight years or more of qualifying service in OPERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in OPERS, (2) receive both Medicare Parts A and B coverage, and (3) enroll in an OPERS-sponsored health plan. A surviving spouse or dependent of a deceased OPERS retiree who was eligible to receive the subsidy is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from OPERS or (2) was insured at the time the member died and the member retired before May 1, 1991.

Participating Districts are contractually required to contribute to RHIA at a rate assessed each year by OPERS, and the District currently contributes 0.53% of annual covered OPERF payroll and 0.45% of OPSRP payroll under a contractual requirement in effect until June 30, 2019. The OPERS Board of Trustees sets the employer contribution rates based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The District's contributions to RHIA for the years ended June 30, 2017, 2018 and 2019 were \$40,783, \$41,858, and \$42,684 respectively, which equaled the required contributions each year.

At June 30, 2019, the District's net OPEB liability and deferred inflows and outflows were not considered significant by management and were not accrued on the government wide statements.

8. OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The District has a closed post-employment health insurance explicit subsidy plan with fewer than 100 total participants. The benefit was intended to provide supplementary income between ages 60 and 65 for employees with 25 years or more of continuous service with the District after 9/1/18, and between ages 52 and 65 for employees with 15 or more years of service prior to 9/1/18. To qualify to participate in the plan, and employee must meet the following criteria: be eligible for retirement benefits under provisions of PERS, be employed by the District prior to August 1, 2014, have continuously served with the District for 15 years prior to 9/1/18 and 25 years after 9/1/18, and have benefits contributed until the age of 65 (be Medicare eligible). The benefits received are as follows: for employees with continuous service for 15 years prior to 9/1/18, age 59 to 65 receive \$530 per month, age 58 receives \$460 per month, age 57 receives \$400 per month, age 56 receives \$345 per month, and ages 52 to 55 receive \$300 per month. For employees with continuous service of 25 years after 9/1/18, ages 60 to 65 receive \$530 per month. District payments made on the plan during the current year were \$89,542.

In addition to explicit subsidy, an implicit subsidy also exists as access is for retirees and their spouses to purchase healthcare insurance at the same group rates as the District pays for its active employees'. No plan has been established to account for activity. Since the former employees' service has caused this benefit to be available, generally accepted accounting principles requires that the costs of these services be calculated and shown as a cost of operations and/or as a liability for providing a future benefit in the financial statements. Disclosure of the liability is mandatory.

MILTON-FREEWATER SCHOOL DISTRICT
 UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

8. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Funding Policy

The benefits from this program are paid by the District on a self-pay basis and the required contribution is based on projected pay-as-you go financing requirements. There is no obligation on the part of the District to fund these benefits in advance.

Actuarial Methods and Assumptions – The District engaged an actuary to perform an evaluation as of July 1, 2017 using entry age normal, level percent of salary Actuarial Cost Method. The Single Employer OPEB Plan liability was determined using the following actuarial assumptions, applied to all periods including the measurement.

Discount Rate per year	3.75%
General Inflation Rate per year	2.50%
Salary Scale per year	3.50%

Health Care Cost Trends:

Year	Trend	Year	Trend
2018-19	7.00 %	2029-30	5.90 %
2019-20	6.90	2030-31	5.80
2020-21	6.80	2031-32	5.70
2021-22	6.70	2032-33	5.60
2022-23	6.60	2033-34	5.50
2023-24	6.50	2034-35	5.40
2024-25	6.40	2035-36	5.30
2025-26	6.30	2036-37	5.20
2026-27	6.20	2037-38	5.10
2027-28	6.10	2038+	5.00
2028-29	6.00		

Mortality rates were based on rates adopted by the Oregon Public Employees Retirement System (PERS) for its December 31, 2016 actuarial valuation of retirement benefits.

Turnover rates were based on percentages developed for the valuation of benefits under Oregon PERS and vary by years of service.

Disability rates were not used.

Retirement rates were based on Oregon PERS assumptions. Annual rates are based on age, Tier 1/Tier 2, OPSRP, duration of service, and employment classification.

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

8. OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Changes in OPEB Liability

	2018-19	2017-18
Balance at Beginning of Year	\$ 1,677,117	\$ 1,694,829
Changes for the Year:		
Service Cost	85,152	62,652
Interest	77,605	62,060
Changes of Assumptions or Other Input	448,612	-
Benefit Payments	<u>(197,654)</u>	<u>(142,424)</u>
Net Changes for the Year	413,715	(17,712)
Total OPEB Liability at end of year	<u>\$ 2,090,832</u>	<u>\$ 1,677,117</u>

The actuarial combined the explicit and implicit subsidies in determining total OPEB liability.

