

***LAKE OSWEGO SCHOOL
DISTRICT NO. 7J
CLACKAMAS COUNTY, OREGON
FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2014***

Prepared by:
Business Services Department
* * * * *

Stuart Ketzler
Director of Finance

LAKE OSWEGO SCHOOL DISTRICT NO.7J
CLACKAMAS COUNTY, OREGON
JUNE 30, 2014

BOARD OF DIRECTORS

<u><i>Name</i></u>	<u><i>Title</i></u>	<u><i>Term Expires</i></u>
Patti Zebrowski	Chair	June 30, 2015
Sarah Howell	Member	June 30, 2017
John Wendland	Member	June 30, 2017
Liz Hartman	Member	June 30, 2017
Bob Barman	Member	June 30, 2015

The above Board Members receive mail at the address below:

ADMINISTRATION

Lake Oswego School District No.7J
PO Box 70
Lake Oswego, Oregon 97034
Dr. Heather Beck, Superintendent

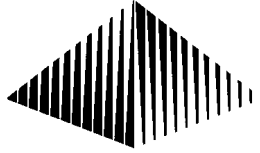
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GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
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INDEPENDENT AUDITOR'S REPORT

School Board
Lake Oswego School District
2455 Country Club Road
Lake Oswego, Oregon 97034

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lake Oswego School District No. 7J, Clackamas County, Oregon (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Lake Oswego School District No. 7J, Clackamas County, Oregon as of June 30, 2014, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (MD&A) (pages 4 through 12), and the schedule of funding progress for other postemployment benefits (page 44) 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 MD&A and schedule of funding progress for other postemployment benefits 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 information is the responsibility of management and was derived from and relates 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 budgetary comparison information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Supplementary Information

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

The other 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 other supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The statistical section has 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 it.

Reports on Other Legal and Regulatory Requirements

Other Reporting Required by Government Auditing Standards

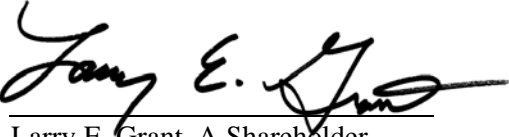
In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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 the District's internal control over financial reporting and compliance.

Other Reporting Required by Oregon Minimum Standards

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated December 31, 2014, on our consideration of the District's 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.

GROVE, MUELLER & SWANK, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

By: _____


Larry E. Grant, A Shareholder
December 31, 2014

LAKE OSWEGO SCHOOL DISTRICT NO. 7J, CLACKAMAS COUNTY, OREGON Management's Discussion and Analysis

As management of the Lake Oswego School District No. 7J, Clackamas County, Oregon (Lake Oswego School District or the District), we offer readers this narrative overview and analysis of the financial activities of the Lake Oswego School District for the fiscal year ended June 30, 2014.

Financial Highlights

- The net position of Lake Oswego School District in the government-wide financial statements was \$28,382,058 at June 30, 2014. Of this amount, \$41,058,422 is invested in capital assets, net of related debt, \$583,904 is restricted to the payment of the District's general obligation bonded debt, and the remainder, (\$13,260,268), is unrestricted.
- Net position increased by \$1,744,923 from the prior year, due primarily to an increase in state resources.
- At June 30, 2014 the District's governmental funds reported combined ending fund balances of \$9,334,314. \$1,558,853 of this fund balance is restricted for capital projects and \$262,814 was restricted for debt service and therefore not available to meet the general obligations of the District.
- At June 30, 2014, the General Fund had an unassigned fund balance of \$5,606,399, an increase of \$878,817 from the prior year's unassigned fund balance of \$4,676,512. This increase was due to an increase in state resources, offset in part by increased expenditures. Additional information on state funding and the District's response can be found in the Economic Factors and Next Year's Budgets discussion near the end of this analysis.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Lake Oswego School District's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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.

- The *statement of net position* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net position*. 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* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes, and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). As is typical for a school district, the District has governmental activities, which include instruction, supporting services, facilities acquisition, community services, and debt service. The District currently does not have any business-type activities.

The government-wide financial statements can be found on pages 13 - 14 of this report.

Fund Financial Statements are designed to demonstrate compliance with finance-related legal requirements overseeing the use of fund accounting. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives. All of the funds of the District are governmental funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term* inflows and outflows of available resources, as well as on balances of available resources at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental 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 the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains four major governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Community Contributions Fund, the Debt Service Fund, and the Capital Projects Fund, all of which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds at the fund appropriation level is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for all of its funds. A budgetary comparison statement has been provided for each fund, individually presented to demonstrate compliance with their budgets.

The governmental fund financial statements can be found on pages 15 - 18 of this report.

Notes To The Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19 - 41 of this report.

The **Combining Statements** referred to earlier in connection with non-major governmental funds are presented following the notes to the financial statements and required supplementary information along with individual fund schedules.

Government-Wide Financial Analysis

Net position. As noted earlier, net position may serve over time as a useful indicator of the District's financial position. In the case of Lake Oswego School District, assets exceeded liabilities by \$28,382,058 at the close of the most recent fiscal year. A condensed Statement of Net Position for the current and prior fiscal year-end follows:

Statements of Net Position		
June 30,		
	2014	2013
Assets		
Current and Other Assets	\$ 20,239,813	\$ 19,234,571
Net Prepaid Pension Obligations	21,824,561	23,403,886
Net Capital Assets	111,670,761	113,519,995
Total Assets	153,735,135	156,158,452
Liabilities		
Other Liabilities	9,622,096	9,695,953
Long-Term Debt Obligations	115,730,981	119,825,364
Total Liabilities	125,353,077	129,521,317
Net Position		
Net Investment in Capital Assets	41,058,422	38,944,268
Restricted	583,904	647,573
Unrestricted	(13,260,268)	(12,954,706)
Total Net Position	\$ 28,382,058	\$ 26,637,135

Current and other assets increased due to an improvement in state funding as more fully explained in the Revenues discussion on page 7. Net prepaid obligations decreased due to the normal amortization of these items. These assets represent the unamortized portion of the District's prepaid pension obligations recorded as a result of the financing of a portion of the District's PERS unfunded actuarial liability (UAL) as more fully discussed in the footnotes at page 25. Net capital assets have decreased due to the normal depreciation of depreciable capital assets.

The District's other liabilities have decreased due primarily to decreases in its accounts payable. Long-term debt obligations have decreased due to normal annual principal payments.

By far the largest portion of the District's net position is its investment in capital assets (e.g., land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets for classrooms and supporting services for providing K-12 education; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The source is primarily property taxes levied for debt service.

As previously noted, the District's net position increased by \$1,744,923 during the current fiscal year, due primarily to increased state revenue sharing.

At the end of the current fiscal year, the District's net position - unrestricted shows a deficit balance of \$13,260,268. The government-wide statement of net position recognizes a liability as soon as an obligation is incurred, even though the payment may not be made until some future period. As governments tend to raise resources when the liabilities are expected to be paid rather than when they are incurred, most governments do not have sufficient current resources to cover long-term liabilities. This is the case for the District.

The revenues and expenses shown below explain changes in net position for the fiscal years ending June 30, 2014 and 2013.

Statements of Activities

Year Ended June 30,

	<u>2014</u>		<u>2013</u>	
Revenues				
Program Revenues				
Charges for Services	\$ 8,281,948	10.52%	\$ 8,229,646	11.39%
Grants and Contributions	5,349,982	6.79%	5,004,504	6.93%
Total Program Revenues	<u>13,631,930</u>	<u>17.31%</u>	<u>13,234,150</u>	<u>18.32%</u>
General Revenues				
Property Taxes	40,541,684	51.49%	39,435,615	54.58%
State Revenue Sharing	22,902,761	29.09%	18,190,045	25.17%
Other Federal, State and Local Sources	35,035	0.04%	70,487	0.10%
Investment Earnings	115,547	0.15%	132,825	0.18%
Recovery of Prior Year Expenses & Other	1,507,875	1.93%	1,194,585	1.64%
Total General Revenues	<u>65,102,902</u>	<u>82.69%</u>	<u>59,023,557</u>	<u>81.68%</u>
Total Revenues	<u>78,734,832</u>	<u>100.00%</u>	<u>72,257,707</u>	<u>100.00%</u>
Expenses				
Instruction	41,324,600	53.68%	39,616,387	52.63%
Support Services	20,608,874	26.77%	20,834,827	27.68%
Community Services	4,002,622	5.20%	4,045,273	5.37%
Facilities Acquisition	482,612	0.63%	82,669	0.11%
Depreciation and Amortization	4,646,364	6.04%	4,594,428	6.10%
Interest on Long-Term Debt	5,924,837	7.68%	6,098,278	8.11%
Total Expenses	<u>76,989,909</u>	<u>100.00%</u>	<u>75,271,862</u>	<u>100.00%</u>
Change in Net Position	1,744,923		(3,014,155)	
Net Position - Beginning as restated	26,637,135		29,651,290	
Net Position - Ending	<u>\$ 28,382,058</u>		<u>\$ 26,637,135</u>	

Revenues. Since the District's mission is to provide a free and appropriate public education for K-12 students within its boundaries, the District may not charge for its core services. Therefore, as expected, general revenues typically provide over 80% of the funding required for governmental programs. Property taxes and State Revenue Sharing combined account for 97% and 98% of general revenues and 81% and 80% of total revenues for the 2014 and 2013 fiscal years, respectively. State Revenue Sharing was significantly reduced in 2013 due to the slow recovery from the 2008-09 recession. Charges for services are only 10.52% and 11.39% of total revenues for the 2014 and 2013 fiscal years, respectively, and are comprised of the following items for which it is appropriate to charge tuition or fees:

	<u>2014</u>	<u>2013</u>
• Community services charges for enrichment and extended day care programs	\$ 2,559,107	\$ 2,559,201
• Food services charges not only for lunch and breakfast, but also for catering and contract services	1,190,043	1,244,499
• Tuition and fees are charged for participation in various extra-curricular activities and out-of-district students	<u>4,532,798</u>	<u>4,425,946</u>
Total Charges for Services:	<u><u>\$ 8,281,948</u></u>	<u><u>\$ 8,229,646</u></u>

Food service charges decreased in fiscal year 2014 due to lower participation. Grants and contributions represent 6.79% and 6.36% of total revenues for the 2014 and 2013 fiscal years, respectively. Also included in this category is \$365,373 and \$380,783 for federal reimbursement and subsidy under the school lunch program for the 2014 and 2013 fiscal years, respectively. Other federal, state, and other grants for designated programs totaled \$1,493,373 and \$1,601,847, respectively. The decline is due primarily to smaller grant awards for federal funds. The balance is comprised primarily of contributions through the Lake Oswego School District Foundation, which was \$1.6 million in fiscal year 2014, down from \$1.7 million contributed in fiscal year 2013, as well as donations from parents and each school's booster organization.

Expenses. Expenses related to governmental activities are presented in five broad functional categories. Costs of direct classroom instruction activities account for 52% or more of the total expenses of \$76,989,909 and \$75,271,862 for the 2014 and 2013 fiscal years, respectively. In addition, approximately half of the costs in supporting services relate to students, instructional staff and school administration.

	<u>Total Cost of Services</u> 2014	<u>Net Cost of Services</u> 2014	<u>Total Cost of Services</u> 2013	<u>Net Cost of Services</u> 2013
Instruction	\$ 41,324,600	\$ 34,324,824	\$ 39,616,387	\$ 32,744,834
Support Services	20,608,874	19,372,770	20,834,827	19,712,806
Community Services	4,002,622	(111,901)	4,045,273	(139,211)
Facilities Acquisition	482,612	(640,725)	82,669	(789,949)
Depreciation and Amortization	4,646,364	4,646,364	4,594,428	4,594,428
Interest on Long-Term Debt	5,924,837	5,766,647	6,098,278	5,914,804
Total	\$ 76,989,909	\$ 63,357,979	\$ 75,271,862	\$ 62,037,712

Total and net costs in instruction, support services, and community services increased due to normal inflation and minor growth in certain programs. Facilities acquisition expenses increased due to costs incurred to pursue recovery of damages at Lake Oswego High School. Depreciation and amortization costs increased \$51,936 due to increases in depreciable assets. Interest on long-term debt expenses decreased \$173,441 due to normal reductions of debts from normal scheduled principal payments.

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. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *fund balance* may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

As of June 30, 2014, the District's governmental funds reported combined ending fund balances of \$9,334,314. Of this amount, \$1,558,853 was related to debt-financed or restricted revenues for capital projects and is not available to meet general obligations of the District. Additionally, \$262,814 is reserved for payment of the District's general obligation bonded debt and \$124,521 is unspendable inventory and prepaid costs for use by various funds. \$1,824,547 is committed in the Special Revenue Funds, the majority of which is the fund balance for the Student Activity Fund. These fund balances are committed to programs congruent with the nature of the special revenue source. The remaining \$5,563,579 constitutes *unassigned fund balance*, which is available for spending at the District's discretion.

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$5,563,579, an increase of \$887,067 from the prior year. This increase was due primarily to increased state revenue sharing.

The Debt Service Fund had an ending fund balance of \$262,814 available for future general obligation bonded debt service. Property taxes are the primary revenue source and are relatively stable, so taxes are levied at the minimum amount sufficient for meeting current debt service obligations.

The Capital Projects Fund had an ending fund balance of \$1,558,853 for capital projects in progress that will be completed or begin in fiscal year 2015, or for payment of certain long-term obligations.

General Fund Budgetary Highlights

The General Fund is the largest fund of the governmental funds. While it had no differences between its original and final budget appropriations, the District was pleased General Fund state revenues exceeded amounts budgeted by \$1,789,505, expenditures were \$3,512,073 less than budgeted, and there was a positive variance of \$4,926,399 above the \$680,000 budgeted for the ending fund balance. The only difference between the original budget and the final amended budgets of the governmental funds was a budget transfer in the Capital Projects Fund’s facilities acquisition appropriation category to the debt service appropriation category for \$275,000.

Capital Asset and Debt Administration

Capital assets. The District’s investment in capital assets for its governmental activities as of June 30, 2014, amounts to \$111,670,761, a decrease of \$1,849,234 from the prior year amount of \$113,519,995 (net of accumulated depreciation). This investment in capital assets includes land and land improvements, buildings and improvements, equipment and furniture, and construction in progress. The District’s investment in capital assets for the current fiscal year decreased by 1.63% due to ongoing regular annual depreciation.

Capital Assets (Net of Depreciation)	Governmental Activities		Percentage Change
	Total School District		
	2014	2013	
Land	\$ 5,258,641	\$ 5,242,246	0.31%
Buildings and Improvements	104,823,740	106,550,779	-1.62%
Vehicles, Equipment and Furniture	1,339,069	1,587,161	-15.63%
Construction in Progress	249,311	139,809	78.32%
Total	\$ 111,670,761	\$ 113,519,995	-1.63%

Major capital asset events during the current and prior fiscal years included the following:

- A repair project to correct certain building envelope issues at Lakeridge High School was undertaken late in fiscal year 2012 and were completed early in fiscal year 2013. In addition to normal ongoing smaller capital projects, two artificial turf field replacement projects commenced late in fiscal year 2012 and were completed early in the 2013 fiscal year. Studies of its real estate holdings during 2014 highlighted significant capital needs at the elementary and junior high schools, especially at Lakeridge Jr. High, due to expansive soils conditions, and at Oak Creek Elementary, due primarily to poor construction techniques employed in its original construction in 1990. The District convened a Facilities Advisory Committee in October 2014 to receive additional perspective and guidance from community members with significant facility expertise.

Additional information on the District’s capital assets can be found in the notes to the basic financial statements of this report.

Long-term debt. At the end of the current fiscal year, the District had total debt outstanding of \$112,973,499, which does not include its Other Postemployment Benefit obligation liability of \$2,757,482. Of this \$112,973,499, \$103,070,690 is comprised of general obligation debt and pension obligation debt net of unamortized premiums and discounts, \$9,231,194 comprises debts backed by the full faith and credit of the District and \$671,615 comprises debt for future stipend payments to former employees retired under provisions of certain bargained agreements.

