

**HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON**

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2014



12700 SW 72nd Ave.
Tigard, OR 97223

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

2013-14

FINANCIAL REPORT

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HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

BOARD OF DIRECTORS AS OF JUNE 30, 2014

<u>BOARD OF EDUCATION</u>	<u>TERM EXPIRES</u>
Jan Veldhuisen Virk	June, 2017
Kateri Osborne Lohr	June, 2015
Liz Whitmore, Chair	June, 2015
David Russo	June, 2017
Julia Garcia-Ramirez	June, 2017
Bob Danko	June, 2015
Mark Johnson, Vice Chair	June, 2017
Rob Brostoff	June, 2015

ADMINISTRATION

Dan Goldman, Superintendent

Saundra Buchanan, M.B.A., Chief Financial Officer

1011 Eugene Street
Hood River, OR 97031

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HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

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HOOD RIVER COUNTY, OREGON

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December 22, 2014

To the Board of Directors
Hood River County School District
Hood River County, Oregon

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hood River County School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hood River County School District, 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.

Emphasis of Matter

The District adopted the provision of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for the year ended June 30, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The supplementary and other information, as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information, as listed in the table of contents, and the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

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

Reports on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2014 on our consideration of the internal control over financial reporting and on our tests of 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 internal control over financial reporting and compliance.

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our reports dated December 22, 2014, on our consideration of compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

A handwritten signature in black ink that reads "Tara M. Kamp, CPA". The signature is written in a cursive, flowing style.

Tara M. Kamp, CPA
PAULY, ROGERS AND CO., P.C.

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**HOOD RIVER COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

This section of Hood River County School District's (the District) Financial Statements presents a comparative analysis of the financial activities of the District for the fiscal years ended June 30, 2014 and 2013. This discussion and analysis has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with them. This report is based on currently known facts, decisions, and conditions that existed at the date of the independent auditor's report.

FINANCIAL HIGHLIGHTS

- In the government-wide statement of net position in fiscal year 2014, the assets of the District exceeded liabilities by \$16,159,026 reflecting an improvement of \$1,500,308 from the prior year's net position.
- The District made all scheduled payments to reduce total debt by \$3,753,137 offset by additions of a capital lease of \$120,695 for a net decrease in long term liabilities of \$3,632,442.
- The District demonstrated compliance with the requirements of GASB Statements 27 and 45 for the first time through its actuarial valuation report to be applied to the reporting periods ending June 30, 2014 and June 30, 2015 and recorded the other post-employment benefits liabilities.
- Capital assets additions of \$599,711 were from building improvements of \$265,441 and vehicles and equipment purchases of \$334,270. A restatement of beginning balances was made to correct errors noted in the prior years' capital asset register. Note 6 includes more information about the restatement.
- At the end of the fiscal year, the ending fund balance in the general fund was \$2,554,704, of which \$2,480,278 was unassigned and \$74,426 was assigned to unemployment reserves and bus replacement. Unassigned fund balance increased by \$181,278 as compared to the prior year's unassigned fund balance of \$2,299,003.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. These statements include:

The *Statement of Net Position* presents information on all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference 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 net position of the District changed over the year by tracking revenues, expenses and other transactions that increase or reduce net position. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, 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).

In the government-wide financial statements, the District's activities are shown in one category as governmental activities. The District's basic functions such as instruction, support services, community services, and interest on long-term debt are primarily financed through property taxes, Oregon's State School Fund, and other intergovernmental revenues.

The government-wide financial statements can be found on pages 18 and 19 of this report.

Fund Financial Statements. The fund financial statements provide more detailed information about the District's funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Hood River County School District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of the District are governmental funds.

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

Since 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 government'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 has three major government funds: General Fund, Grants Fund, and Capital Construction Fund. Other non-major governmental funds include special revenue funds of Food Service, Community Education, and Student Body and the Debt Service fund. Information is presented separately in the governmental funds balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balance for the general fund, grants fund, capital construction fund, and other governmental funds. The District adopts the budget for each fund type level, and for certain funds, at the fund level.

The basic governmental fund financial statements can be found on pages 20 through 23 of this report.

Notes to the basic financial statements. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 24 through 47 of this report.

Supplementary information. Schedules presenting detailed budgetary information for individual funds, schedules of funding progress and employer contributions of the early retirement program and of post-employment health care, and other supplementary information can be found on pages 48 through 64 of this report.