Sensitivity of the Total Other Post-Employment Benefit Liability to Changes in Discount and Trend Rates:

The following presents the total other post-employment benefit liability (TOL), calculated using the discount rate of 3.75 percent, as well as what the liability would be if it was calculated using a discount rate 1-percentage-point lower (2.75 percent) or 1-percentage-point higher (4.75 percent) than the current rate. A similar sensitivity analysis is then presented for changes in the healthcare cost trend assumption:

June 30, 2019	1% <u>Decrease</u>	Current <u>Discount Rate</u>	1% <u>Increase</u>
Total OPEB Liability	\$ 2,232,682	\$ 2,090,832	\$ 1,958,580
 June 30, 2018	1% <u>Decrease</u>	Current <u>Trend Rate</u>	1% <u>Increase</u>
Total OPEB Liability	\$ 1,930,267	\$ 2,090,832	\$ 2,278,374

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Difference between expected and actual experience	\$ -	\$ -
Changes in assumptions	384,525	-
Benefit payments	-	-
Deferred outflow (inflow) of resources	<u>\$ 384,525</u>	<u>\$ -</u>

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

8. OTHER POST-EMPLOYMENT BENEFITS (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>
2019	\$ 64,087
2020	64,087
2021	64,087
2022	64,087
2023	64,087
Thereafter	64,090
Total	<u>\$ 192,264</u>

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.

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.

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

11. INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2019 were as follows:

	Transfers Out	Transfers In
General Fund	\$ 580,000	\$ 5,550
Special Revenue Fund	5,550	150,000
Debt Service Fund	-	174,300
Capital Projects Fund	94,300	350,000
	<u>\$ 679,850</u>	<u>\$ 679,850</u>

Transfers were made to fund operations in the district.

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.

13. TAX ABATEMENTS

As of June 30, 2019, the Milton-Freewater School District had tax abatements through one program: Strategic Investment Program, that impacted their levied taxes.

Strategic Investment (ORS 3285C.600):

- The purpose of the Strategic Investment program is to improve employment in areas where eligible projects are to be located and urges business firms that will benefit from an eligible project to hire employees from the region in which the eligible project is to be located whenever practicable.

In order to be eligible for the SIP exemption:

- 1) The project must be an eligible project
- 2) The project must benefit a traded sector industry as defined in ORS 285B.280, and
- 3) The total cost of the project must equal or exceed:
 - a. \$100 million; or
 - b. \$25 million, for rural areas

MILTON-FREEWATER SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

13. TAX ABATEMENTS (CONTINUED)

For the fiscal year ended June 30, 2019, the Milton-Freewater School District had abated property taxes totaling \$128,915 under these programs.

<u>Tax Abatement Program</u>	<u>Amount of Taxes Abated during the Fiscal Year</u>
Strategic Investment	\$ 128,915
	<u>\$ 128,915</u>

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MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

REQUIRED SUPPLEMENTARY INFORMATION

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MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

REQUIRED SUPPLEMENTARY INFORMATION
For the fiscal year ended June 30, 2019

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Year Ended June 30,	(a) Employer's proportion of the net pension liability (NPA)	(b) Employer's proportionate share of the net pension liability (NPA)	(c) District's covered payroll	(b/c) NPL as a percentage of covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2019	0.06 %	\$ 8,507,411	\$ 9,042,612	94.1 %	82.1 %
2018	0.05	6,668,947	9,179,486	72.7	83.1
2017	0.05	7,970,088	8,674,915	91.9	80.5
2016	0.04	2,375,420	8,017,133	29.6	91.9
2015	0.05	(1,196,586)	7,916,933	(15.1)	103.6
2014	0.04	2,693,921	8,788,001	30.7	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 Ended June 30,	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
2019	\$ 233,458	\$ 233,458	\$ -	\$ 9,506,028	2.5 %
2018	251,027	251,027	-	9,042,612	2.8
2017	46,043	46,043	-	9,179,486	0.5
2016	40,285	40,285	-	8,674,915	0.5
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 COUNTY, OREGON
 SCHEDULE OF CHANGES IN OTHER POST-EMPLOYMENT BENEFITS LIABILITY
 AND RELATED RATIOS STIPEND BENEFITS

For the Year Ended June 30, 2019

	<u>2019</u>	<u>2018</u>
Total Pension Liability at beginning of year	\$ 1,677,117	\$ 1,694,829
Changes for the year		
Service Cost	85,152	62,652
Interest on Total Pension Liability	77,605	62,060
Effect of economic/demographic gains or losses	-	-
Effect of assumptions changes or inputs	448,612	-
Benefit payments	<u>(197,654)</u>	<u>(142,424)</u>
Total Pension Liability at end of year	<u>\$ 2,090,832</u>	<u>\$ 1,677,117</u>
Covered Payroll	9,106,745	8,798,787
Net Single Employer Pension Plan as a Percentage of Covered Payroll	22.96%	19.06%

Note: This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full year trend has been compiled, information is presented for the years for which the required supplementary schedule information is available. The District implemented GASB 75 in the fiscal year ending June 30, 2018.

MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON
 SCHEDULE OF PROJECTED OTHER POST-EMPLOYMENT BENEFITS PAYMENTS

For the Year Ended June 30, 2019

EXPLICIT BENEFIT

Fiscal Year Ending	Admin	Licensed	Classified	Confidential	Total
2019	\$ 16,824	\$ 74,969	\$ -	\$ -	\$ 91,793
2020	17,829	65,078	-	-	82,907
2021	18,879	45,344	-	-	64,223
2022	19,983	40,699	-	-	60,682
2023	22,236	42,880	-	-	65,116
2024	24,492	28,299	-	-	52,791
2025	6,578	32,207	-	-	38,785
2026	8,094	34,700	-	-	42,794
2027	10,952	33,984	-	-	44,936
2028	13,328	19,027	-	-	32,355

IMPLICIT BENEFIT

Fiscal Year Ending	Admin	Licensed	Classified	Confidential	Total
2019	\$ 4,332	\$ 71,868	\$ 15,567	\$ 2,938	\$ 94,705
2020	5,325	70,758	14,530	1,946	92,559
2021	6,490	58,455	24,403	2,504	91,852
2022	7,857	59,306	33,866	69	101,098
2023	9,735	70,410	37,946	137	118,228
2024	11,917	61,797	43,649	268	117,631
2025	8,492	64,081	54,382	456	127,411
2026	10,340	74,489	56,931	577	142,337
2027	1,972	79,801	52,248	963	134,984
2028	6,261	56,872	48,488	1,534	113,155

Note: These projections are based on the census data, OPEB provisions, and actuarial assumptions described in this report. For purposes of GASB 75 accounting, this implicit rate subsidy is considered to be the District's "contribution".

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, 2019

<u>GENERAL FUND</u>				
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Local Sources	\$ 3,168,000	\$ 3,438,000	\$ 3,604,539	\$ 166,539
Intermediate Sources	41,000	41,000	51,468	10,468
State Sources	14,412,627	14,942,627	14,956,149	13,522
Federal Sources	2,000	2,000	55,457	53,457
	<u>17,623,627</u>	<u>18,423,627</u>	<u>18,667,613</u>	<u>243,986</u>
EXPENDITURES:				
Instruction	11,228,885	11,528,885 (1)	11,426,083	102,802
Support Services	6,440,687	6,740,687 (1)	6,469,257	271,430
Enterprise & Community Services	5,000	5,000 (1)	2,573	2,427
Facilities Acquisition	40,000	40,000 (1)	-	40,000
Contingencies	2,218,355	2,218,355 (1)	-	2,218,355
	<u>19,932,927</u>	<u>20,532,927</u>	<u>17,897,913</u>	<u>2,635,014</u>
Excess of Revenues Over (Under) Expenditures	(2,309,300)	(2,109,300)	769,700	2,879,000
OTHER FINANCING SOURCES (USES)				
Transfers In	75,000	75,000	5,550	69,450
Transfers Out	(515,700)	(715,700) (1)	(580,000)	135,700
	<u>(440,700)</u>	<u>(640,700)</u>	<u>(574,450)</u>	<u>205,150</u>
Net Change in Fund Balance	(2,750,000)	(2,750,000)	195,250	3,084,150
Beginning Fund Balance	2,750,000	2,750,000	2,801,251	51,251
Ending Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,996,501</u>	<u>\$ 3,135,401</u>

(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, 2019

SPECIAL REVENUE FUNDS

REVENUES:	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
Local Sources	\$ 316,000	\$ 316,000	\$ 320,833	\$ 4,833
State Sources	369,500	369,500	384,554	15,054
Federal Sources	<u>2,297,000</u>	<u>2,297,000</u>	<u>2,163,992</u>	<u>(133,008)</u>
Total Revenues	<u>2,982,500</u>	<u>2,982,500</u>	<u>2,869,379</u>	<u>(113,121)</u>
 EXPENDITURES:				
Instruction	1,479,405	1,579,405 (1)	1,505,477	73,928
Support Services	670,025	700,025 (1)	366,153	333,872
Enterprise & Community Services	1,123,070	1,123,070 (1)	1,072,002	51,068
Contingency	<u>650,000</u>	<u>650,000 (1)</u>	<u>-</u>	<u>650,000</u>
Total Expenditures	<u>3,922,500</u>	<u>4,052,500</u>	<u>2,943,632</u>	<u>1,108,868</u>
Revenues Over (Under) Expenditures	(940,000)	(940,000)	(74,253)	865,747
 Other Financing Sources, (Uses)				
Transfers In	120,000	120,000	150,000	30,000
Transfers Out	<u>(75,000)</u>	<u>(75,000) (1)</u>	<u>(5,550)</u>	<u>69,450</u>
Total Other Financing Sources	<u>45,000</u>	<u>45,000</u>	<u>144,450</u>	<u>99,450</u>
Net Change in Fund Balance	(895,000)	(895,000)	70,197	965,197
Beginning Fund Balance	<u>895,000</u>	<u>895,000</u>	<u>958,584</u>	<u>63,584</u>
Ending Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,028,781</u>	<u>\$ 1,028,781</u>

(1) Appropriation Level

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MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