The District's total debt decreased by \$4,384,103 during the current fiscal year due to normal scheduled principal payments. Total debt decreased \$4,570,751 during the fiscal year 2013 due to normal scheduled principal payments and the pay-off at maturity of a \$1.1 million full faith and credit obligation.

Outstanding Long-Term Debt			
Total School District			
	2014	2013	Percentage Change
Bonded Debt	\$ 103,070,690	\$ 106,775,288	-3.6%
Other Long-Term Debt	9,902,809	10,582,314	-6.9%
Total	\$ 112,973,499	\$ 117,357,602	-3.9%

Moody's Investors Service confirmed the rating on the District's unlimited tax general obligation bonds was Aa2 in 2001. The ratings are primarily based on the District's large and diverse tax base, which continues to grow. These ratings remain unchanged at June 30, 2014.

State statutes limit the amount of general obligation debt a school district may issue based on a formula using a percentage of the Real Market Value of all taxable properties within the District. The District's general obligation bond debt capacity is \$655 million, calculated as 7.95% of Real Market Value of \$8.24 billion. This limit is significantly in excess of the District's outstanding general obligation debt of \$62,940,000.

Additional information on the District's long-term debt can be found in the notes to the basic financial statements of this report.

Economic Factors and Next Year's Budgets

The State of Oregon has no sales tax so funding for public schools essentially rely on a combination of income taxes collected at the state level and property taxes collected at the local level. These resources are aggregated under a state-wide formula and distributed to school districts based on each district's attendance and various weighting of certain factors. Since the implementation of two state-wide measures in the 1990's that reduced property tax levies, property taxes now provide approximately one third of the resources distributed via this state-wide formula. Prior to the implementation of these two state-wide measures, property taxes accounted for almost two thirds of the resources in this formula. This increased reliance on income tax receipts has introduced a greater measure of volatility in state school funding and, as with the recession of 2002, has caused funding shortfalls for the State and agencies that rely on state funding, including public schools. State funding for K-12 public schools in Oregon for the 2009-11 biennium, with triggers, was at one time budgeted to be over \$6.3 billion. With cuts made in response to declining state income tax receipts, final state funding for K-12 public schools for the 2009-11 biennium was \$5.7 billion, which included approximately \$200 million in federal stimulus funds. State K-12 funding for the 2011-13 biennium was \$5.7 billion, with a slightly larger distribution in the first half of that biennium. Additionally, largely as a result of the 2008-09 Recession, the District's PERS employer rates for the majority of its employees increased from 0.29% to 8.86% of subject wages on July 1, 2011, with another modest increase effective July 1, 2013. To further aggravate matters, and unlike the 2002 recession, recovery from the 2008-09 recession has been very slow. While slow, the Oregon economy has been steadily improving for over a year and K-12 state funding for the 2013-15 biennium was approved at \$6.55 billion during the 2013 regular legislative session. A special session of the legislature held in October 2013 increased K-12 state funding to \$6.65 billion, though the extra revenues from that increase will not be distributed until the 2014-15 fiscal year. With that as context, the following additional observations regarding economic factors and the budget for the next year are provided to highlight noteworthy issues:

- State funding for the District was \$23.5 million for fiscal year 2008 and has steadily declined ever since, to less than \$18.2 million for fiscal year 2013, rebounding to \$22.9 million for fiscal year 2014. With improved state funding for the 2013-15 biennium, coupled with the extra \$100 million state-wide appropriation from the 2013

special session, it is presently estimated to be over \$23 million for fiscal year 2015, which, while still inadequate, will allow the District, in combination with Foundation fund-raising and cost-cutting measures implemented within the past several years, as more fully discussed below, to retain its current program offerings and end the 2015 fiscal year with a positive fund balance, possibly even larger than its \$5.7 million June 30, 2014 unassigned fund balance in the General Fund.

- In an effort to reduce costs, the District implemented drastic measures in each of the 2003, 2004 and 2005 fiscal years and again at the beginning of fiscal years 2010, 2011, 2012 and 2013. The entire transportation staff of 40 people was laid off in June 2003 and a contract for transportation services was entered into with First Student (formerly Laidlaw). The District's bus fleet was also sold at that time for \$1,000,000 to Laidlaw as part of this contract. Staffing levels were reduced at the end of each fiscal year from 2002-03 to 2004-05, textbook adoptions were deferred, and other cost containment measures were also implemented. Essentially all ongoing cost reduction measures enacted during these periods are still in effect, though a limited number of licensed staff were added back during the 2007, 2008, and 2009 fiscal years. In fiscal year 2010, in addition to other staff reductions and voluntary wage freezes agreed to by all employee groups (amending their contractual agreements for cost-of-living wage increases), approximately 20 teaching positions were eliminated and class sizes were generally increased on average by approximately 1 to 2 students per class. In fiscal year 2011, 14 additional teaching positions were eliminated, as well as other positions, and all employees agreed to a minimum of 3 unpaid days. The target ratio for the number of students per classroom teacher was raised by one at all grade levels for fiscal year 2014, allowing the elimination of approximately 4 teaching positions. Even with that increase in the District's target ratio, the District's fiscal year 2014 average class sizes are still among the lowest in the Portland Metropolitan area, with an overall average class size of less than 26 at the elementary school level, 28 at the junior high school level, and 29 at the high school level.
- The most significant cost-reduction measure implemented within the past two years was the District's reconfiguration of its elementary and junior high school grade levels that allowed the closure of three elementary schools. Analysis of this potential consolidation was initially in response to declining enrollment, but, due to the continued state funding crisis, a committee of the school board reviewed configuration scenarios that, if enacted, would reduce costs by approximately \$1.5 million per year without necessarily involving the reduction of teaching staff. In December 2010, this committee presented its report to the School Board wherein it recommended the District close 3 of its 9 elementary schools at the end of the 2010-11 school year. This would be accomplished by reconfiguring the remaining 6 elementary schools from grades K to 6 to grades K to 5, and reconfiguring the District's two junior highs to grades 6 to 8 middle schools. While the committee recognized this would be a challenging and difficult transition, the committee believed the \$1.5 million saved each year in reduced support and infrastructure costs would help maintain core instructional programs, thereby allowing the district a better opportunity to meet the high educational expectations of the Lake Oswego community. A separate committee formed in early 2011 identified the three schools for closure and the school board ultimately decided to implement the closures and associated reconfiguration in two phases, closing one elementary school at the end of the 2010-11 school year and closing one more and repurposing the third at the end of the 2011-12 school year. These closures and reconfiguration are estimated to save the District over \$1.5 million per year in reduced support and infrastructure costs and economies of scale.
- Partially offsetting the loss of state funding has been very successful volunteer fund-raising efforts by the independent private non-profit Lake Oswego School District Foundation (the Foundation). As a result of its efforts and the generosity of the Lake Oswego community, the Foundation provided \$1.4 million to the District for fiscal year 2011, \$2.1 million for fiscal year 2012, \$1.7 million for fiscal year 2013, and \$1.6 million for fiscal year 2014. The Foundation has raised \$1.6 million for fiscal year 2015. These fundraising efforts are remarkable feats in light of the significant recession that began in 2008. The City of Lake Oswego, recognizing the vital role the District plays in the city, provided \$2 million in one-time funding to the District in fiscal year 2012. The District is extremely grateful to the Mayor, City Council and city staff members for the difficult choices that were made to benefit our students and looks forward to additional opportunities to work with the City to keep our schools vibrant and attractive. Additionally, with voter approval, the District is able to raise additional property tax revenues using a local option tax levy. First implemented in 2000, District voters recently overwhelmingly authorized an additional 5 years of this levy on November 5, 2013. The levy was renewed with 78.5% voting in favor, which will provide local option tax revenues to the District each year

through fiscal year 2020. Local option tax revenues were \$5.91 million in fiscal year 2013 and \$5.88 million in fiscal year 2014, down from \$7.24 million in fiscal year 2011 and \$7.45 million in fiscal year 2010. Fiscal year 2010 was the highest single year of local option tax revenues; the lower amounts each following year are due to declining real market property values under a phenomena generally known as compression. The revenues generated by this local option tax will increase to approximately \$7.3 million in fiscal year 2015 as real market values have rebounded at a rate higher than normal annual increases in assessed values for the 2014 assessments. The District is hopeful this positive trend will continue in succeeding assessments and valuations.

- As more fully explained in the Claims and Litigation footnote, the District settled its lawsuit against former legal representation in exchange for receipt of a \$1.5 million payment. This still leaves the District approximately \$5 million short of full recovery of damages it incurred in connection with its two high school capital projects. This shortfall was funded by a Full Faith and Credit obligation that matures June 3, 2015. The District is evaluating its options, including possibly refinancing that obligation, so it does not necessarily impact the District's fiscal year 2015 General Fund budget.
- The District's licensed staff is represented by the Lake Oswego Education Association and its classified staff by the Lake Oswego School Employees Association under separate contracts that expire June 30, 2016. Both associations approved new three-year contracts effective July 1, 2013 that include, among other things, reduced health benefits, a 1% increase on base wages in the first year of the contract and 2% in each of the following two years, and continuation of 3 unpaid days each year through the end of both contracts. The District is hopeful improved state and local funding will allow discontinuation of the unpaid days in fiscal year 2016 and beyond, but its ability to do so will be significantly influenced by the amount of state funding in the next state biennium that begins on July 1, 2015.
- Administration and the school board are actively involved in strategic planning to continue to lead the District in a fiscally responsible manner. Long-term strategic financial plans are in process to guide the District as major decisions are made.

Requests for Information

This financial report is designed to provide a general overview of the Lake Oswego School District's finances for all those with such an interest. Questions concerning any of the information provided in the report or requests for additional financial information should be addressed to the Business Services, Lake Oswego School District, P.O. Box 70, Lake Oswego, Oregon 97034.



Heather Beck
Superintendent



Stuart Ketzler
Executive Director of Finance/Deputy Clerk

BASIC FINANCIAL STATEMENTS

LAKE OSWEGO SCHOOL DISTRICT NO.7JM
CLACKAMAS COUNTY, OREGON
STATEMENT OF NET POSITION
JUNE 30, 2014

	<u>PRIMARY GOVERNMENT</u>	<u>COMPONENT UNIT</u>
ASSETS:		
Cash and Investments	\$ 16,690,676	\$ -
Intergovernmental Receivables	-	196,297
Property Taxes and Other Receivables	3,424,616	12,390
Prepays	42,820	-
Inventories	81,701	-
Prepaid Pension Obligations, Net of Amortization of \$17,149,504	21,824,561	-
Capital Assets Not Being Depreciated	5,507,952	-
Capital Assets, Net of Accumulated Depreciation of \$40,981,025	<u>106,162,809</u>	<u>-</u>
Total Assets	<u>153,735,135</u>	<u>208,687</u>
LIABILITIES:		
Accounts Payable	825,230	8,138
Accrued Payroll, Taxes, and Employee Withholdings	6,593,033	-
Intergovernmental Payables	196,297	-
Unearned Revenue	1,239,287	-
Accrued Interest Payable	284,477	-
Vested Compensated Absences Payable	483,772	-
Long-term Liabilities:		
Due Within One Year	12,021,071	-
Due in More Than One Year	100,952,428	-
Other Postemployment Benefit Obligation	<u>2,757,482</u>	<u>-</u>
Total Liabilities	<u>125,353,077</u>	<u>8,138</u>
NET POSITION:		
Net Investment in Capital Assets	41,058,422	-
Restricted for Debt Service	583,904	-
Unrestricted	<u>(13,260,268)</u>	<u>200,549</u>
Total Net Position	<u>\$ 28,382,058</u>	<u>\$ 200,549</u>

The accompanying notes are an integral part of the financial statements.

LAKE OSWEGO SCHOOL DISTRICT NO.7J
CLACKAMAS COUNTY, OREGON
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

FUNCTIONS	FUNCTION REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION	
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT	COMPONENT UNIT
Governmental Activities:						
Instruction	\$ 41,324,600	\$ 4,076,161	\$ 2,923,615	\$ -	\$ (34,324,824)	
Support Services	20,608,874	456,637	779,467	-	(19,372,770)	
Community Services	4,002,622	3,749,150	365,373	-	111,901	
Facilities Acquisition	482,612	-	-	1,123,337	640,725	
Depreciation and Amortization	4,646,364	-	-	-	(4,646,364)	
Interest on Long-Term Debt	5,924,837	-	158,190	-	(5,766,647)	
Total Governmental Activities - Primary Government	<u>\$ 76,989,909</u>	<u>\$ 8,281,948</u>	<u>\$ 4,226,645</u>	<u>\$ 1,123,337</u>	(63,357,979)	
Component Unit - Lake Grove Park	<u>\$ 146,689</u>	<u>\$ 16,781</u>	<u>\$ -</u>	<u>\$ -</u>	-	\$ (129,908)
General Revenues						
Taxes:						
Property Taxes, Levied for General Purposes					34,291,576	173,567
Property Taxes, Levied for Debt Service					6,250,108	-
State Revenue Sharing					22,902,761	-
Grants and Contributions Not Restricted to Specific Programs:						
Federal					34,390	-
State and Local Grants					645	-
Interest and Investment Earnings					115,547	23
Recovery of Prior Year Expenses					1,500,000	-
Net Compensation for Loss of Capital Assets					7,875	-
Total General Revenues					<u>65,102,902</u>	<u>173,590</u>
Changes in Net Position					1,744,923	43,682
Net Position - Beginning as restated					<u>26,637,135</u>	<u>156,867</u>
Net Position - Ending					<u>\$ 28,382,058</u>	<u>\$ 200,549</u>

The accompanying notes are an integral part of the financial statements.

LAKE OSWEGO SCHOOL DISTRICT NO.7J
CLACKAMAS COUNTY, OREGON
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014

	<u>SPECIAL REVENUE</u>		
	<u>GENERAL</u>	<u>COMMUNITY CONTRIBUTIONS</u>	<u>DEBT SERVICE</u>
ASSETS:			
Cash and Investments	\$ 12,192,925	\$ -	\$ 187,410
Interfund Receivables	-	1,026,899	-
Receivables:			
Taxes	2,140,226	-	396,737
Accounts	505,966	69,321	-
Grants	-	-	-
Prepays	42,820	-	-
Inventory of Supplies	73,192	-	-
	<u>14,955,129</u>	<u>1,096,220</u>	<u>584,147</u>
Total Assets	\$ 14,955,129	\$ 1,096,220	\$ 584,147
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:			
Liabilities			
Interfund Payables	\$ 63,844	\$ -	\$ -
Intergovernmental Payable	196,297	-	-
Accrued Payroll and Benefits Payable	6,593,033	-	-
Accounts Payable	618,409	20,208	-
Unearned Revenue	73,636	885,000	-
Matured Bond and Coupons Payable	-	-	244
	<u>7,545,219</u>	<u>905,208</u>	<u>244</u>
Total Liabilities	7,545,219	905,208	244
Deferred Inflows of Resources			
Unavailable Revenue - Property Taxes	1,730,319	-	321,089
	<u>1,730,319</u>	<u>-</u>	<u>321,089</u>
Fund Balances:			
Nonspendable:			
Prepays	42,820	-	-
Inventory	73,192	-	-
Restricted for:			
Debt Service	-	-	262,814
Capital Projects	-	-	-
Committed to:			
Community Support	-	191,012	-
Student Activities	-	-	-
Unassigned	5,563,579	-	-
	<u>5,679,591</u>	<u>191,012</u>	<u>262,814</u>
Total Fund Balances	5,679,591	191,012	262,814
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 14,955,129	\$ 1,096,220	\$ 584,147

CAPITAL PROJECTS	OTHER NONMAJOR FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 2,741,711	\$ 1,568,630	\$ 16,690,676
267,004	399,407	1,693,310
-	-	2,536,963
182,596	17,301	775,184
-	112,469	112,469
-	-	42,820
-	8,509	81,701
<u>\$ 3,191,311</u>	<u>\$ 2,106,316</u>	<u>\$ 21,933,123</u>
\$ 1,536,334	\$ 93,132	\$ 1,693,310
-	-	196,297
-	-	6,593,033
96,124	90,489	825,230
-	280,651	1,239,287
-	-	244
<u>1,632,458</u>	<u>464,272</u>	<u>10,547,401</u>
-	-	2,051,408
-	-	42,820
-	8,509	81,701
-	-	262,814
1,558,853	-	1,558,853
-	65,705	256,717
-	1,567,830	1,567,830
-	-	5,563,579
<u>1,558,853</u>	<u>1,642,044</u>	<u>9,334,314</u>
<u>\$ 3,191,311</u>	<u>\$ 2,106,316</u>	<u>\$ 21,933,123</u>

The accompanying notes are an integral part of the financial statements.