SUPPLEMENTARY INFORMATION

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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, 2019

<u>DEBT SERVICE FUND</u>				
REVENUES:	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE POSITIVE (NEGATIVE)</u>
Local Sources	\$ 2,564,564	\$ 2,564,564	\$ 2,097,916	\$ (466,648)
Total Revenues	<u>2,564,564</u>	<u>2,564,564</u>	<u>2,097,916</u>	<u>(466,648)</u>
 EXPENDITURES:				
Debt Service	<u>2,564,564</u>	<u>2,564,564</u> (1)	<u>2,227,410</u>	<u>337,154</u>
Total Expenditures	<u>2,564,564</u>	<u>2,564,564</u>	<u>2,227,410</u>	<u>337,154</u>
Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>(129,494)</u>	<u>(129,494)</u>
 Other Financing Sources, (Uses)				
Transfers In	<u>-</u>	<u>-</u>	<u>174,300</u>	<u>174,300</u>
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>174,300</u>	<u>174,300</u>
Net Change in Fund Balance	<u>-</u>	<u>-</u>	<u>44,806</u>	<u>44,806</u>
Beginning Fund Balance	<u>-</u>	<u>-</u>	<u>194,202</u>	<u>194,202</u>
Ending Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 239,008</u>	<u>\$ 239,008</u>

(1) Appropriation Level

MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 For the Year Ended June 30, 2019

<u>CAPITAL PROJECTS FUND</u>				VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
REVENUES:				
Local Sources	\$ 5,000,000	\$ 5,000,000	\$ 5,087,516	\$ 87,516
State Sources	2,870,000	4,220,000	4,164,580	(55,420)
Total Revenues	<u>7,870,000</u>	<u>9,220,000</u>	<u>9,252,096</u>	<u>32,096</u>
EXPENDITURES:				
Instruction	-	200,000 (1)	82,235	117,765
Support Services	262,700	412,700 (1)	281,073	131,627
Facilities Acquisition & Construction	10,778,000	13,278,000 (1)	11,958,610	1,319,390
Total Expenditures	<u>11,040,700</u>	<u>13,890,700</u>	<u>12,321,918</u>	<u>1,568,782</u>
Revenues Over, (Under) Expenditures	(3,170,700)	(4,670,700)	(3,069,822)	1,600,878
Other Financing Sources, (Uses)				
Sale of or Compensation for Loss of Fixed Assets	5,000	5,000	28,621	23,621
Transfers In	300,000	500,000	350,000	(150,000)
Transfers Out	(94,300)	(94,300) (1)	(94,300)	-
Total Other Financing Sources, (Uses)	<u>210,700</u>	<u>410,700</u>	<u>284,321</u>	<u>(126,379)</u>
Net Change in Fund Balance	(2,960,000)	(4,260,000)	(2,785,501)	1,474,499
Beginning Fund Balance	<u>2,960,000</u>	<u>4,260,000</u>	<u>4,186,074</u>	<u>(73,926)</u>
Ending Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,400,573</u>	<u>\$ 1,400,573</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, 2019

TAX YEAR	ORIGINAL LEVY OR BALANCE UNCOLLECTED 7/1/18	DEDUCT DISCOUNTS	ADJUSTMENTS TO ROLLS	ADD INTEREST	CASH COLLECTIONS BY COUNTY TREASURER	BALANCE UNCOLLECTED OR UNSEGREGATED 6/30/19
Current:						
2018-19	\$ 3,954,309	\$ 103,864	\$ 1,121	\$ 1,314	\$ 3,737,651	\$ 115,228
Prior Years:						
2017-18	103,612	7	(345)	4,230	56,953	50,538
2016-17	49,656	-	(252)	4,216	24,604	29,017
2015-16	26,712	-	(232)	4,780	20,406	10,854
2014-15	9,256	-	(202)	2,811	10,087	1,778
Prior Years:	5,434	-	(316)	1,497	3,622	2,994
Total Prior	194,670	7	(1,347)	17,534	115,671	95,181
Total General Fund	\$ 4,148,979	\$ 103,871	\$ (226)	\$ 18,848	\$ 3,853,323	\$ 210,409

RECONCILIATION TO REVENUE:	GENERAL FUND	DEBT SERVICE FUND	TOTAL
Cash Collections by County Treasurer Above	\$ 3,088,407	\$ 764,916	\$ 3,853,323
Accrual of Receivables:			
June 30, 2018	(33,176)	(4,341)	(37,517)
June 30, 2019	41,197	7,894	49,091
Total Revenue	\$ 3,096,428	\$ 768,469	\$ 3,864,897

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MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

OTHER INFORMATION

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2018-19 DISTRICT AUDIT REVENUE SUMMARY
Milton-Freewater Unified School District

	Fund 100	Fund 200	Fund 300	Fund 400
Revenue from Local Sources				
1110 Ad Valorem Taxes Levied by District	\$ 3,097,788	\$ -	\$ 768,810	\$ -
1500 Earnings on Investments	158,739	934	18,444	68,120
1600 Food Service	-	5,653	-	-
1700 Extracurricular Activities	12,827	251,735	-	-
1910 Rentals	8,350	-	-	-
1920 Contributions and Donations From Private Sources	28,886	54,461	-	5,000,000
1960 Recovery of Prior Years' Expenditure	30,627	-	-	-
1970 Services Provided Other Funds	-	-	1,310,662	-
1980 Fees Charged to Grants	61,578	-	-	-
1990 Miscellaneous	205,744	8,051	-	19,396
Total Revenue from Local Sources	\$ 3,604,539	\$ 320,833	\$ 2,097,916	\$ 5,087,517

	Fund 100	Fund 200	Fund 300	Fund 400
Revenue from Intermediate Sources				
2101 County School Funds	\$ 51,468	\$ -	\$ -	\$ -
Total Revenue from Intermediate Sources	\$ 51,468	\$ -	\$ -	\$ -

	Fund 100	Fund 200	Fund 300	Fund 400
Revenue from State Sources				
3101 State School Fund - General Support	\$ 14,741,048	\$ -	\$ -	\$ -
3102 State School Fund - School Lunch Match	-	20,000	-	-
3103 Common School Fund	173,361	-	-	-
3222 State School Fund (SSF) Transportation Equipment	-	-	-	138,901
3299 Other Restricted Grants-in-Aid	41,741	364,554	-	4,025,679
Total Revenue from State Sources	\$ 14,956,150	\$ 384,554	\$ -	\$ 4,164,580

	Fund 100	Fund 200	Fund 300	Fund 400
Revenue from Federal Sources				
4500 Restricted Revenue From the Federal Government Through the State	225	2,087,772	-	-
4700 Grants-In-Aid From the Federal Government Through Other Intermediate Agencies	52,242	-	-	-
4801 Federal Forest Fees	2,989	-	-	-
4900 Revenue for/on Behalf of the District	-	76,220	-	-
Total Revenue from Federal Sources	\$ 55,457	\$ 2,163,992	\$ -	\$ -

	Fund 100	Fund 200	Fund 300	Fund 400
Revenue from Other Sources				
5200 Interfund Transfers	5,550	150,000	174,300	350,000
5300 Sale of or Compensation for Loss of Fixed Assets	-	-	-	28,621
5400 Resources - Beginning Fund Balance	2,801,251	958,584	194,202	4,186,074
Total Revenue from Other Sources	\$ 2,806,801	\$ 1,108,584	\$ 368,502	\$ 4,564,694

Grand Totals	\$ 21,474,414	\$ 3,977,963	\$ 2,466,418	\$ 13,816,791
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**2018-19 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	\$ 4,416,478	\$ 2,616,596	\$ 1,701,960	\$ -	\$ 97,922	\$ -	\$ -	\$ -
1121 Middle/Junior High Programs	1,859,061	1,142,149	683,122	3,166	30,624	-	-	-
1122 Middle/Junior High School Extracurricular	84,375	57,026	20,280	5,890	1,152	-	27	-
1131 High School Programs	2,228,246	1,317,800	787,572	10,697	76,184	33,926	2,067	-
1132 High School Extracurricular	408,412	204,701	65,939	87,601	39,993	6,221	3,957	-
1140 Pre-Kindergarten Programs	44,916	28,380	16,536	-	-	-	-	-
1250 Less Restrictive Programs for Students with Disabilities	1,620,960	902,445	708,557	1,438	8,520	-	-	-
1260 Early Intervention	22,782	15,603	7,179	-	-	-	-	-
1280 Alternative Education	21,339	4,502	876	15,961	-	-	-	-
1291 English Second Language Programs	656,391	387,542	265,042	2,355	1,452	-	-	-
1293 Migrant Education	54,536	34,872	18,464	-	1,200	-	-	-
1400 Summer School Programs	8,634	6,702	1,909	-	23	-	-	-
Total Instruction Expenditures	\$ 11,426,133	\$ 6,718,318	\$ 4,277,437	\$ 127,108	\$ 257,072	\$ 40,147	\$ 6,051	\$ -