LAKE OSWEGO SCHOOL DISTRICT NO.7J

CLACKAMAS COUNTY, OREGON

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

JUNE 30, 2014

Total Fund Balances - Governmental Funds \$ 9,334,314

The cost of capital assets (land, buildings and improvements, 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 111,670,761

The unamortized portion of prepaid pension obligation is not available to pay for current period expenditures, and therefore is not reported in the governmental funds.

Prepaid Pension Obligations, net of amortization 21,824,561

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long term, are reported in the Statement of Net Position.

Long Term Liabilities

Early Retirement Liability	\$ (671,615)
Compensated Absences Payable	(483,772)
Full Faith & Credit's Payable	(8,815,000)
Accrued Interest Payable	(284,232)
Notes Payable	(416,194)
PERS Bonds Payable	(40,130,691)
General Obligation Bonds Payable	(62,940,000)
Other Postemployment Benefit Obligations	<u>(2,757,482)</u>

(116,498,986)

Deferred inflows of resources related to property taxes that will be collected after year-end, but do not meet the measurable and available criteria are not recognized as revenue in the current year in the governmental funds. In the Statement of Activities, property taxes are recognized as revenue when levied.

2,051,408

Net Position \$ 28,382,058

The accompanying notes are an integral part of the financial statements.

LAKE OSWEGO SCHOOL DISTRICT NO.7J**CLACKAMAS COUNTY, OREGON****STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -****GOVERNMENTAL FUNDS****YEAR ENDED JUNE 30, 2014**

	<u>SPECIAL REVENUE</u>		
	<u>GENERAL</u>	<u>COMMUNITY CONTRIBUTIONS</u>	<u>DEBT SERVICE</u>
REVENUES:			
Local Sources:			
Taxes	\$ 34,483,139	\$ -	\$ 6,286,336
Earnings on Investments	107,947	-	908
Other Local Sources	1,858,774	2,076,273	-
Intermediate Sources	342,860	-	-
State Sources	22,889,505	-	-
Federal Sources	34,390	-	-
	<u>59,716,615</u>	<u>2,076,273</u>	<u>6,287,244</u>
Total Revenues			
EXPENDITURES:			
Current:			
Instruction	35,910,750	1,893,222	-
Support Services	19,786,751	56,113	-
Enterprise and Community Services	-	-	-
Capital Outlay	76,010	49,146	-
Debt Service:			
Principal	989,042	-	2,925,000
Interest and Other Charges	2,055,373	96,409	3,389,686
	<u>58,817,926</u>	<u>2,094,890</u>	<u>6,314,686</u>
Total Expenditures			
Excess (Deficiency) of Revenues Over Expenditures	<u>898,689</u>	<u>(18,617)</u>	<u>(27,442)</u>
OTHER FINANCING SOURCES, (USES):			
Sale/Compensation For Loss of Capital Assets	7,875	-	-
Transfers In	-	-	-
Transfers Out	(27,747)	-	-
	<u>(19,872)</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources, (Uses)			
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	878,817	(18,617)	(27,442)
Increase (Decrease) in Inventories	(16,728)	-	-
FUND BALANCE, Beginning of Year	<u>4,817,502</u>	<u>209,629</u>	<u>290,256</u>
FUND BALANCE, End of Year	<u>\$ 5,679,591</u>	<u>\$ 191,012</u>	<u>\$ 262,814</u>

<u>CAPITAL PROJECTS</u>	<u>OTHER NONMAJOR FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
\$ 416,028	\$ -	\$ 41,185,503
6,692	-	115,547
2,028,523	6,423,174	12,386,744
128,240	128,531	599,631
-	25,394	22,914,899
-	1,718,034	1,752,424
<u>2,579,483</u>	<u>8,295,133</u>	<u>78,954,748</u>
-	3,322,283	41,126,255
-	723,354	20,566,218
-	3,960,754	3,960,754
1,552,569	22,691	1,700,416
506,703	54,694	4,475,439
143,222	142,617	5,827,307
<u>2,202,494</u>	<u>8,226,393</u>	<u>77,656,389</u>
<u>376,989</u>	<u>68,740</u>	<u>1,298,359</u>
-	-	7,875
-	27,747	27,747
-	-	(27,747)
<u>-</u>	<u>27,747</u>	<u>7,875</u>
376,989	96,487	1,306,234
-	(24,375)	(41,103)
<u>1,181,864</u>	<u>1,569,932</u>	<u>8,069,183</u>
<u>\$ 1,558,853</u>	<u>\$ 1,642,044</u>	<u>\$ 9,334,314</u>

The accompanying notes are an integral part of the financial statements.

LAKE OSWEGO SCHOOL DISTRICT NO.7J

CLACKAMAS COUNTY, OREGON

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014**

Total Net Changes in Fund Balances - Governmental Funds	\$ 1,306,234
Repayment of bond and note payable principal, compensated absences, and post retirement obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Additions to compensated absences and post retirement obligations is an expense for the Statement of Net Position, but not the governmental funds.	4,966,860
Payments capitalized are reported in governmental funds as capital outlay 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 outlay exceeds depreciation.	
Capitalized Assets	\$ 1,217,804
Depreciation Expense	<u>(3,067,038)</u>
	(1,849,234)
Governmental funds report the effect of issuance costs, premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	(1,579,326)
Changes in inventory are a direct reduction of fund balances in the governmental funds. Changes in inventory either increase or reduce expenses in the Statement of Activities.	(41,103)
In the Statement of Activities, interest is accrued on long-term debt and discounts are accreted, whereas in the governmental funds it is recorded as an expense when due.	(830,717)
Property tax revenue in the Statement of Activities differs from the amount reported in the governmental funds. In the governmental funds, which are on the modified accrual basis, the District recognizes unavailable revenue for all property taxes levied but not received, however in the Statement of Activities, there is no unavailable revenue and the full property tax receivable is accrued.	<u>(227,791)</u>
Change in Net Position of Governmental Activities	<u>\$ 1,744,923</u>

The accompanying notes are an integral part of the financial statements.

LAKE OSWEGO SCHOOL DISTRICT NO.7J
CLACKAMAS COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lake Oswego School District 7J (the District) is a municipal corporation governed by a separately elected five-member Board of Directors. Administrative officials are approved by the Board. The daily functioning of the District is under the supervision of the Superintendent. As required by accounting principles generally accepted in the United States of America, all activities of the District have been included in the basic financial statements.

The District qualifies as a primary government since it has a separately elected governing body, is a legally separate entity, and is fiscally independent. The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) governmental organizations for which the primary government is not financially accountable, but for which the nature and significance of their financial relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be governmental organizations for which the primary government is not financially accountable, but for which the nature and significance of their financial relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The District has one component unit, the Lake Grove Park District. The Lake Grove Park District is included in the School District's reporting entity because the Board of Directors of the District is financially accountable for the Lake Grove Park District.

The Lake Grove Park District's financial statements appear as a discretely presented component unit in the financial statements. They are presented as a separate column to emphasize that they are legally separate from the School District. The Park District was organized under provisions of Oregon Revised Statutes Chapter 390 for the purpose of operating a park district. It is restricted by deed to use by residents of the former Lake Grove School District No. 106.

Detailed information about the Park District's budgetary compliance and compliance with laws and regulations is contained in the component unit financial report of Lake Grove Park District. The Park District's address is the same as Lake Oswego School District No. 7J.

Private citizens of the Lake Oswego School District area formed the Lake Oswego School District Foundation in 1986 as a separate, independent non-profit corporation. The Foundation is not a component unit of the District, but it does raise money for the benefit of the District. Included in the Special Revenue Funds' local revenues are Foundation contributions totaling approximately \$1,600,000 for the year ended June 30, 2014.

Basis of Presentation

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District. These statements include the governmental financial activities of the overall District. Eliminations have been made to minimize the double counting of internal activities. Governmental activities are financed primarily through property taxes, intergovernmental revenues, and charges for services.

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2014

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Government-wide Financial Statements (Continued)

The Statement of Activities presents a comparison between direct expenses and program revenues for each of its functions/programs. Direct expenses are those that are specifically associated with a function and, therefore, are clearly identifiable to that function. Eliminations have been made to minimize the double counting of internal activities in the Statement of Activities, except that interfund services are not eliminated. Program revenues include: (1) charges to students or others for tuition, fees, rentals, material, supplies or services provided and (2) operating grants and contributions. Revenues that are not classified as program revenues, including property taxes and state support, are presented as general revenues.

Net position are reported as restricted when constraints placed on net asset use are either externally restricted, imposed by creditors (such as through grantors, contributors or laws) or through constitutional provisions or enabling resolutions.

Fund Financial Statements

The fund financial statements provide information about the District's funds. Separate statements for each governmental fund category are presented. The emphasis of fund financial statements is on major governmental funds, each being displayed in a separate column. All remaining governmental funds are aggregated and reported as other governmental funds.

The District reports the following major governmental funds:

General Fund - This is the District's primary operating fund and accounts for all revenues and expenditures except those required to be accounted for in another fund. Principal revenue sources are an apportionment from the State of Oregon and property taxes.

Community Contributions Fund - This fund accounts for revenues and expenditures of contributions from various community groups for specific educational projects or programs.

Debt Service Fund - This fund accounts for the payment of principal and interest on general obligation bonded debt. Principal revenue sources are property taxes.

Capital Projects Fund - This fund is used to account for the District's major construction projects. Proceeds from the sale of bonds are the main source of funding.

In addition, the District reports the following as nonmajor governmental funds:

Special Revenue Funds

Grants Fund - This fund accounts for revenues and expenditures of Federal and State grants which are designated for specific educational projects or programs.

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2014

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Special Revenue Funds (Continued)

Community Services Fund - This fund accounts for fee-based programs designated to enhance educational opportunities for members of the community. The primary source of revenues are fees charged to participants.

Student Activity Fund - This fund accounts for fee-based extracurricular activities at each of the District's schools. The primary source of revenues are fees charged to participants.

Food Service Fund - This fund accounts for the various food service programs provided by the District. The sale of food and federal subsidies administered by the State are the major revenue sources.

Measurement Focus and Basis of Accounting

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District receives value without giving equal value in exchange, include property taxes, grants, entitlements and donations. On the accrual basis of accounting, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues.

Thus, when program expenses are incurred, there are both net position - restricted and net position - unrestricted available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general resources.

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. Property taxes and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and claims and judgments, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in the governmental funds and proceeds from general long-term debt and acquisitions under capital leases are reported as other financing sources.

Cash and Investments

The District's investments consist of time certificates of deposit, U.S. Government Agency securities, and the State of Oregon Treasurer's Local Government Investment Pool (LGIP). Time certificates of deposit are stated at cost which approximates fair value. U.S. Government Agency securities are stated at amortized cost which approximates fair value. The LGIP is stated at cost which approximates fair value.

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2014

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Investments (Continued)

The Oregon State Treasury administers the LGIP. It is an open-ended, no-load, diversified portfolio offered to any agency, political subdivision or public corporation of the State that by law is made the custodian of, or has control of, any fund. The LGIP is commingled with the State's short-term funds. In seeking to best serve local governments of Oregon, the Oregon legislature established the Oregon Short-Term Fund Board. The purpose of the Board is to advise the Oregon State Treasury in the management and investment options of the LGIP.

Property Taxes Receivable

Property taxes are levied and become a lien on July 1. Collection dates are November 15, February 15, and May 15 following the lien date. Discounts are allowed if the amount due is received by November 15. Taxes unpaid and outstanding on May 16 are considered delinquent.

Uncollected property taxes are recorded on the statement of net position. Uncollected taxes are deemed to be substantially collectible or recoverable through liens; therefore, no allowance for uncollectible taxes has been established. All property taxes receivable are due from property owners within the District.

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 doubtful accounts is deemed necessary.

Deferred Outflows/Inflows of Resources

In addition to assets, the financial statements 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 position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The District has no items that qualify for reporting in this category.

In addition to liabilities, the financial statements 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 a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item that qualifies for reporting in this category. It arises only under a modified accrual basis of accounting. Accordingly, the item, unavailable revenue – property taxes, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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. Grant monies received prior to the occurrence of qualifying expenditures are recorded as unearned revenue on the statement of net position and the balance sheet.

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2014

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

School operating supplies, maintenance supplies, and 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 the District's inventories at USDA wholesale value. The District accounts for the inventory based on the purchase method. Under this method, inventory is recorded as an expenditure when purchased. Inventory amounts at year end are recorded on the governmental funds balance sheet with a reserve to fund balance. Donated commodities consumed during the year are reported as revenues and expenditures. The amount of unused, donated commodities at the balance sheet date is considered immaterial for reporting purposes.

Capital Assets

Capital assets are recorded at original or estimated original cost. Donated capital assets are recorded at their estimated fair market value on the date donated. The District defines capital assets as assets with an initial, individual cost of more than \$2,500 and an estimated life in excess of one year.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	50 years
Vehicles and equipment	5 to 15 years

Retirement Plans

Substantially all of the District's employees are participants in the State of Oregon Public Employees Retirement System (PERS). Contributions to PERS are made on a current basis as required by the plan and are charged as expenses/expenditures as funded. An asset representing proceeds from the sale of pension bonds contributed to PERS is being amortized over the life of the bonds.

Some permanent employees who have 10-15 years of regular service in the District may be eligible for supplemental post-employment benefits under the terms of certain bargained agreements. Benefits under these agreements are funded on a current basis in the General Fund and recognized as a liability in the Statement of Net Position.

Other Postemployment Benefits

Eligible employees who elect supplemental retirement may be entitled to payment of group medical insurance premiums. The costs of these premiums are recorded as expenditures as they come due and are funded on a current basis.

Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the District. All unused vacation pay is accrued when earned in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences will be paid from general revenues and are expected to be paid out within 12 months.

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2014

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Fund Balances

In the governmental financial statements, fund balances are reported in classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Governmental Fund type fund balances are classified as follows:

- **Nonspendable** – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact. Resources in nonspendable form include inventories, prepaids and deposits, and assets held for resale.
- **Restricted** – Amounts that can be spent only for specific purposes when the constraints placed on the use of these resources are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed** – Amounts that can be used only for specific purposes determined by a formal action of the School Board. The School Board can modify or rescind the commitment at any time through taking a similar formal action (resolution).
- **Assigned** - Amounts that are constrained by the District’s intent to use them for a specific purpose, but are neither restricted nor committed, are reported as assigned fund balance. Intent is expressed when the School Board approves which resources should be “reserved” during the adoption of the annual budget. The District’s Finance Director uses that information to determine whether those resources should be classified as assigned or unassigned for presentation in the District’s Annual Financial Report.
- **Unassigned** – All amounts not included in other spendable classifications. This residual classification represents fund balance that has not been restricted, committed, or assigned within the General Fund. This classification is also used to report any negative fund balance amounts in other governmental funds.

Definitions of Governmental Fund Types

The General Fund is used to account for all financial resources not accounted for in another fund. In addition, certain funds budgeted as Special Revenue Funds may be reported as part of the General Fund because their source of funds is primarily transfers from the General Fund.

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The term “proceeds of specific revenues sources” means that the revenue sources for the fund must be from restricted or committed sources, specifically that a substantial portion of the revenue must be from these sources and be expended in accordance with those requirements.

Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds should be used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years should also be reported in debt service funds.

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2014

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Restricted Resources

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the District's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications – committed and then assigned fund balances before using unassigned fund balances.

Long-term Debt

In the government-wide financial statements long-term debt is reported as a liability in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the bonds outstanding method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when incurred.

In the fund financial statements bond premiums and discounts, as well as bond issuance costs, are recognized when incurred and not deferred. The face amount of the debt issued, premiums received on debt issuances, and discounts are reported as other financing sources and uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Budget

A budget is prepared and legally adopted for each governmental fund type on the modified accrual basis of accounting. The budgetary basis of accounting is the same as accounting principles generally accepted in the United States of America for the governmental fund types except that capital outlay expenditures, including items below the District's capitalization level, are budgeted by major function in governmental fund types. The resolution authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations.

Appropriations are established at the major function level (instruction, support services, enterprise and community services, facilities acquisition and construction, debt service, operating contingency and transfers) for each fund. The detail budget document, however, is required to contain more specific, detailed information for the aforementioned expenditure categories. The budget is adopted, appropriations made, and the tax levy declared no later than June 30 each year. Unexpected additional resources may be added to the budget through the use of a supplemental budget or appropriation resolution.

Supplemental budgets less than 10% of a fund's original budget may be adopted by the Board at a regular meeting. A supplemental budget greater than 10% of a fund's original budget requires hearings before the public, publication in newspapers and approval by the Board. Original and supplemental budgets may be modified by the use of appropriation transfers between the levels of control (major function levels) with Board approval. During the year, there were two appropriations transfers made and one supplemental appropriation was adopted. Appropriations lapse at the end of each fiscal year.

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
 YEAR ENDED JUNE 30, 2014

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pension Asset

The pension asset consists of two lump-sum payments to PERS totaling \$39,711,633 in partial payment of the District's unfunded actuarial liability. The pension asset is equal to these payments made from the issuance of pension bonds less accumulated amortization calculated on the straight-line method over the life of the pension obligation bonds.

Use of Estimates

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

CASH AND INVESTMENTS

The District maintains an internal cash and investments pool that is available for use by all funds. Each fund type's portion of the pool is displayed in the basic financial statements as Cash and Investments or Amounts Due To/From Other Funds. Checks presented to the bank are covered by transfers from the Local Government Investment Pool on at least a weekly basis.

Cash and investments are comprised of the following as of June 30, 2014:

	<i>Carrying Value</i>	<i>Fair Value/Cost</i>
	<u> </u>	<u> </u>
<i>Cash and Investments</i>		
Cash on hand	\$ 4,250	\$ 4,250
Deposits with financial institutions	897,929	897,929
Investments	15,788,497	15,788,497
	<u> </u>	<u> </u>
	<u>\$ 16,690,676</u>	<u>\$ 16,690,676</u>

Deposits

The District's deposits with various financial institutions had a bank value of \$1,901,053 and a book value of \$1,773,958 at year end. The difference is due to transactions in process. Deposits are secured to legal limits by federal deposit insurance. The remaining amount is secured in accordance with ORS 295 under a collateral program administered by the Oregon State Treasurer.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned. The Federal Depository Insurance Corporation (FDIC) provides insurance for the District's deposits with financial institutions for up to \$250,000 each for the aggregate of all demand deposits and the aggregate of all time deposit and savings

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
 YEAR ENDED JUNE 30, 2014

CASH AND INVESTMENTS (Continued)

Custodial Credit Risk – Deposits (Continued)

accounts at each financial institution. Deposits in excess of FDIC coverage are with institutions participating in the Oregon Public Funds Collateralization Program (PFCP). The PFCP is a shared liability structure for participating bank depositories, better protecting public funds though still not guaranteeing that all funds are 100% protected. Barring any exceptions, a bank depository is required to pledge collateral valued at least 10% of their quarter-end public fund deposits if they are well capitalized, 25% of their quarter-end public fund deposits if they are adequately capitalized or 110% of their quarter-end public fund deposits if they are undercapitalized or assigned to pledge 110% by the Office of the State Treasurer. In the event of a bank failure, the entire pool of collateral pledged by all qualified Oregon public funds bank depositories is available to repay deposits of public funds of government entities. As of June 30, 2014, \$1,008,857 of the District's bank balances were covered by the PFCP.

Investments

As of June 30, 2014, the District held the following investments and maturities:

Investment type	Carrying Amount	Weighted Average Maturity in years	% of portfolio
Time certificates of deposit	\$ 67,987	0.083	0%
Treasury bills	799,109	0.500	5%
Local Government Investment Pool	14,921,401	0.003	95%
	<u>\$15,788,497</u>	<u>0.028</u>	<u>100%</u>

The District's investment objective is foremost to preserve capital and protect investment principal, to conform with federal, state, and other legal requirements, to maintain sufficient liquidity to meet operating requirements, to diversify to avoid unreasonable risks regarding security instruments or individual institutions, and to attain a reasonable rate of return.

With the exception of pass-through funds, the maximum amount of pooled investments to be placed in the Local Government Investment Pool is limited by Oregon Statute to an amount in excess of \$40 million, which will increase proportionately to the Portland Consumer Price Index. The limit can be temporarily exceeded for ten business days and does not apply either to pass-through funds or to funds invested on behalf of another governmental unit.

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the investments above, except for the investment in the Local Government Investment Pool which is not evidenced by securities, are held in safekeeping by the financial institution counterparty in the financial institution's general customer account name. Time certificates of deposit are fully federally insured at June 30, 2014.

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2014

CASH AND INVESTMENTS (Continued)

Credit Risk

State of Oregon statutes restrict the types of investments in which the District may invest. Authorized investments include obligations of the United States Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, time certificates of deposit, certain commercial paper and the State of Oregon Treasurer's Local Government Investment Pool.

The District's policy, which adheres to State of Oregon law, is to limit its investments to the following: Issuers within Oregon must be rated "AA" or better (bonds) or A-1/P-1 (commercial paper) or better by a nationally recognized statistical rating organization.

The Oregon State Treasurer maintains the Oregon Short Term Fund, of which the Local Government Investment Pool (LGIP) is a part. Participation by local governments is voluntary. The State of Oregon investment policies are governed by statute and the Oregon Investment Council. In accordance with Oregon Statutes, funds are invested as a prudent investor would, exercising reasonable care, skill and caution. The Oregon Short-term Fund is the LGIP for local governments and was established by the State Treasurer. It was created to meet the financial and administrative responsibilities of federal arbitrage regulations. LGIP was created to offer a short-term investment alternative to Oregon local governments. The investments are regulated by the Oregon Short-term Board and approved by the Oregon Investment Council (ORS 294.805 to 294.895). At June 30, 2014, the fair value of the position in the Oregon State Treasurer's Short-term Investment Pool was approximately equal to the value of the pool shares. Separate financial statements for the Oregon Short Term Fund are available from the Oregon State Treasurer. The LGIP is not rated for credit risk.

Interest Rate Risk

The District minimizes interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet the cash requirement for ongoing operations, thereby avoiding the need to sell securities in the open market, and invest operating funds primarily in shorter-term securities, liquid asset funds, money market funds, or similar investment pools and limit the average maturity in accordance with the District's cash requirements.

Concentration of Credit Risk

The District minimizes concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

The District's policy for investing in individual issuers varies depending on the type of investments. U.S. treasury obligations do not have restrictions regarding concentration with any one issuer. U.S. agency securities are limited to no more than one-third of the portfolio and may be invested in any specific agency. Bankers Acceptances must be purchased from an Oregon chartered financial institution. Certificates of deposit of commercial banks shall not represent more than 10% of the total portfolio at settlement. Investments in commercial paper or corporate indebtedness with any one issuer may not exceed 5% of the total portfolio at settlement date.

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2014

CASH AND INVESTMENTS (Continued)

As a means to comply with the District's investment objectives, the policy limits investments as follows:

Concentration of Credit Risk (Continued)

<u>Investment Type</u>	<u>Maximum % of Portfolio</u>	<u>Maximum length to maturity</u>
Certificates of Deposit	100%	2 years
U.S. Treasury Obligations (Bills, Notes, Bonds)	100%	2 years
Local Government Investment Pool	100%	1 day
Federal Agency Securities	50%	2 years
Repurchase Agreements	25%	2 years
Banker's Acceptances	50%	2 years

RECEIVABLES

Receivables are comprised of the following as of June 30, 2014:

Property taxes receivable	
General Fund	\$ 2,140,226
Debt Service Fund	396,737
Total property taxes receivable	<u>2,536,963</u>
Accounts and grants receivable	
General Fund	505,966
Community Contributions Fund	69,321
Capital Projects Fund	182,596
Other Governmental Funds	129,770
Total accounts and grants receivable	<u>887,653</u>
Total	<u><u>\$ 3,424,616</u></u>

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2014

INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2014 is as follows:

	<i>Due from Other Funds</i>	<i>Due to Other Funds</i>
General	\$ -	\$ 63,844
Community Contributions	1,026,899	-
Capital Projects	267,004	1,536,334
Nonmajor Governmental Funds	399,407	93,132
Total	<u>\$ 1,693,310</u>	<u>\$ 1,693,310</u>

Interfund receivables and payables arise during normal processing of receipts and disbursements for all funds through a single checking account and do not represent interfund loans.

CAPITAL ASSETS

Capital assets activity for the year was as follows:

	<i>Balances July 1, 2013</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balances June 30, 2014</i>
Capital assets not being depreciated:				
Land	\$ 5,242,246	\$ 16,395	\$ -	\$ 5,258,641
Construction in progress	139,809	1,178,699	(1,069,197)	249,311
<i>Total Capital Assets Not Being Depreciated</i>	<u>5,382,055</u>	<u>1,195,094</u>	<u>(1,069,197)</u>	<u>5,507,952</u>
Capital assets being depreciated:				
Buildings and improvements	142,178,771	1,069,197	-	143,247,968
Vehicles and equipment	4,366,983	22,710	(493,827)	3,895,866
<i>Total Capital Assets Being Depreciated</i>	<u>146,545,754</u>	<u>1,091,907</u>	<u>(493,827)</u>	<u>147,143,834</u>
Less accumulated depreciation for:				
Buildings and improvements	(35,627,992)	(2,796,236)	-	(38,424,228)
Vehicles and equipment	(2,779,822)	(270,802)	493,827	(2,556,797)
<i>Total Accumulated Depreciation</i>	<u>(38,407,814)</u>	<u>(3,067,038)</u>	<u>493,827</u>	<u>(40,981,025)</u>
<i>Total Capital Assets Being Depreciated, net</i>	<u>108,137,940</u>	<u>(1,975,131)</u>	<u>-</u>	<u>106,162,809</u>
<i>Total Capital Assets, net</i>	<u>\$ 113,519,995</u>	<u>\$ (780,037)</u>	<u>\$ (1,069,197)</u>	<u>\$ 111,670,761</u>

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2014

LONG-TERM DEBT

The following is a summary of long-term debt transactions during the year ended June 30, 2014:

<u>Issue Date</u>	<u>Original Issue</u>	<u>Outstanding July 1, 2013</u>	<u>Issued</u>	<u>Matured and Redeemed</u>	<u>Outstanding June 30, 2014</u>	<u>Amounts Due in One Year</u>
General obligation bonds used for						
Capital Purposes:						
August 4, 2005	\$ 80,740,000	\$ 65,865,000	\$ -	\$ (2,925,000)	\$ 62,940,000	\$ 3,235,000
Pension Bonds:						
October 2002	23,926,732	19,610,879	-	(447,785)	19,163,094	467,167
April 2003	16,302,037	13,221,091	-	(441,257)	12,779,834	436,586
August 2011	1,660,000	1,660,000	-	-	1,660,000	-
Total pension bonds		34,491,970	-	(889,042)	33,602,928	903,753
Total		100,356,970	-	(3,814,042)	96,542,928	4,138,753
Accretion of discount		6,418,318	842,630	(733,186)	6,527,762	782,456
Total bonds payable		106,775,288	842,630	(4,547,228)	103,070,690	4,921,209
Notes payable		577,591	-	(161,397)	416,194	166,452
Full faith and credit obligations		9,315,000	-	(500,000)	8,815,000	6,700,000
Early retirement		689,723	218,387	(236,495)	671,615	233,411
Total		\$ 117,357,602	\$ 1,061,017	\$ (5,445,120)	\$ 112,973,499	\$ 12,021,072
General obligation bonds - issued August 4, 2005, due in annual installments of \$570,000 to \$8,275,000 plus interest paid semi-annually at 4.13% to 5.5% through 2026.						
					\$ 62,940,000	
Pension obligation bonds - issued October 9, 2002, due in annual installments of \$62,817 to \$3,175,000 plus interest paid semi-annually at 2.1% to 6.1% through 2028.						
					19,163,094	
Pension obligation bonds - issued April 3, 2003, due in annual installments of \$28,701 to \$2,250,000 plus interest paid semi-annually at 1.5% to 6.27% through 2028.						
					12,779,834	
Pension bonds - issued August 2011, due in one lump sum at maturity of \$1,660,000, plus interest paid semi-annually at 4.12% through 2021						
					1,660,000	
Accretion of discount						
					6,527,762	
Notes payable						
					416,194	
Full faith and credit obligations - issued July 14, 2005, April 15, 2010, June 28, 2010 and June 30, 2011 due in annual installments of \$100,000 to \$4,000,000 plus interest paid semiannually at 2.20% to 4.35% through 2030.						
					8,815,000	
Early retirement incentive						
					671,615	
Total long-term debt						
					\$ 112,973,499	

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
 YEAR ENDED JUNE 30, 2014

LONG-TERM DEBT (Continued)

Future maturities on bonds are as follows:

<i>Fiscal Year</i> <i>Ending</i> <i>June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2015	\$ 4,138,753	\$ 5,605,097	\$ 9,743,850
2016	4,507,234	5,594,961	10,102,195
2017	4,895,098	5,562,803	10,457,901
2018	5,315,951	5,540,036	10,855,987
2019	5,769,048	5,487,470	11,256,518
2020-2024	43,791,844	19,360,163	63,152,007
2025-2028	28,125,000	2,934,656	31,059,656
	<u>\$ 96,542,928</u>	<u>\$ 50,085,186</u>	<u>\$ 146,628,114</u>

General obligation bonds are direct obligations and pledge the full faith and credit of the District. The District issues general obligation bonds to provide funds for the acquisition and construction of District school facilities. The general obligation bonds will be paid from general property tax revenues from the Debt Service Fund.

Pension obligation bonds will be paid from resources of each fund based on their pro-rata share of each year's pension obligation debt service. The pro-rata share is determined on the basis of each fund's annual PERS contribution expenditures as a percentage of total annual PERS contribution expenditures.

In August 2011, the District issued \$1,660,000 Limited Tax Pension Obligations, Series 2011 (federally taxable) with a net interest cost of 4.12% (the "2011 Refunding bonds") to currently refund a portion of the outstanding 2002 series bonds (the 2021 maturity) with a par value of \$1,595,000 and an average coupon rate of 5.5%. The net proceeds of \$1,620,194 (after payment of \$39,806 in underwriting fees and other issuance costs) were used to refund the identified bonds. The series 2011 Limited Tax Pension Obligations are payable in full at maturity in June 2021. The bonds are federally taxable and subject to optional prepayment prior to their stated maturities.

This refunding reduced total debt service payments over 10 years by \$93,863 and obtained an economic gain, defined as the difference between the present values of the debt service payments on the old and new debt, of \$127,036.

Notes payable consists of two loans due in semi-annual payments of \$21,214 and \$69,953, each due on December and June 15 including interest at 4.8% and 2.75% per annum, maturing on June 15, 2022 and 2015, respectively.

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
 YEAR ENDED JUNE 30, 2014

LONG-TERM DEBT (Continued)

Future debt service requirements on notes payable are as follows:

<i>Fiscal Year</i> <i>Ending</i> <i>June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2015	\$ 166,452	\$ 15,883	\$ 182,335
2016	30,807	11,622	42,429
2017	32,303	10,125	42,428
2018	33,872	8,557	42,429
2019	35,517	6,911	42,428
2020-2022	117,243	10,045	127,288
	<u>\$ 416,194</u>	<u>\$ 63,143</u>	<u>\$ 479,337</u>

The District issued \$3,750,000 of Full Faith and Credit obligations in July 2005 with interest at 3.75% - 4.35%. The District also issued \$7,000,000 of Full Faith and Credit obligations in June 2013 with an interest rate of 2.0%. Future debt service requirements on full faith and credit obligations are as follows:

<i>Fiscal Year</i> <i>Ending</i> <i>June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2015	\$ 6,700,000	\$ 221,197	\$ 6,921,197
2016	105,000	87,198	192,198
2017	110,000	83,417	193,417
2018	115,000	79,348	194,348
2019	120,000	75,035	195,035
2020-2024	665,000	300,812	965,812
2025-2029	815,000	149,121	964,121
2030	185,000	8,048	193,048
	<u>\$ 8,815,000</u>	<u>\$ 1,004,176</u>	<u>\$ 9,819,176</u>

Compensated absences activity for the year is as follows:

	<i>Outstanding</i> <i>July 1, 2013</i>	<i>Increases</i>	<i>Decreases</i>	<i>Outstanding</i> <i>June 30, 2014</i>	<i>Amount Due</i> <i>in One Year</i>
Compensated absences	<u>\$ 513,618</u>	<u>\$ 483,772</u>	<u>\$ (513,618)</u>	<u>\$ 483,772</u>	<u>\$ 483,772</u>

Compensated absences will be paid from general revenues and paid from the General Fund.