Support Services Expenditures	Totals	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
2110 Attendance and Social Work Services	\$ 109,579	\$ 49,535	\$ 47,666	\$ 11,961	\$ 417	\$ -	\$ -	\$ -
2120 Guidance Services	227,490	136,769	88,247	-	2,474	-	-	-
2130 Health Services	75,668	-	-	74,026	1,642	-	-	-
2190 Service Direction, Student Support Services	207,656	134,035	67,678	3,684	1,664	-	595	-
2210 Improvement of Instruction Services	41,724	29,159	11,082	1,483	-	-	-	-
2220 Educational Media Services	55,610	24,916	24,169	-	6,525	-	-	-
2230 Assessment & Testing	264	-	-	264	-	-	-	-
2240 Instructional Staff Development	62,493	12,759	15,508	32,574	1,652	-	-	-
2310 Board of Education Services	99,892	-	-	40,775	12,266	-	46,851	-
2320 Executive Administration Services	322,479	208,174	90,011	5,469	16,289	-	2,536	-
2410 Office of the Principal Services	1,495,786	934,587	493,424	5,599	56,977	-	5,199	-
2520 Fiscal Services	429,774	209,375	118,967	85,145	5,890	2,040	8,357	-
2540 Operation and Maintenance of Plant Services	2,012,969	599,863	442,934	581,600	140,883	94,181	153,508	-
2550 Student Transportation Services	757,514	338,565	269,722	53,682	63,676	13,670	18,199	-
2570 Internal Services	61,472	-	-	34,407	392	25,998	675	-
2640 Staff Services	3,223	-	-	2,340	883	-	-	-
2660 Technology Services	419,829	6,728	1,905	214,516	196,582	-	98	-
2700 Supplemental Retirement Program	85,838	-	85,838	-	-	-	-	-
Total Support Services Expenditures	\$ 6,469,257	\$ 2,684,464	\$ 1,757,149	\$ 1,147,525	\$ 508,212	\$ 135,889	\$ 236,018	\$ -

Enterprise and Community Services Expenditures	Totals	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
3300 Community Services	\$ 2,573	\$ -	\$ -	\$ -	\$ 2,573	\$ -	\$ -	\$ -
Total Enterprise and Community Services Expenditures	\$ 2,573	\$ -	\$ -	\$ -	\$ 2,573	\$ -	\$ -	\$ -

Other Uses Expenditures	Totals	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
5200 Transfers of Funds	\$ 580,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 580,000
Total Other Uses Expenditures	\$ 580,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 580,000

Grand Total	\$ 18,477,963	\$ 9,402,782	\$ 6,034,586	\$ 1,274,633	\$ 767,857	\$ 176,036	\$ 242,069	\$ 580,000
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**2018-19 DISTRICT AUDIT EXPENDITURE SUMMARY
MILTON-FREEWATER UNIFIED SCHOOL DISTRICT**

Fund: 200 - Special Revenue

	Totals	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
Instruction Expenditures								
1111 Primary, K-3	\$ 71,376	\$ 30,092	\$ -	\$ 7,438	\$ 33,846	\$ -	\$ -	\$ -
1113 Elementary Extracurricular	42,917	4,800	1,193	2,520	34,404	-	-	-
1121 Middle/Junior High Programs	5,240	-	-	-	-	5,240	-	-
1122 Middle/Junior High School Extracurricular	36,600	-	-	-	36,600	-	-	-
1131 High School Programs	304,600	38,892	27,465	-	159,786	78,457	-	-
1132 High School Extracurricular	178,492	-	-	59,490	119,002	-	-	-
1250 Less Restrictive Programs for Students with Disabilities	107,072	60,753	46,319	-	-	-	-	-
1272 Title I	726,127	427,937	243,904	-	54,286	-	-	-
1280 Alternative Education	2,436	-	-	-	2,092	-	344	-
1291 English Second Language Programs	30,617	-	-	-	30,617	-	-	-
Total Instruction Expenditures	\$ 1,505,477	\$ 562,474	\$ 318,881	\$ 69,448	\$ 470,633	\$ 83,697	\$ 344	\$ -
Support Services Expenditures								
2110 Attendance and Social Work Services	\$ 5,699	\$ -	\$ -	\$ 950	\$ 4,749	\$ -	\$ -	\$ -
2120 Guidance Services	80,333	44,023	28,770	7,540	-	-	-	-
2210 Improvement of Instruction Services	129,183	93,456	35,727	-	-	-	-	-
2240 Instructional Staff Development	89,359	12,930	3,764	69,145	3,410	-	110	-
2690 Other Support Services - Central	61,578	-	-	-	-	-	61,578	-
Total Support Services Expenditures	\$ 366,153	\$ 150,409	\$ 68,262	\$ 77,635	\$ 8,159	\$ -	\$ 61,688	\$ -
Enterprise and Community Services Expenditures								
3100 Food Services	\$ 1,058,056	\$ 228,008	\$ 191,027	\$ 548,638	\$ 82,495	\$ -	\$ 7,888	\$ -
3300 Community Services	13,946	-	-	9,909	4,037	-	-	-
Total Enterprise and Community Services Expenditures	\$ 1,072,002	\$ 228,008	\$ 191,027	\$ 558,547	\$ 86,532	\$ -	\$ 7,888	\$ -
Other Uses Expenditures								
5200 Transfers of Funds	\$ 5,550	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,550
Total Other Uses Expenditures	\$ 5,550	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,550
Grand Total	\$ 2,949,182	\$ 940,891	\$ 578,170	\$ 705,630	\$ 565,324	\$ 83,697	\$ 69,920	\$ 5,550

**2018-19 DISTRICT AUDIT EXPENDITURE SUMMARY
MILTON-FREEWATER UNIFIED SCHOOL DISTRICT**

Fund: 300 - Debt Service

	Totals	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
Other Uses Expenditures								
5100 Debt Service	\$ 2,227,410	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,227,410	\$ -
Total Other Uses Expenditures	\$ 2,227,410	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,227,410	\$ -
Grand Total	\$ 2,227,410	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,227,410	\$ -