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2014

INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2014 are as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ -	\$ 27,747
Other nonmajor funds	27,747	-
Total	<u>\$ 27,747</u>	<u>\$ 27,747</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

The District transferred funds to its Food Services and Grants funds to cover operating deficits in their programs and to maintain compliance with local budget law that limits instances under which a fund may not have a deficit fund balance.

PENSION PLAN

The District contributes to two pension plans administered by the Oregon Public Employees Retirement System (PERS). The Oregon Public Employees Retirement Fund (OPERF) applies to the District's contribution for qualifying employees who were hired before August 29, 2003, and is a cost sharing multiple-employer defined benefit pension plan. The District participates with all other school districts in the State in a common rate pool. The Oregon Public Service Retirement Plan (OPSRP) is a hybrid successor plan to the OPERF and consists of two programs:

1. The Pension Program, the defined benefit portion of the plan, applies to qualifying District employees hired after August 29, 2003, and to inactive employees who return to employment. Benefits are calculated by a formula for members who attain normal retirement age. The formula takes into account final average salary and years of service.
2. Beginning January 1, 2004, all PERS member contributions go into the Individual Account Program (IAP), the defined contribution portion of the plan. PERS members retain their existing PERS accounts, but any future member contributions are deposited into the member's IAP, not the member's PERS account.

Both PERS plans provide retirement and disability benefits, post-employment healthcare benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS is administered under Oregon Revised Statute Chapter 238, which establishes the Public Employees Retirement Board as the governing body of PERS. PERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to PERS, P.O. Box 23700, Tigard, Oregon 97281-3700, or by calling 503-598-7377, or by accessing the PERS website at www.oregon.gov/PERS/.

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2014

PENSION PLAN (Continued)

Funding Policy

Members of PERS are required to contribute 6.00% of their salary covered under the plan, which is invested in the OPSRP Individual Account Program. As allowed by state law, the District makes this contribution on behalf of its regular employees. The District is required by ORS 238.225 to contribute at an actuarially determined rate for the qualifying employees under the OPERF plan, and a general service rate for the employees for the qualifying employees under the OPSRP plan. During 2002-2003, the District issued limited tax pension bonds, the proceeds of which were used to finance a portion of its estimated unfunded actuarial liability. The OPERF and the OPSRP rates in effect for the year ended June 30, 2014 were 8.64% and 10.64% respectively. The contribution requirements for plan members are established by ORS Chapter 238 and may be amended by an act of the Oregon Legislature.

Annual Pension Cost

Current law permits employers to pay employee contributions to the Retirement Fund. The District has elected to contribute the 6% "pick-up" of regular employees' contributions. The District's contributions for the years ended June 30, 2014, 2013 and 2012 were \$4,931,235, \$4,473,515, and \$4,430,785, respectively. These amounts equaled the required contributions for each year.

OTHER POST EMPLOYMENT BENEFITS (OPEBs)

District Early Retirement Incentive Program

Description - The District maintains early retirement supplement programs for teachers or administrators who retire with 10 to 15 years of regular service to the District. The programs provide a stipend that, depending on age and years of service at retirement, ranges from \$200 to \$475 per month for a full-time employee for up to 7 years or age 65, whichever occurs first.

Funding Policy

The District provides payments in accordance with current contracts on a pay-as-you-go basis. At June 30, 2014, the District was providing early retirement benefits to 45 former teachers or administrators. During the year ended June 30, 2014, governmental fund expenditures related to early retirement stipend benefits totaled \$322,357.

Expenditures are recorded in the governmental funds as the incentive payments are paid. The present value of future incentive payments is recorded in the Statement of Net Position.

Postemployment Health Care Benefits

Description - The District, as a result of collective bargaining agreements, offers postemployment health care benefits for qualified employees as described in the summary of significant accounting policies section of this report.

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2014

OTHER POST EMPLOYMENT BENEFITS (OPEBs) (Continued)

Funding Policy

The District provides payments in accordance with current employee contracts on a pay-as-you-go basis. At June 30, 2014, the District was providing early retirement incentive health care benefits to 116 former employees.

Governmental fund expenditures related to early retirement insurance benefits totaled \$551,073 during the year ended June 30, 2014.

Expenditures are recorded in the governmental funds as the related insurance premiums are paid. The present value of estimated insurance premiums is recorded in the Statement of Net Position.

Postemployment Health Insurance Subsidy

The District follows GASB Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB). The District reports its liability for other postemployment benefits consistent with established generally accepted accounting principles and to reflect an actuarially determined liability for the present value of projected future benefits for retired and active employees on the financial statements.

Plan Description - The District operates a single-employer retiree benefit plan that provides postemployment health, dental and vision insurance benefits to eligible employees and their spouses. There are 89 retired members in the plan. As of the date of the valuation, 670 active members are or will become eligible to participate in the plan, assuming they meet eligibility requirements by the time they retire. Benefits and eligibility for members are established through bargaining agreements and state law.

The District's post-retirement healthcare plan was established in accordance with Oregon Revised Statutes (ORS) 243.303. ORS stipulate that for the purpose of establishing healthcare premiums, the rate must be based on all plan members, including both active employees and retirees. The difference between retiree claims costs, which because of the effect of age is generally higher in comparison to all plan members, and the amount of retiree healthcare premiums represents the District's implicit employer contribution.

The District did not establish an irrevocable trust (or equivalent arrangement) to account for the plan. Instead, the activities of the plan are reported in the Governmental Funds.

Funding Policy

The benefits from this program are paid by either the District or the retired employees on a self-pay or contributory basis. Required contributions are financed on a pay-as-you go basis. There is no obligation on the part of the District to fund these benefits in advance.

Annual OPEB Cost and Net OPEB Obligation – The District's annual other postemployment benefit cost (expense) is calculated based on the Annual Required Contribution of the employer (ARC), an amount actuarially determined in accordance within the parameters of GASB 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) over a period not to exceed thirty years.

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
 YEAR ENDED JUNE 30, 2014

OTHER POST EMPLOYMENT BENEFITS (OPEBs) (Continued)

The following table shows the components of the OPEB obligation at the end of the year:

	2014	2013	2012
Annual required contribution	\$ 1,174,075	\$ 1,174,075	\$ 1,390,108
Interest on net OPEB obligation	74,033	66,798	41,452
Adjustment to annual required contribution	(122,236)	(110,291)	(68,442)
Annual OPEB cost	1,125,872	1,130,582	1,363,118
Contributions made	(836,152)	(889,418)	(518,257)
Increase in net OPEB obligation	289,720	241,164	844,861
Net OPEB obligation at beginning of year	2,467,762	2,226,598	1,381,737
Net OPEB obligation at end of year	<u>\$ 2,757,482</u>	<u>\$ 2,467,762</u>	<u>\$ 2,226,598</u>

Funding Policy

The District's annual OPEB cost, the contribution, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation for 2014 were as follows:

Fiscal Year Ended June 30	Annual OPEB cost	Contribution	Percentage of Annual OPEB Cost Contributed
2012	\$ 1,363,118	\$ 518,257	38.0%
2013	1,130,582	889,418	78.7%
2014	1,125,872	836,152	74.3%

Funded Status and Funding Progress – As of June 30, 2013, the most recent actuarial valuation date, for the period ended June 30, 2014; the District's actuarial accrued liability (AAL) for benefits was \$11,668,311, and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$11,668,311. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will eventually present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions – The actuarial cost method used to determine the cost and liabilities for this plan was the entry age normal actuarial cost method. Under this method, the unfunded value of all benefits expected to be paid from the plan is spread over the expected working career of all participants in such a way that annual costs are expected to remain level.

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2014

OTHER POST EMPLOYMENT BENEFITS (OPEBs) (Continued)

Funding Policy (Continued)

The actuarial assumptions included a discount rate of 4 percent and a 100 percent assumption of participants will elect medical coverage at retirement. They also assume medical and prescription drug costs would increase at 10 percent inflation for the current year, grading down to an annual rate of 5 percent after ten years which is consistent with expectations for long-term health care cost inflation. The demographic assumptions, such as mortality rates, disability incidence rates, retirement rates, and withdrawal rates, are the same as those used by Oregon PERS for School Districts.

Retirement Health Insurance Account

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 the OPERS. RHIA pays a monthly contribution toward the cost of Medicare companion health insurance premiums of eligible retirees. The plan, which was established under Oregon Revised Statutes (ORS) 238.420, provided for a payment of up to \$60 per month toward the costs of Medicare companion health insurance for eligible retirees. A comprehensive annual financial report of the funds administered by the OPERS may be obtained by writing to Oregon Public Employees Retirement System, PO Box 23700, Tigard, Oregon 97281-3700 or by accessing the PERS website at www.oregon.gov/PERS/.

Funding Policy – Participating school districts are contractually required to contribute at a rate assessed each year by the OPERS: rates for the year ended June 30, 2014 were 0.59% of annual covered OPERF payroll and 0.50% of covered OPSRP payroll. The OPERS Board of Trustees sets the rates based on the annual required contribution (ARC) of the employers, 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, 2014, 2013 and 2012 were \$173,103, \$175,030, and \$159,031, which equaled the required contributions each year.

RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the District purchases commercial insurance. There were no significant reductions in insurance coverage from coverage in prior years in any of the major categories of risk. The amounts of any settlements have not exceeded insurance coverage for any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs and other economic and social factors.

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
 NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
 YEAR ENDED JUNE 30, 2014

RISK MANAGEMENT (Continued)

The District's unemployment claims are recorded as a payable throughout the District's various funds. Claims activity, including estimated incurred but not reported claims, for the fiscal years ended June 30, 2014, 2013 and 2012 are as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Beginning accrued claims liability	\$ 331,710	\$ 311,163	\$ 260,131
Incurred claims (including IBNRs)	(61)	36,294	96,218
Claims payments	<u>(7,446)</u>	<u>(15,747)</u>	<u>(45,186)</u>
Accrued claims liability, June 30	<u>\$ 324,202</u>	<u>\$ 331,710</u>	<u>\$ 311,163</u>

BUDGET COMPLIANCE

Excess of Expenditures Over Appropriations

Oregon law prohibits expenditures in excess of board approved appropriations. The board approves appropriations for each fund by major function. For the year ended June 30, 2014, expenditures did not exceed appropriations, except as follows:

	<u>Appropriation</u>	<u>Expenditure</u>	<u>Variance</u>
Capital Projects Fund			
Facilities Acquisition	\$ 1,275,000	\$ 1,552,569	\$ (277,569)
Grants Fund			
Support Services	716,000	723,354	(7,354)

Budgetary Basis of Accounting

While the District reports financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements. The detailed Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Basis) and Actual presented as RSI for each major governmental fund and other supplementary information for nonmajor governmental funds is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budget basis and GAAP basis are as follows:

	<u>General Fund</u>	<u>Other Nonmajor Funds</u>
Budget basis ending fund balance	\$ 5,606,399	\$ 1,633,535
Adjustments:		
Inventory	73,192	8,509
GAAP basis ending fund balance	<u>\$ 5,679,591</u>	<u>\$ 1,642,044</u>

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2014

NEW PRONOUNCEMENTS

GASB Statement No. 65 “Items Previously Reported as Assets and Liabilities.” The statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The implementation of GASB 65 resulted in the write-off of bond issuance costs, and a reduction of beginning net position by \$284,464. The statement was implemented in the current year.

GASB Statement No. 70 “Accounting and Financial Reporting for Nonexchange Financial Guarantees.” The statement provides guidance on accounting for and reporting nonexchange financial guarantees. The statement was implemented in the current year.

The District will implement new GASB pronouncements no later than the required fiscal year. Management has not determined the effect on the financial statements from implementing any of the following pronouncements.

GASB Statement No. 68 “Accounting and Reporting for Pension Plans—an amendment of GASB Statement No. 27.” The statement establishes accounting and financial reporting requirements related to pensions provided by governments. The statement is effective for fiscal years beginning after June 15, 2014.

GASB Statement No. 69 “Government Combinations and Disposals of Operations.” The statement provides guidance on accounting for and reporting government mergers, acquisitions, transfers of operations and disposal. The statement is effective for fiscal years beginning after December 15, 2013.

GASB Statement No. 71 “Pension Transition for Contributions Made Subsequent to the Measurement Date”. The statement amends transition provisions of GASB Statement No. 68, establishes accounting and financial reporting standards for recognition of contributions made between the measurement date of the net pension liability and implementation of GASB Statement No. 68. The statement is effective for fiscal years beginning after June 15, 2014.

CLAIMS AND LITIGATION

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts, if any, or expenditures which may be disallowed by the grantor agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

There are no contingent liabilities that require disclosure or recognition in accordance with FASC section 450 and/or GASB Statement No. 10. Such contingent liabilities would include, but would not be confined to: notes or accounts receivable which have been discounted; pending suits; proceedings, hearings, or negotiations possibly involving retroactive adjustments; unsatisfied judgments or claims; taxes in dispute; endorsements or guarantees; and options.

On December 16, 2013, the District approved settlement of its legal malpractice lawsuit against former legal counsel in exchange for receipt of \$1.5 million. This settlement concludes the District's efforts to recover damages with various parties for performance issues in connection with capital improvements and repairs at the District's two high schools. This settlement will leave the District approximately \$5 million short of full restitution of all

LAKE OSWEGO SCHOOL DISTRICT 7J
CLACKAMAS COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS (Continued)
YEAR ENDED JUNE 30, 2014

CLAIMS AND LITIGATION (Continued)

damages incurred in connection with these projects. As of June 30, 2014, the District has a Full Faith and Credit Obligation in the principal amount of \$6,600,000 outstanding in connection with these projects that is due in full on June 3, 2015. At this time, the District plans to finance this \$5 million shortfall over a period of years, but no final decision has been made as of the time of the issuance of this report.

On June 23, 2014, a claim was filed against the District and a co-defendant alleging damages in the amount of \$501,500 as a result of injuries allegedly sustained during a fracas at a football practice. The District has denied responsibility for the alleged damages and is vigorously defending itself against this claim. The claim has been tendered to the District's insurance company and is still in the discovery phase. No liability has been recorded in relation to this claim.

SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 31, 2014, the date on which the financial statements were available to be issued. Management is not aware of any subsequent events that require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

LAKE OSWEGO SCHOOL DISTRICT NO.7J**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND
YEAR ENDED JUNE 30, 2014**

	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>VARIANCE TO FINAL BUDGET</u>
REVENUES:				
Local Sources	\$ 36,449,860	\$ 35,695,000	\$ 35,695,000	\$ 754,860
Intermediate Sources	342,860	405,000	405,000	(62,140)
State Sources	22,889,505	21,100,000	21,100,000	1,789,505
Federal Sources	34,390	-	-	34,390
Total Revenues	<u>59,716,615</u>	<u>57,200,000</u>	<u>57,200,000</u>	<u>2,516,615</u>
EXPENDITURES:				
Instruction	35,928,583	37,721,000	37,721,000	1,792,417
Support Services	19,844,928	20,958,999	20,958,999	1,114,071
Facilities Acquisition and Construction	-	1	1	1
Debt Service	3,044,415	3,150,000	3,150,000	105,585
Operating Contingency	-	500,000	500,000	500,000
Total Expenditures	<u>58,817,926</u>	<u>62,330,000</u>	<u>62,330,000</u>	<u>3,512,074</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	898,689	(5,130,000)	(5,130,000)	6,028,689
OTHER FINANCING SOURCES (USES):				
Transfers in	-	1	1	(1)
Transfers out	(27,747)	(200,000)	(200,000)	172,253
Sale/Compensation for Loss of Capital Assets	7,875	9,999	9,999	(2,124)
Total Other Financing Sources (Uses)	<u>(19,872)</u>	<u>(190,000)</u>	<u>(190,000)</u>	<u>170,128</u>
NET CHANGE IN FUND BALANCE	878,817	(5,320,000)	(5,320,000)	6,198,817
FUND BALANCE, Beginning of year	<u>4,727,582</u>	<u>8,800,000</u>	<u>9,300,000</u>	<u>(4,572,418)</u>
FUND BALANCE, End of year	<u>\$ 5,606,399</u>	<u>\$ 3,480,000</u>	<u>\$ 3,980,000</u>	<u>\$ 1,626,399</u>

LAKE OSWEGO SCHOOL DISTRICT NO.7J**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL – COMMUNITY CONTRIBUTIONS FUND
YEAR ENDED JUNE 30, 2014**

	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>VARIANCE TO FINAL BUDGET</u>
REVENUES:				
Local Sources	\$ 2,076,273	\$ 2,518,000	\$ 2,518,000	\$ (441,727)
EXPENDITURES:				
Instruction	1,925,973	2,220,000	2,170,000	244,027
Support Services	56,113	165,000	165,000	108,887
Facilities Acquisition and Construction	16,395	98,000	98,000	81,605
Debt Service	96,409	90,000	140,000	43,591
Total Expenditures	<u>2,094,890</u>	<u>2,573,000</u>	<u>2,573,000</u>	<u>478,110</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(18,617)	(55,000)	(55,000)	36,383
FUND BALANCE, Beginning of year	<u>209,629</u>	<u>55,000</u>	<u>55,000</u>	<u>154,629</u>
FUND BALANCE, End of year	<u>\$ 191,012</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 191,012</u>

LAKE OSWEGO SCHOOL DISTRICT NO.7J

SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS

JUNE 30, 2014

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
July 1, 2009	\$ -	\$ 12,836,263	\$ 12,836,263	0.0%	\$ 30,057,273	42.71%
July 1, 2011	-	13,988,495	13,988,495	0.0%	30,394,461	46.02%
July 1, 2013	-	11,668,311	11,668,311	0.0%	30,731,648	37.97%

OTHER SUPPLEMENTARY INFORMATION

LAKE OSWEGO SCHOOL DISTRICT NO.7J**DETAILED SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND
YEAR ENDED JUNE 30, 2014**

	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>VARIANCE TO FINAL BUDGET</u>
REVENUES:				
Local Sources:				
Taxes-Current Levy	\$ 27,752,205	\$ 27,350,000	\$ 27,350,000	\$ 402,205
Taxes-Prior Levies	848,028	750,000	750,000	98,028
Local Option Taxes-Current Levy	5,647,805	5,850,000	5,850,000	(202,195)
Local Option Taxes-Prior Levy	235,101	150,000	150,000	85,101
Tuition	691,947	410,000	410,000	281,947
Earnings on Investments	107,947	100,000	100,000	7,947
Gate Receipts	56,784	50,000	50,000	6,784
Sports Participation Fees	555,658	550,000	550,000	5,658
Student Fees	97,748	30,000	30,000	67,748
Property Lease Fees	241,425	310,000	310,000	(68,575)
Miscellaneous Income	215,212	145,000	145,000	70,212
Total From Local Sources	<u>36,449,860</u>	<u>35,695,000</u>	<u>35,695,000</u>	<u>754,860</u>
Intermediate Sources:				
County School Fund	645	5,000	5,000	(4,355)
Handicapped Children	342,215	400,000	400,000	(57,785)
Total From Intermediate Sources	<u>342,860</u>	<u>405,000</u>	<u>405,000</u>	<u>(62,140)</u>
State Sources:				
School Support Fund	22,294,070	20,450,000	20,450,000	1,844,070
Common School Fund	595,435	650,000	650,000	(54,565)
Total From State Sources	<u>22,889,505</u>	<u>21,100,000</u>	<u>21,100,000</u>	<u>1,789,505</u>
Federal Sources:				
Federal Forest Fees	34,390	-	-	34,390
Other Sources:				
Interfund Transfers	-	1	1	(1)
Sales/Compensation for Loss of Capital Assets	7,875	9,999	9,999	(2,124)
Total Revenues	<u>\$ 59,724,490</u>	<u>\$ 57,210,000</u>	<u>\$ 57,210,000</u>	<u>\$ 2,514,490</u>

LAKE OSWEGO SCHOOL DISTRICT NO.7J**DETAILED SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND (Continued)
YEAR ENDED JUNE 30, 2014**

EXPENDITURES:	SALARIES	EMPLOYEE BENEFITS	PURCHASED SERVICES	SUPPLIES & MATERIALS
Instruction:				
Regular Programs:				
Primary, K-5	\$ 7,105,809	\$ 3,589,913	\$ 53,804	\$ 206,263
Jr. High Programs	4,114,387	2,088,254	32,855	115,664
Jr. High School Extra-curricular	166,404	41,100	13,352	7,856
High School Programs	5,951,131	3,016,604	79,251	179,359
High School Extra-curricular	1,039,004	248,403	83,352	51,042
Special Programs:				
Talented and Gifted	194,194	101,760	131	723
More Restrictive Special Programs	1,642,002	1,015,481	853,398	29,160
Less Restrictive Special Programs	1,988,704	1,128,800	6,321	7,583
Alternative Education	10,081	1,549	180,709	345,509
English 2nd Language	122,501	56,640	2,380	2,007
Total Instruction	<u>22,334,217</u>	<u>11,288,504</u>	<u>1,305,553</u>	<u>945,166</u>
Support Services:				
Students:				
Guidance Services	1,104,386	614,843	339	3,122
Health Services	95,347	51,075	884	2,145
Psychological Services	241,925	124,686	32,488	8,835
Speech Pathology and Audiology	372,352	167,337	810	5,526
Service Direction, Student Support	159,798	69,366	11,628	6,719
Instructional Staff:				
Improvement of Instruction	423,639	339,412	84,609	11,503
Educational Media	358,139	246,129	7,735	72,725
Assessment and Testing	438	72	-	3,260
General Administration:				
Board of Education	-	-	126,806	14,220
Executive Administration	247,370	71,769	4,865	6,402
School Administration - Office of the Principa	2,404,417	1,180,404	40,536	51,102
Business:				
Fiscal Services	439,687	222,162	30,955	3,669
Operation & Maintenance of Plant	1,483,973	907,273	2,460,081	293,334
Student Transportation	-	-	2,838,318	124,242
Central Activities:				
Information	90,342	43,849	10,525	238
Staff	189,772	106,072	27,614	20,831
Technology	254,147	130,511	73,029	81,435
Supplemental Retirement Program	236,495	547,636	-	-
Total Support Services	<u>8,102,227</u>	<u>4,822,596</u>	<u>5,751,222</u>	<u>709,308</u>
Facilities Acquisition and Construction				
Facilities Acquisitions/Improvements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

<u>CAPITAL OUTLAY</u>	<u>OTHER OBJECTS</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>VARIANCE TO FINAL BUDGET</u>
\$ 5,533	\$ -	\$ 10,961,322	\$ 12,223,638	\$ 12,223,638	\$ 1,262,316
7,842	-	6,359,002	6,491,434	6,491,434	132,432
-	-	228,712	283,901	283,901	55,189
4,458	-	9,230,803	9,722,050	9,722,050	491,247
	37,310	1,459,111	1,525,164	1,525,164	66,053
-	-	296,808	321,764	321,764	24,956
-	-	3,540,041	3,396,636	3,396,636	(143,405)
-	-	3,131,408	3,373,182	3,373,182	241,774
-	-	537,848	208,370	208,370	(329,478)
-	-	183,528	174,861	174,861	(8,667)
<u>17,833</u>	<u>37,310</u>	<u>35,928,583</u>	<u>37,721,000</u>	<u>37,721,000</u>	<u>1,792,417</u>
-	605	1,723,295	1,719,453	1,719,453	(3,842)
-	-	149,451	105,998	105,998	(43,453)
-	-	407,934	415,885	415,885	7,951
-	-	546,025	566,403	566,403	20,378
-	-	247,511	262,274	262,274	14,763
-	262	859,425	1,054,145	1,054,145	194,720
-	-	684,728	782,014	782,014	97,286
-	-	3,770	10,000	10,000	6,230
-	20,922	161,948	216,500	216,500	54,552
-	4,682	335,088	398,153	398,153	63,065
600	4,846	3,681,905	3,775,772	3,775,772	93,867
-	9,217	705,690	738,534	738,534	32,844
37,634	360,364	5,542,659	5,765,030	5,765,030	222,371
-	-	2,962,560	2,839,751	2,839,751	(122,809)
-	-	144,954	163,250	163,250	18,296
-	500	344,789	382,243	382,243	37,454
19,943	-	559,065	703,594	703,594	144,529
-	-	784,131	1,060,000	1,060,000	275,869
<u>58,177</u>	<u>401,398</u>	<u>19,844,928</u>	<u>20,958,999</u>	<u>20,958,999</u>	<u>1,114,071</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>	<u>1</u>	<u>1</u>

LAKE OSWEGO SCHOOL DISTRICT NO.7J

**DETAILED SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND (Continued)
YEAR ENDED JUNE 30, 2014**

EXPENDITURES (Cont.):	<u>SALARIES</u>	<u>EMPLOYEE BENEFITS</u>	<u>PURCHASED SERVICES</u>	<u>SUPPLIES & MATERIALS</u>
Debt Service	\$ -	\$ -	\$ -	\$ -
Operating Contingency	-	-	-	-
Total Expenditures	<u>\$ 30,436,444</u>	<u>\$ 16,111,100</u>	<u>\$ 7,056,775</u>	<u>\$ 1,654,474</u>
Excess of Revenues Over, (Under) Expenditures				
Other Financing Uses:				
Transfers Out				
Total Other Financing Sources, (Uses)				
Net Change in Fund Balance				
Beginning Fund Balance				
Ending Fund Balance				

<u>CAPITAL OUTLAY</u>	<u>OTHER OBJECTS</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>VARIANCE TO FINAL BUDGET</u>
\$ -	\$ 3,044,415	\$ 3,044,415	\$ 3,150,000	\$ 3,150,000	\$ 105,585
-	-	-	500,000	500,000	500,000
<u>\$ 76,010</u>	<u>\$ 3,483,123</u>	<u>58,817,926</u>	<u>62,330,000</u>	<u>62,330,000</u>	<u>3,512,073</u>
		906,564	(5,120,000)	(5,120,000)	6,026,564
		<u>(27,747)</u>	<u>(200,000)</u>	<u>(200,000)</u>	<u>172,253</u>
		<u>(27,747)</u>	<u>(200,000)</u>	<u>(200,000)</u>	<u>172,253</u>
		878,817	(5,320,000)	(5,320,000)	6,198,817
		<u>4,727,582</u>	<u>6,000,000</u>	<u>6,000,000</u>	<u>(1,272,418)</u>
		<u>\$ 5,606,399</u>	<u>\$ 680,000</u>	<u>\$ 680,000</u>	<u>\$ 4,926,399</u>

LAKE OSWEGO SCHOOL DISTRICT NO.7J

**DETAILED SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (BUDGETARY BASIS) – COMMUNITY CONTRIBUTIONS FUND
YEAR ENDED JUNE 30, 2014**

REVENUES:

Local Sources:

Contributions and Donations

Total Revenues

Detail by Object

	<u>SALARIES</u>	<u>EMPLOYEE BENEFITS</u>	<u>PURCHASED SERVICES</u>	<u>SUPPLIES & MATERIALS</u>
EXPENDITURES:				
Instruction:				
Regular Programs:				
Primary K-5	\$ 556,929	\$ 272,266	\$ -	\$ 156,492
Jr. High Programs	185,325	99,150	-	71,363
High School Programs	265,104	124,816	400	158,650
High School Extra-curricular	-	-	-	1,136
Other Special Programs	-	-	-	1,591
Total Instruction	<u>1,007,358</u>	<u>496,232</u>	<u>400</u>	<u>389,232</u>
Support Services:				
Pupils:				
Improvement of Instruction	-	-	-	-
Instructional Staff and Educational Media	-	-	-	3,220
School Administration - Office of the Principal	-	-	29,619	2,616
Business:				
Operation and Maintenance	-	-	20,343	315
Total Support Services	<u>-</u>	<u>-</u>	<u>49,962</u>	<u>6,151</u>
Facilities Acquisition and Construction	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Debt Service	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>\$ 1,007,358</u>	<u>\$ 496,232</u>	<u>\$ 50,362</u>	<u>\$ 395,383</u>

Excess of Revenues Over (Under) Expenditures

Beginning Fund Balance

Ending Fund Balance

		<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>VARIANCE TO FINAL BUDGET</u>
		\$ 2,076,273	\$ 2,518,000	\$ 2,518,000	\$ (441,727)
		<u>2,076,273</u>	<u>2,518,000</u>	<u>2,518,000</u>	<u>(441,727)</u>
<u>Detail by Object</u>					
<u>CAPITAL OUTLAY</u>	<u>OTHER OBJECTS</u>				
\$ 40	\$ -	985,727	1,093,000	1,043,000	57,273
-	-	355,838	432,000	432,000	76,162
32,711	-	581,681	681,000	681,000	99,319
-	-	1,136	11,000	11,000	9,864
-	-	1,591	3,000	3,000	1,409
<u>32,751</u>	<u>-</u>	<u>1,925,973</u>	<u>2,220,000</u>	<u>2,170,000</u>	<u>244,027</u>
-	-	-	20,000	20,000	20,000
-	-	3,220	45,000	45,000	41,780
-	-	32,235	20,000	20,000	(12,235)
<u>-</u>	<u>-</u>	<u>20,658</u>	<u>80,000</u>	<u>80,000</u>	<u>59,342</u>
<u>-</u>	<u>-</u>	<u>56,113</u>	<u>165,000</u>	<u>165,000</u>	<u>108,887</u>
<u>16,395</u>	<u>-</u>	<u>16,395</u>	<u>98,000</u>	<u>98,000</u>	<u>81,605</u>
<u>-</u>	<u>96,409</u>	<u>96,409</u>	<u>90,000</u>	<u>140,000</u>	<u>43,591</u>
<u>\$ 49,146</u>	<u>\$ 96,409</u>	<u>2,094,890</u>	<u>2,573,000</u>	<u>2,573,000</u>	<u>478,110</u>
		(18,617)	(55,000)	(55,000)	36,383
		<u>209,629</u>	<u>55,000</u>	<u>55,000</u>	<u>154,629</u>
		<u>\$ 191,012</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 191,012</u>

LAKE OSWEGO SCHOOL DISTRICT NO.7J

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (BUDGETARY BASIS) - DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2014**

	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>VARIANCE TO FINAL BUDGET</u>
REVENUES:				
Local Sources:				
Taxes-Current Levy	\$ 6,085,663	\$ 6,015,000	\$ 6,015,000	\$ 70,663
Taxes-Prior Levies	200,673	185,000	185,000	15,673
Earnings on Investments	908	15,000	15,000	(14,092)
Total Revenues	<u>6,287,244</u>	<u>6,215,000</u>	<u>6,215,000</u>	<u>72,244</u>
EXPENDITURES:				
Debt Service:				
Long-Term Debt Service:				
Redemption of Principal	2,925,000	2,925,000	2,925,000	-
Interest	3,389,686	3,390,000	3,390,000	314
Total Expenditures	<u>6,314,686</u>	<u>6,315,000</u>	<u>6,315,000</u>	<u>314</u>
Excess of Revenues Over (Under) Expenditure	(27,442)	(100,000)	(100,000)	72,558
Beginning Fund Balance	<u>290,256</u>	<u>250,000</u>	<u>250,000</u>	<u>40,256</u>
Ending Fund Balance	<u>\$ 262,814</u>	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ 112,814</u>

LAKE OSWEGO SCHOOL DISTRICT NO.7J

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (BUDGETARY BASIS) - CAPITAL PROJECTS FUND
YEAR ENDED JUNE 30, 2014**

REVENUES:

From Local Sources:

Construction Excise Tax

Interest Income

Contributions and Donations

Settlements and Miscellaneous

From Intermediate Sources:

SB 1149 Energy Program

Total Revenues

Detail by Object

	<u>SALARIES</u>	<u>EMPLOYEE</u>	<u>PURCHASED</u>	<u>SUPPLIES &</u>
		<u>BENEFITS</u>	<u>SERVICES</u>	<u>MATERIALS</u>
EXPENDITURES:				
Instruction	\$ -	\$ -	\$ -	\$ -
Support Services	-	-	-	-
Facilities Acquisition and Service Direction	-	-	768,325	10,177
Debt Service	-	-	-	-
Operating Contingency	-	-	-	-
Total Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 768,325</u>	<u>\$ 10,177</u>

Excess of Expenditures Over Revenues

Other Financing Sources and (Uses):

Transfers Out

Excess of Expenditures Over Revenues and Other Financing Sources

Beginning Fund Balance

Ending Fund Balance

	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>VARIANCE TO FINAL BUDGET</u>
\$	416,028	\$ 350,000	\$ 350,000	\$ 66,028
	6,692	5,000	5,000	1,692
	528,523	530,000	530,000	(1,477)
	1,500,000	-	-	1,500,000
	<u>128,240</u>	<u>525,000</u>	<u>525,000</u>	<u>(396,760)</u>
	<u>2,579,483</u>	<u>1,410,000</u>	<u>1,410,000</u>	<u>1,169,483</u>

<u>CAPITAL OUTLAY</u>	<u>OTHER OBJECTS</u>				
\$	\$ -	-	50,000	50,000	50,000
-	-	-	50,000	50,000	50,000
767,611	6,456	1,552,569	1,550,000	1,275,000	(277,569)
-	649,925	649,925	375,000	650,000	75
-	-	-	250,000	250,000	250,000
<u>\$ 767,611</u>	<u>\$ 656,381</u>	<u>2,202,494</u>	<u>2,275,000</u>	<u>2,275,000</u>	<u>72,506</u>
		376,989	(865,000)	(865,000)	1,241,989
		<u>-</u>	<u>(1)</u>	<u>(1)</u>	<u>1</u>
		376,989	(865,001)	(865,001)	1,241,990
		<u>1,181,864</u>	<u>2,300,001</u>	<u>2,300,001</u>	<u>(1,118,137)</u>
		<u>\$ 1,558,853</u>	<u>\$ 1,435,000</u>	<u>\$ 1,435,000</u>	<u>\$ 123,853</u>

LAKE OSWEGO SCHOOL DISTRICT NO.7J
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014

	SPECIAL REVENUE FUNDS				TOTAL NONMAJOR GOVERNMENTAL FUNDS
	GRANTS FUND	COMMUNITY SERVICES FUND	STUDENT ACTIVITY FUND	FOOD SERVICE FUND	
ASSETS:					
Cash and Investments	\$ 250	\$ 400	\$ 1,567,830	\$ 150	\$ 1,568,630
Interfund Receivables	185	324,607	-	74,615	399,407
Accounts Receivable	-	15,576	-	1,725	17,301
Grants Receivable	98,030	-	-	14,439	112,469
Inventory of Supplies	-	-	-	8,509	8,509
Total Assets	\$ 98,465	\$ 340,583	\$ 1,567,830	\$ 99,438	\$ 2,106,316
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Interfund Payables	\$ 93,132	\$ -	\$ -	\$ -	\$ 93,132
Accounts Payable	5,333	70,145	-	15,011	90,489
Unearned Revenue	-	204,733	-	75,918	280,651
Total Liabilities	98,465	274,878	-	90,929	464,272
Fund Balances:					
Nonspendable Inventory	-	-	-	8,509	8,509
Committed to:					
Community Support	-	65,705	-	-	65,705
Student Activities	-	-	1,567,830	-	1,567,830
Total Fund Balances	-	65,705	1,567,830	8,509	1,642,044
Total Liabilities and Fund Balances	\$ 98,465	\$ 340,583	\$ 1,567,830	\$ 99,438	\$ 2,106,316

LAKE OSWEGO SCHOOL DISTRICT NO.7J**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014**

	SPECIAL REVENUE FUNDS				TOTAL NONMAJOR GOVERNMENTAL FUNDS
	GRANTS FUND	COMMUNITY SERVICES FUND	STUDENT ACTIVITY FUND	FOOD SERVICE FUND	
REVENUES:					
Local Sources:	\$ -	\$ 2,559,107	\$ 2,674,024	\$ 1,190,043	\$ 6,423,174
Intermediate Sources	128,531	-	-	-	128,531
State Sources	12,138	-	-	13,256	25,394
Federal Sources	1,352,661	-	-	365,373	1,718,034
Total Revenues	<u>1,493,330</u>	<u>2,559,107</u>	<u>2,674,024</u>	<u>1,568,672</u>	<u>8,295,133</u>
EXPENDITURES:					
Current:					
Instruction	724,775	-	2,597,508	-	3,322,283
Support Services	723,354	-	-	-	723,354
Enterprise and Community Services	-	2,437,843	-	1,522,911	3,960,754
Capital Outlay	1,400	-	-	21,291	22,691
Debt Service	61,781	55,559	-	79,971	197,311
Total Expenditures	<u>1,511,310</u>	<u>2,493,402</u>	<u>2,597,508</u>	<u>1,624,173</u>	<u>8,226,393</u>
Excess (Deficiency) of Revenues Over Expenditures	(17,980)	65,705	76,516	(55,501)	68,740
Other Financing Sources:					
Transfer In	17,980	-	-	9,767	27,747
Total Financing Sources	<u>17,980</u>	<u>-</u>	<u>-</u>	<u>9,767</u>	<u>27,747</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures	-	65,705	76,516	(45,734)	96,487
Increase (Decrease) in Inventories	-	-	-	(24,375)	(24,375)
Beginning Fund Balance	<u>-</u>	<u>-</u>	<u>1,491,314</u>	<u>78,618</u>	<u>1,569,932</u>
Ending Fund Balance	<u>\$ -</u>	<u>\$ 65,705</u>	<u>\$ 1,567,830</u>	<u>\$ 8,509</u>	<u>\$ 1,642,044</u>

LAKE OSWEGO SCHOOL DISTRICT NO.7J**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (BUDGETARY BASIS) - GRANTS FUND
YEAR ENDED JUNE 30, 2014**

REVENUES:

Local Sources:
 Contributions and Donations
 Intermediate Sources:
 Grants-In-Aid
 State Sources:
 Grants-In-Aid
 Federal Sources:
 Grants-In-Aid

Total Revenues

Detail by Object

	<u>SALARIES</u>	<u>EMPLOYEE BENEFITS</u>	<u>PURCHASED SERVICES</u>	<u>SUPPLIES & MATERIALS</u>
EXPENDITURES:				
Instruction:				
Special Programs:				
More Restrictive Programs	\$ 27,596	\$ 24,719	\$ -	\$ -
Less Restrictive Programs	192,214	94,924	1,355	-
Title I Programs	<u>210,509</u>	<u>118,184</u>	<u>4,350</u>	<u>19,556</u>
Total Instruction	<u>430,319</u>	<u>237,827</u>	<u>5,705</u>	<u>19,556</u>
Support Services:				
Students:				
Nursing Services	32,388	11,348		
Psychological Services	87,400	43,327	-	-
Service Direction, Student Support	266,020	122,288	1,709	10,568
Instructional Staff:				
Improvement of Instruction	37,057	5,816	70,428	9,230
Student Assessment	-	-	-	-
Central Activities:				
Indirect Costs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Support Services	<u>422,865</u>	<u>182,779</u>	<u>72,137</u>	<u>19,798</u>
Debt Service - Interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>\$ 853,184</u>	<u>\$ 420,606</u>	<u>\$ 77,842</u>	<u>\$ 39,354</u>

Excess of Revenues Over Expenditures

Other Financing Sources:

Transfer In

Beginning Fund Balance

Ending Fund Balance

		<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>VARIANCE TO FINAL BUDGET</u>
		\$ -	\$ 4,000	\$ 4,000	\$ (4,000)
		128,531	46,000	46,000	82,531
		12,138	180,000	180,000	(167,862)
		<u>1,352,661</u>	<u>1,821,000</u>	<u>1,821,000</u>	<u>(468,339)</u>
		<u>1,493,330</u>	<u>2,051,000</u>	<u>2,051,000</u>	<u>(557,670)</u>
<u>Detail by Object</u>					
<u>CAPITAL OUTLAY</u>	<u>OTHER OBJECTS</u>				
\$ -	\$ -	52,315	-	-	(52,315)
-	3,681	292,174	925,000	925,000	632,826
-	29,087	381,686	325,000	325,000	(56,686)
-	32,768	726,175	1,250,000	1,250,000	523,825
		43,736	-	-	(43,736)
		130,727	-	-	(130,727)
	21,487	422,072	411,000	411,000	(11,072)
1,400	-	123,931	250,000	250,000	126,069
-	-	-	12,500	12,500	12,500
-	2,888	2,888	42,500	42,500	39,612
1,400	24,375	723,354	716,000	716,000	(7,354)
-	61,781	61,781	85,000	85,000	23,219
<u>\$ 1,400</u>	<u>\$ 118,924</u>	<u>1,511,310</u>	<u>2,051,000</u>	<u>2,051,000</u>	<u>539,690</u>
		(17,980)	-	-	(17,980)
		17,980	-	-	17,980
		-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

LAKE OSWEGO SCHOOL DISTRICT NO.7J**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (BUDGETARY BASIS) - COMMUNITY SERVICES FUND
YEAR ENDED JUNE 30, 2014**

REVENUES:	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	VARIANCE TO FINAL BUDGET
Local Sources, Community Service Activities:				
Community Services Tuition	\$ 1,283,845	\$ 1,371,000	\$ 1,371,000	\$ (87,155)
Extended Child Care Fees	1,082,482	1,260,000	1,260,000	(177,518)
Driver's Ed. Fees	-	90,000	90,000	(90,000)
Pool Fees	182,431	150,000	150,000	32,431
Rent From School Facility	-	110,000	110,000	(110,000)
Miscellaneous	10,349	10,000	10,000	349
Total Revenues	2,559,107	2,991,000	2,991,000	(431,893)
EXPENDITURES:				
Enterprise and Community Services				
Other Enterprise:				
Community Recreation:				
Salaries	538,706	700,000	700,000	161,294
Employee Benefits	126,708	150,000	150,000	23,292
Purchased Services	297,966	350,000	350,000	52,034
Supplies & Materials	243,110	345,000	345,000	101,890
Capital Outlay	-	5,000	5,000	5,000
Other Objects	6,920	10,000	10,000	3,080
Swim Pool:				
Salaries	80,164	130,000	130,000	49,836
Employee Benefits	22,339	35,000	35,000	12,661
Purchased Services	114,814	160,000	160,000	45,186
Supplies & Materials	19,986	20,000	20,000	14
Other Objects	612	1,000	1,000	388
Custody and Care of Children:				
Salaries	585,165	640,000	640,000	54,835
Employee Benefits	306,348	385,000	385,000	78,652
Purchased Services	46,300	40,000	40,000	(6,300)
Supplies & Materials	48,705	80,000	80,000	31,295
Capital Outlay	-	5,000	5,000	5,000
Total Enterprise and Community Services	2,437,843	3,056,000	3,056,000	618,157
Debt Service	55,559	60,000	60,000	4,441
Total Expenditures	2,493,402	3,116,000	3,116,000	622,598
Excess (Deficiency) of Revenues Over Expenditures	65,705	(125,000)	(125,000)	190,705
Other Financing Sources:				
Transfers In	-	125,000	125,000	(125,000)
Excess (Deficiency) of Revenues Over Expenditures and Other Financing Sources	65,705	-	-	65,705
Beginning Fund Balance	-	-	-	-
Ending Fund Balance	\$ 65,705	\$ -	\$ -	\$ 65,705

LAKE OSWEGO SCHOOL DISTRICT NO.7J**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (BUDGETARY BASIS) - STUDENT ACTIVITY FUND
YEAR ENDED JUNE 30, 2014**

	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>VARIANCE TO FINAL BUDGET</u>
REVENUES:				
Local Sources:				
Community Services Activities	<u>\$ 2,674,024</u>	<u>\$ 2,850,000</u>	<u>\$ 2,850,000</u>	<u>\$ (175,976)</u>
EXPENDITURES:				
Instruction:				
Regular Programs:				
Elementary-Extra-curricular:				
Supplies & Materials	131,097	275,000	275,000	143,903
Jr. High-Extra-curricular:				
Supplies & Materials	463,881	475,000	475,000	11,119
High School Extra-curricular:				
Supplies & Materials	<u>2,002,530</u>	<u>2,200,000</u>	<u>2,200,000</u>	<u>197,470</u>
Total Instruction	<u>2,597,508</u>	<u>2,950,000</u>	<u>2,950,000</u>	<u>352,492</u>
Excess (Deficiency) of Revenues Over Expenditures	76,516	(100,000)	(100,000)	176,516
Beginning Fund Balance	<u>1,491,314</u>	<u>1,750,000</u>	<u>1,750,000</u>	<u>(258,686)</u>
Ending Fund Balance	<u><u>\$ 1,567,830</u></u>	<u><u>\$ 1,650,000</u></u>	<u><u>\$ 1,650,000</u></u>	<u><u>\$ (82,170)</u></u>

LAKE OSWEGO SCHOOL DISTRICT NO.7J**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (BUDGETARY BASIS) - FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2014**

REVENUES:	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	VARIANCE TO FINAL BUDGET
Local Sources - Food Service:				
Food Service Sales	\$ 1,132,639	\$ 1,210,000	\$ 1,210,000	\$ (77,361)
Banquets & Miscellaneous	57,404	100,000	100,000	(42,596)
Total Local Sources - Food Service	1,190,043	1,310,000	1,310,000	(119,957)
State Sources:				
State School Support - Lunch Match	13,256	20,000	20,000	(6,744)
Federal Sources:				
National School Lunch Reimbursement	306,319	300,000	300,000	6,319
USDA Commodities	59,054	95,000	95,000	(35,946)
Total Federal Sources	365,373	395,000	395,000	(29,627)
Total Revenues	1,568,672	1,725,000	1,725,000	(156,328)
EXPENDITURES:				
Enterprise and Community Services:				
Food Services:				
Salaries	490,539	530,000	530,000	39,461
Employee Benefits	212,840	240,000	240,000	27,160
Purchased Services	27,113	35,000	35,000	7,887
Supplies & Materials	787,274	885,000	885,000	97,726
Capital Outlay	21,291	10,000	10,000	(11,291)
Other Objects	5,145	5,000	5,000	(145)
Total Enterprise and Community Services	1,544,202	1,705,000	1,705,000	160,798
Debt Service - Other Objects	79,971	90,000	90,000	10,029
Total Expenditures	1,624,173	1,795,000	1,795,000	170,827
Excess (Deficiency) of Revenues Over Expenditures	(55,501)	(70,000)	(70,000)	14,499
Other Financing Sources:				
Transfer In	9,767	75,000	75,000	(65,233)
Excess (Deficiency) of Revenue and Other Financing Sources Over Expenditures	(45,734)	5,000	5,000	(50,734)
Beginning Fund Balance	45,734	65,000	65,000	(19,266)
Ending Fund Balance	\$ -	\$ 70,000	\$ 70,000	\$ (70,000)