**2018-19 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		\$ -	\$ -	\$ -	\$ -	\$ 82,235	\$ -	\$ -	\$ -
	Total Instruction Expenditures	\$ 82,235	\$ -	\$ -	\$ -	\$ 82,235	\$ -	\$ -	\$ -
Support Services Expenditures									
2520 Fiscal Services		\$ 78,609	\$ 55,281	\$ 23,328	\$ -	\$ -	\$ -	\$ -	\$ -
2540 Operation and Maintenance of Plant Services		68,652	-	-	-	7,064	61,588	-	-
2550 Student Transportation Services		114,995	-	-	-	-	114,995	-	-
2660 Technology Services		18,816	-	-	-	18,816	-	-	-
	Total Support Services Expenditures	\$ 281,072	\$ 55,281	\$ 23,328	\$ -	\$ 25,880	\$ 176,583	\$ -	\$ -
Facilities Acquisition and Construction Expenditures									
4150 Building Acquisition, Construction, and Improvement Services		\$ 11,958,611	\$ -	\$ -	\$ 1,727,469	\$ 1,065,947	\$ 9,165,195	\$ -	\$ -
	Total Facilities Acquisition and Construction Expenditures	\$ 11,958,611	\$ -	\$ -	\$ 1,727,469	\$ 1,065,947	\$ 9,165,195	\$ -	\$ -
Other Uses Expenditures									
5200 Transfers of Funds		\$ 94,300	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 94,300
	Total Other Uses Expenditures	\$ 94,300	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 94,300
Grand Total		\$ 12,416,218	\$ 55,281	\$ 23,328	\$ 1,727,469	\$ 1,174,062	\$ 9,341,778	\$ -	\$ 94,300

MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

SUPPLEMENTAL INFORMATION
As Required by The Oregon Department of Education
For the Year Ended June 30, 2019

A.	Energy bills for heating - all funds:		<u>Objects 325 & 326 & 327</u>
		Function 2540	\$ 353,389
		Function 2550	-
B.	Replacement of equipment - General Fund:		<u>Amount</u>
	Include all General Fund expenditures in Object 542, except for the following exclusions:		\$ 28,039
	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

MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

INDEPENDENT AUDITORS' REPORT REQUIRED BY OREGON STATE REGULATIONS

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December 23, 2019

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, 2019, and have issued our report thereon dated December 23, 2019. 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:

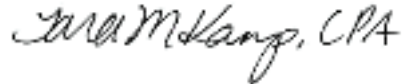
- **Deposit of public funds with financial institutions (ORS Chapter 295)**
- **Indebtedness limitations, restrictions and repayment.**
- **Budgets legally required (ORS Chapter 294).**
- **Insurance and fidelity bonds in force or required by law.**
- **Programs funded from outside sources.**
- **Authorized 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 "Tara M. Kamp, CPA". The signature is written in a cursive style.

TARA M KAMP, CPA
PAULY, ROGERS AND CO., P.C.

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

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MILTON-FREE WATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2019

GRANTS Program Title	Pass Through Organization	Federal CFDA Number	Pass Through Entity Number	Period Covered	Expenditures	Passed Through to Subrecipients
U.S. Department of Education						
Title I Grants to Local Educational Agencies						
	Oregon Department of Education	84.010	45638	7/1/17-9/30/18	\$ 41,306	\$ -
	Oregon Department of Education	84.010	45638	7/1/18-9/30/19	905,687	-
Total Title I Grants to Local Education Agencies					946,993 (1)	-
Migrant Education - State Grant Program						
	ODE/InterMountain ESD	84.011	48629	7/1/17-9/30/18	15,000	-
	ODE/InterMountain ESD	84.011	44984	7/1/17-9/30/18	5,539	-
	ODE/InterMountain ESD	84.011	49212	7/1/18-9/30/19	31,703	-
Total Migrant Education - State Grant Program					52,242	-
English Language Acquisition State Grants						
	Oregon Department of Education	84.365	44231	7/1/17-9/30/18	23,499	-
	Oregon Department of Education	84.365	50263	7/1/18-9/30/19	34,235	-
Total English Language Acquisition State Grants					57,734	-
Improving Teacher Quality State Grants						
	Oregon Department of Education	84.367	45854	7/1/17-9/30/18	6,163	-
	Oregon Department of Education	84.367	49351	7/1/18-9/30/19	68,684	-
Total Improving Teacher Quality State Grants					74,847	-
Rural Education						
	Oregon Department of Education	84.424	47767	7/1/17-9/30/19	18,812	-
	Oregon Department of Education	84.424	50767	7/1/18-9/30/19	49,405	-
Total Rural Education					68,217	-
Special Education Cluster:						
Special Education - Grants to States	Oregon Department of Education	84.027	52272	7/1/18-9/30/18	225	-
	ODE/InterMountain ESD	84.027	45314	7/1/17-9/30/19	107,073	-
Total Special Education Cluster					107,298	-
Total U.S. Department of Education					1,307,331	-
U.S. Department of Agriculture:						
Child Nutrition Cluster:						
Donated Commodities (Non-Cash Assistance)	Oregon Department of Education	10.555	3013001	7/1/18-6/30/19	76,220	-
School Breakfast Program	Oregon Department of Education	10.553	3013001	7/1/18-6/30/19	209,586	-
National School Lunch Program	Oregon Department of Education	10.555	3013001	7/1/18-6/30/19	588,670	-
Summer Food Service Program for Children	Oregon Department of Education	10.559	3013001	7/1/18-6/30/19	32,082	-
Total Child Nutrition Cluster					906,558 (1)	-
State Administrative Expenses for Child Nutrition	Oregon Department of Education	10.560	3013001	7/1/18-6/30/19	2,571	-
Total State Administrative Expenses for Child Nutrition					2,571	-
Total U.S. Department of Agriculture					909,129	-
Total Grants Expended or Passed Through to Subrecipients					\$ 2,216,460	\$ -

(1) - Major Program

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December 23, 2019

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 and each major fund of Milton-Freewater Unified School District as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the basic financial statements, and have issued our report thereon dated December 23, 2019.

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.

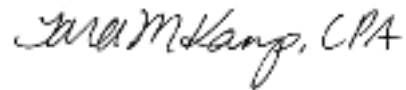
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

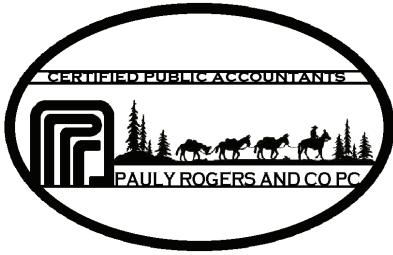
As part of obtaining reasonable assurance about whether the financial statements are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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.



TARA M KAMP, CPA
PAULY, ROGERS AND CO., P.C.



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December 23, 2019

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 THE UNIFORM GUIDANCE

Report on Compliance for Each Major Federal Program

We have audited Milton-Freewater Unified School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the major federal programs for the year ended June 30, 2019. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance 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, 2019.

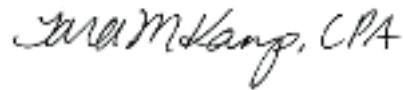
Report on Internal Control Over Compliance

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



TARA M KAMP, CPA
PAULY, ROGERS AND CO., P.C.

**MILTON-FREEWATER UNIFIED SCHOOL DISTRICT
UMATILLA COUNTY, OREGON**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2019

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 No
- Significant deficiency(ies) identified that are not considered to be material weaknesses Yes None Reported

Noncompliance material to financial statements noted? Yes No

Any GAGAS audit findings disclosed that are required to be reported in accordance with section 555(d)(2) of the Uniform Guidance? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses Yes 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 200.516(a) of the Uniform Guidance? Yes No

Identification of major programs

<u>CFDA NUMBER(S):</u>	<u>NAME OF FEDERAL PROGRAM CLUSTER:</u>
<u>10.553, 10.555, 10.559</u>	Child Nutrition Cluster

<u>84.010</u>	Title 1A
---------------	----------

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? Yes No

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

For the Year Ended June 30, 2019

SECTION II – FINANCIAL STATEMENT FINDINGS

None Reported

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None Reported

SECTION IV – SUMMARY OF PRIOR AUDIT FINDINGS

2018-001 – Cash Management

CONDITION:

During our testing of major program reimbursements, we noted that the District reported incorrect meal counts on their submitted reimbursement claim forms for the months of October 2017, February 2018, and March 2018. We tested all 14 reimbursement claim forms submitted by the District for the 17-18 fiscal year related to the Child Nutrition Cluster. In the three instances where we noted errors, it appears that lunch counts were reported in both the lunch and breakfast sections of the reimbursement claims. This led to a total of 5,405 in excess meals being claimed by the District in the 17-18 fiscal year, for a total dollar amount of \$8,607, calculated by reimbursable meal rates. This amount is under the known or likely questioned costs exceeding 5% of total federal award expenditures threshold. This is not a repeat finding.

RECOMMENDATION:

We recommend that the District add additional levels of District management review, and ensure all meal counts noted on the reimbursement claim forms submitted to the pass-through organization are reconciled to meal software reporting prior to submitting reimbursement claims.

CURRENT STATUS:

The District has adopted the recommendation.

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

For the Year Ended June 30, 2019

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 under programs of the federal government. The information in this schedule is presented in accordance with the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations, it is not intended to and does not present the net position, changes in net position, or cash flows of the entity.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The entity has not elected to use the ten percent de minimus indirect cost rate as allowed under Uniform Guidance, due to the fact that they already have a negotiated indirect cost rate with Oregon Department of Education, and thus are not allowed to use the de minimus rate.

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