OTHER FINANCIAL SCHEDULES

LAKE OSWEGO SCHOOL DISTRICT NO.7J

**SCHEDULE OF PROPERTY TAX TRANSACTIONS AND BALANCES OF TAXES UNCOLLECTED -
GENERAL FUND**

YEAR ENDED JUNE 30, 2014

TAX YEAR	ORIGINAL LEVY OR BALANCE UNCOLLECTED July 1, 2013	DEDUCT DISCOUNTS	ADJUSTMENTS TO ROLLS	ADD INTEREST	CASH COLLECTIONS BY COUNTY TREASURER	BALANCE UNCOLLECTED OR UNSEGREGATED June 30, 2014
Current:						
2013-14	\$ 35,137,311	\$ 892,413	\$ (58,021)	\$ 12,512	\$ 33,317,710	\$ 881,679
Prior Years:						
2012-13	1,013,692	(504)	(27,745)	43,192	535,190	494,453
2011-12	577,275	(179)	(8,891)	50,230	266,277	352,516
2010-11	373,820	(38)	(2,501)	60,984	226,965	205,377
2009-10	211,609	(5)	(4,032)	26,296	86,998	146,881
2008-09	37,553	(27)	(5,288)	4,488	11,375	25,404
2007-08	13,880	-	(1,813)	2,200	5,279	8,987
2006-07	8,153	-	(1,967)	863	1,888	5,161
2005-06	5,293	-	(417)	676	1,358	4,193
2004-05	4,274	-	(342)	1,103	2,129	2,905
2003-04	3,064	-	(222)	531	963	2,409
2002-03	2,455	-	(174)	294	526	2,050
2001-02	2,599	-	(123)	380	651	2,206
2000-01	1,832	-	(88)	350	580	1,514
1999-00	923	-	(33)	102	165	827
1998-99	850	-	(40)	28	44	794
1997-98	510	-	(3)	-	-	508
1996-97	382	-	(4)	8	11	374
1995-96	427	-	(0)	11	16	421
1994-95 & Prior	1,687	-	(1)	392	512	1,565
Total Prior	2,260,279	(754)	(53,684)	192,126	1,140,929	1,258,547
Total	\$ 37,397,590	\$ 891,659	\$ (111,705)	\$ 204,639	\$ 34,458,639	\$ 2,140,226

RECONCILIATION TO REVENUE:

Cash Collections by County Treasurers Above	\$ 34,458,639
Accrual of Current Receivables:	
June 30, 2013	(338,398)
June 30, 2014	406,770
June 30, 2013 Cash With County	162,545
June 30, 2014 Cash With County	(206,967)
Taxes in Lieu of Property Taxes	550
Total Revenue	\$ 34,483,139

LAKE OSWEGO SCHOOL DISTRICT NO.7J

**SCHEDULE OF PROPERTY TAX TRANSACTIONS AND BALANCES OF TAXES UNCOLLECTED -
DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2014**

TAX YEAR	ORIGINAL LEVY OR BALANCE UNCOLLECTED July 1, 2013	DEDUCT DISCOUNTS	ADJUSTMENTS TO ROLLS	ADD INTEREST	CASH COLLECTIONS BY COUNTY TREASURER	BALANCE UNCOLLECTED OR UNSEGREGATED June 30, 2014
Current:						
2013-14	\$ 6,402,286	\$ 162,606	\$ (10,573)	\$ 2,287	\$ 6,070,754	\$ 160,640
Prior Years:						
2012-13	184,353	(92)	(5,046)	7,871	97,346	89,923
2011-12	102,385	(32)	(1,576)	8,925	47,242	62,523
2010-11	67,976	(7)	(454)	11,113	41,294	37,347
2009-10	47,565	(1)	(907)	5,928	19,571	33,016
2008-09	8,346	(6)	(1,175)	999	2,530	5,646
2007-08	3,057	-	(398)	486	1,164	1,980
2006-07	1,872	-	(454)	198	433	1,183
2005-06	1,343	-	(106)	171	345	1,064
2004-05	1,127	-	(90)	291	561	766
2003-04	848	-	(62)	147	267	667
2002-03	650	-	(46)	78	139	543
2001-02	688	-	(32)	101	172	584
2000-01	139	-	(7)	27	44	115
1999-00	216	-	(8)	24	39	193
1998-99	217	-	(10)	7	11	203
1997-98	135	-	(1)	-	-	134
1996-97	44	-	-	1	1	44
1995-96	48	-	-	1	2	48
1994-95 & Prior	127	-	-	30	40	118
Total Prior	421,136	(137)	(10,371)	36,398	211,203	236,098
Total	\$ 6,823,423	\$ 162,468	\$ (20,944)	\$ 38,684	\$ 6,281,956	\$ 396,737

RECONCILIATION TO REVENUE:

Cash Collections by County Treasurers Above	\$ 6,281,956
Accrual of Current Receivables:	
June 30, 2014	74,939
June 30, 2013	(63,819)
June 30, 2013 Cash With County	30,579
June 30, 2014 Cash With County	(37,677)
Taxes in Lieu of Property Taxes	358
Total Revenue	\$ 6,286,336

LAKE OSWEGO SCHOOL DISTRICT NO.7J

SUPPLEMENTAL INFORMATION - AS REQUIRED BY THE OREGON DEPARTMENT OF EDUCATION,
FORM 581-3211-C (Rev 4/07)
YEAR ENDED JUNE 30, 2014

A. Energy Bill for Heating - All Funds

<u>Function</u>	<u>Objects 325 and 326</u>
2540	\$ 955,952
2550	-

**B. Replacement of Equipment - General Fund - All except excluded
Functions - Object 542**

72,092

COMPLIANCE SECTION



GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
475 Cottage Street NE, Suite 200, Salem, Oregon 97301
(503) 581-7788

INDEPENDENT AUDITOR'S 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

School Board
Lake Oswego School District
2455 Country Club Road
Lake Oswego, Oregon 97034

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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Lake Oswego School District No. 7J, Clackamas County, Oregon (the District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 31, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's 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 District's 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 District's financial statements are free from material misstatement, we performed tests of its 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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


CERTIFIED PUBLIC ACCOUNTANTS
December 31, 2014



GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
475 Cottage Street NE, Suite 200, Salem, Oregon 97301
(503) 581-7788

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

School Board
Lake Oswego School District
2455 Country Club Road
Lake Oswego, Oregon 97034

Report on Compliance for Each Major Federal Program

We have audited Lake Oswego School District No. 7J, Clackamas County, Oregon's (the District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. The District's major federal programs are identified in the summary of auditor's 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.

Auditor's Responsibility

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

Opinion on Each Major Federal Program

In our opinion, the Lake Oswego 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, 2014.

Report on Internal Control over Compliance

Management of the District 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 the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are

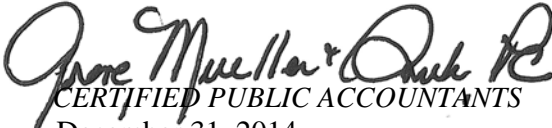
appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's 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.

Purpose of this Report

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


CERTIFIED PUBLIC ACCOUNTANTS
December 31, 2014

LAKE OSWEGO SCHOOL DISTRICT NO.7J
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014

<u>Source/Grant Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Program or Award Amount</u>	<u>Expenditures (Budgetary Basis)</u>
U.S. DEPARTMENT OF EDUCATION:				
Passed Through State Department of Education:				
Title IA (formerly Chapter I)	84.010	25280	\$ 378,658	\$ 26,937
Title IA (formerly Chapter I)	84.010	28160	365,650	354,749
Subtotal Title I, Part A				381,686
IDEA Part B, Section 611	84.027	26718	907,411	3,596
IDEA Part B, Section 611	84.027	28479	909,774	847,153
IDEA Enhancement	84.027	26503	7,957	-
IDEA Part B, Section 619	84.027	26296	2,919	2,919
IDEA Part B, Section 619	84.027	28878	3,556	1,000
IDEA SPR & I	84.027	25795	3,228	-
Subtotal Special Education Cluster (IDEA)				854,668
Title IIA Improving Teacher Quality	84.367	28677	117,990	88,594
Title IIA Improving Teacher Quality	84.367	25507	125,423	26,213
Subtotal Title IIA Improving Teacher Quality				114,807
ARRA Kindergarten Assessment	93.708	27500	1,500	1,500
TOTAL U.S. DEPARTMENT OF EDUCATION				1,352,661
U.S. DEPARTMENT OF AGRICULTURE:				
Passed Through State Department of Education:				
National School Lunch Program - Breakfast	10.553	N/A	N/A	28,196
National School Lunch Program - Lunch	10.555	N/A	N/A	278,123
National School Lunch Program - Commodities	10.555	N/A	N/A	59,054
Subtotal Child Nutrition Cluster				365,373
Federal Forest Fees	10.665	N/A	N/A	34,390
Subtotal Forest Service Schools and Roads Cluster				34,390
TOTAL U.S. DEPARTMENT OF AGRICULTURE				399,763
TOTAL FEDERAL ASSISTANCE				\$ 1,752,424

See notes to schedule of expenditures of federal awards.

LAKE OSWEGO SCHOOL DISTRICT NO.7J
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014

PURPOSE OF THE SCHEDULE

The accompanying schedule of expenditures of federal awards (the "Schedule") is a supplementary schedule to the Lake Oswego School District No.7J's financial statements and is presented for purposes of additional analysis. Because the Schedule presents only a selected portion of the activities of the District, it is not intended to and does not present either the financial position, changes in fund balances, or the operating funds' revenues, expenditures and changes of the District.

SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The information in the Schedule is presented in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Federal Financial Assistance

Pursuant to the Single Audit Act Amendments of 1996 and OMB Circular A-133, federal financial assistance is defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance or direct appropriations. Accordingly, nonmonetary federal assistance, including federal surplus property, is included in federal financial assistance and, therefore, is reported on the Schedule, if applicable. Federal financial assistance does not include direct federal cash assistance to individuals. Solicited contracts between the state and federal government for which the federal government procures tangible goods or services are not considered to be federal financial assistance.

Major Programs

The Single Audit Act Amendments of 1996 and OMB Circular A-133 establish criteria to be used in defining major federal financial assistance programs. Major programs for the Lake Oswego School District No.7J are those programs selected for testing by the auditor using a risk-assessment model, as well as certain minimum expenditure requirements, as outlined in OMB Circular A-133. Programs with similar requirements may be grouped into a cluster for testing purposes.

Reporting Entity

The reporting entity is fully described in notes to the financial statements. Additionally, the Schedule includes all federal programs administered by the District for the year ended June 30, 2014.

Revenue and Expenditure Recognition

The receipt and expenditure of federal awards are accounted for under the modified accrual basis of accounting. Revenues are recorded as received in cash or on the accrual basis where measurable and available. Expenditures are recorded when the liability is incurred.

LAKE OSWEGO SCHOOL DISTRICT NO.7J
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553/10.555	Child Nutrition Cluster
84.010	Title I, Grants to Local Educational Agencies
84.367	Improving Teacher Quality

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

FINANCIAL STATEMENT FINDINGS

None.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.



GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
475 Cottage Street NE, Suite 200, Salem, Oregon 97301
(503) 581-7788

INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

School Board
Lake Oswego School District
2455 Country Club Road
Lake Oswego, Oregon 97034

We have audited, 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, the financial statements of Lake Oswego School District No. 7J, Clackamas County, Oregon (the District) as of and for the year ended June 30, 2014, and have issued our report thereon dated December 31, 2014.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its 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 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, except for expenditures in excess of appropriations as disclosed in the notes to the financial statements.

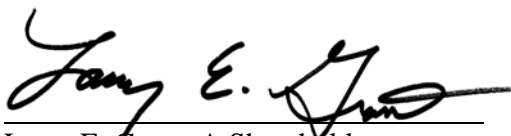
Internal Control

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Restriction on Use

This report is intended solely for the information and use of the school board and management of the Lake Oswego School District No. 7J and the Oregon Secretary of State and is not intended to be and should not be used by anyone other than these parties.

GROVE, MUELLER & SWANK, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

By: 
Larry E. Grant, A Shareholder
December 31, 2014

STATISTICAL SECTION

LAKE OSWEGO SCHOOL DISTRICT NO.7J
BALANCE SHEETS - GENERAL FUND
LAST FIVE FISCAL YEARS

	2010	2011	2012	2013	2014
ASSETS:					
Cash and Investments	\$ 14,130,208	\$ 14,298,929	\$ 17,665,560	\$ 12,287,821	\$ 12,192,925
Receivables:					
Taxes	2,112,529	1,963,725	2,259,452	2,260,279	2,140,226
Accounts	541,579	529,212	479,937	566,959	505,966
Prepays	51,465	27,410	31,174	51,070	42,820
Inventory of Supplies	110,743	142,129	77,059	89,920	73,192
Total Assets	\$ 16,946,524	\$ 16,961,405	\$ 20,513,182	\$ 15,256,049	\$ 14,955,129
LIABILITIES:					
Interfund Payables	\$ 2,663,111	\$ 1,514,273	\$ 805,063	\$ 1,173,890	\$ 63,844
Intergovernmental Payable	46,592	84,481	134,947	151,976	196,297
Accrued Payroll and Benefits Payable	5,578,026	4,178,136	6,093,376	6,457,045	6,593,033
Accounts Payable	1,469,106	2,732,913	1,932,547	695,402	618,409
Unearned Revenue	-	48,261	53,059	38,352	73,636
Total Liabilities	9,756,835	8,558,064	9,018,992	8,516,665	7,545,219
DEFERRED INFLOWS OF RESOURCES:					
Unavailable Revenue - Property taxes	1,917,395	1,774,802	2,084,164	1,921,882	1,730,319
FUND BALANCES					
Nonspendable Prepays	-	-	31,174	51,070	42,820
Nonspendable Inventory	110,743	142,129	77,059	89,920	73,192
Unassigned	5,161,551	6,486,410	9,301,793	4,676,512	5,563,579
Total Fund Balances	5,272,294	6,628,539	9,410,026	4,817,502	5,679,591
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 16,946,524	\$ 16,961,405	\$ 20,513,182	\$ 15,256,049	\$ 14,955,129

LAKE OSWEGO SCHOOL DISTRICT NO.7J**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GENERAL FUND
LAST FIVE FISCAL YEARS**

	2010	2011	2012	2013	2014
REVENUES:					
Local Sources:					
Taxes	\$ 32,598,515	\$ 33,202,301	\$ 33,371,731	\$ 33,527,166	\$ 34,483,139
Earnings on Investments	91,608	92,684	103,513	120,720	107,947
City of Lake Oswego Support	-	-	2,000,000	-	-
Other Local Sources	1,514,550	2,385,719	2,459,584	2,799,376	1,858,774
Intermediate Sources	377,719	275,995	348,881	367,765	342,860
State Sources	21,005,835	15,814,633	19,165,725	18,176,583	22,889,505
Federal Sources	136,830	3,554,609	1,490,620	35,202	34,390
Total Revenues	55,725,057	55,325,941	58,940,054	55,026,812	59,716,615
EXPENDITURES:					
Current:					
Instruction	31,438,327	32,518,900	31,892,417	34,089,602	35,910,750
Support Services	18,674,099	18,512,846	19,236,503	19,908,798	19,786,751
Capital Outlay	178,418	273,748	2,017,739	2,757,903	76,010
Debt Service:					
Principal	906,683	867,272	2,503,190	957,677	989,042
Interest	1,665,983	1,791,100	1,951,636	1,920,713	2,055,373
Total Expenditures	52,863,510	53,963,866	57,601,485	59,634,693	58,817,926
Excess (Deficiency) of Revenues Over Expenditures	2,861,547	1,362,075	1,338,569	(4,607,881)	898,689
OTHER FINANCING SOURCES (USES):					
Proceeds From Refunding of Long- Term Debt	-	-	1,660,000	-	-
Compensation for Loss of Capital Assets	-	-	-	25,100	7,875
Transfers Out	(302,573)	(37,216)	(152,012)	(22,604)	(27,747)
Total Other Financing Sources (Uses)	(302,573)	(37,216)	1,507,988	2,496	(19,872)
Excess (Deficiency) of Revenues Over Expenditures and Other Uses	2,558,974	1,324,859	2,846,557	(4,605,385)	878,817
Increase (Decrease) in Inventories	(19,244)	31,386	(65,070)	12,861	(16,728)
FUND BALANCE, Beginning of Year	2,732,564	5,272,294	6,628,539	9,410,026	4,817,502
FUND BALANCE, End of Year	<u>\$ 5,272,294</u>	<u>\$ 6,628,539</u>	<u>\$ 9,410,026</u>	<u>\$ 4,817,502</u>	<u>\$ 5,679,591</u>

Note: This schedule includes only revenues, expenditures, transfers and fund balances of the General Fund.
This schedule has been prepared on a GAAP basis.