Government-wide financial analysis. As noted earlier, net position over time may serve as a useful indicator of a government's financial position. As of June 30, 2014, the District's assets exceeded liabilities by \$16,159,026.

Capital assets, which consist of the District's land, buildings, improvements, vehicles, and equipment represent 64% of total assets. The remaining assets consist of cash and investments, property tax receivables, supply inventory, prepaid pension costs, and bond issue costs.

The District's largest liability is for the repayment of general obligation and PERS bonds, and a capital lease and that represent 94% of total liabilities. Current liabilities include accounts payable, salaries and contracts payable, accrued interest payable, and accrued vacation that represent 6% of total liabilities.

The District demonstrated compliance with the requirements of GASB Statements 27 and 45 through its actuarial valuation report to be applied to the reporting periods ending June 30, 2014 and June 30, 2015. The report reflects a net stipend/other post-employment benefits obligation on June 30, 2013 as if the District had been in compliance with the requirements of GASB Statements 27 and 45 since July 1, 2008. Note 8 details the District's other post-employment benefits (OPEB). Note 9 shows the OPEB liability within the table of changes in long-term liability. The schedules of funding progress and employer contributions for the early retirement program and post-employment health care are included in the required supplementary information section.

The largest portion of the District's net position of \$22,768,845 reflects its investment in capital assets (land, buildings, improvements, vehicles and equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students and other District residents, therefore, these assets are not available for future spending. Although the District's investment in its 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 (primarily property taxes) since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the District's net position of \$2,091,179 represents resources that are subject to external restrictions on how they may be used. The District reports a negative unrestricted balance of \$8,700,998 due to the requirement to report capital assets net of related debt even though future related property taxes will be used to pay that debt. The District's net position increased overall by \$1,500,308 from the prior year.

Net Position as of June 30, 2014 and June 30, 2013

	Governmental Activities		
	FY 2014	FY 2013	Change
Assets			
Current and other assets	\$23,347,432	\$23,738,481	(\$391,049)
Capital assets	40,539,540	41,982,168	(1,442,628)
Total Assets	63,886,972	65,720,649	(1,833,677)
Liabilities			
Long-term obligations	44,791,234	48,423,676	(3,632,442)
Other liabilities	2,936,712	2,530,152	406,560
Total Liabilities	47,727,946	50,953,828	(3,225,882)
Net Position:			
Net investment in capital assets	22,768,845	18,517,168	4,251,677
Restricted for:			
Grants	321,784	301,629	20,155
Capital Projects	1,443,959	1,450,675	(6,716)
Debt Service	325,436	297,877	27,559
Unrestricted	(8,700,998)	(5,800,528)	2,900,470
Prior Period Adjustment	0	(108,103)	108,103
Total Net Position	\$16,159,026	\$14,658,718	\$1,500,308

Governmental Activities. During the current fiscal year, the net position for the governmental activities increased by \$1,500,308 from the prior fiscal year, for an ending balance of \$16,159,026. Noted differences include a slight decrease in program revenues of \$20,191 and an increase of \$79,096 in general revenues; primarily from unrestricted state and local revenue, property taxes, construction excise tax, and earnings on investments partially offset by decreases in the state school fund, unrestricted revenues, and other miscellaneous revenues. Expenses increased overall by \$426,626 from the prior year with increased expenses of \$599,178 for support services and \$1,544 in community services; and decreased expenses of \$151,699 in interest on long-term debt and of \$22,397 in instruction. In fiscal year 2014, the total net position increased by \$1,500,308 as shown in the following table.

Changes in Net Position
For the Years Ended June 30, 2014 and June 30, 2013

	Governmental Activities		
	FY 2014	FY 2013	Change
Revenues			
Program revenues			
Charges for service	\$1,125,544	\$1,004,317	\$121,227
Operating grants and contributions	4,869,656	5,011,074	(141,418)
Total Program Revenues	5,995,200	6,015,391	(20,191)
General revenue			
Property taxes for general purposes	10,829,050	10,728,590	100,460
Property taxes for debt service	3,614,608	3,607,522	7,086
State school fund, general support	22,486,670	24,313,661	(1,826,991)
Common School fund	335,199	347,140	(11,941)
Construction excise tax	228,400	173,571	54,829
Unrestricted intermediate sources	1,833,044	1,841,947	(8,903)
Unrestricted state and local sources	3,149,707	1,064,681	2,085,026
Unrestricted federal revenue	0	244,865	(244,865)
Earnings on investments	64,865	62,503	2,362
Miscellaneous	1,403,474	1,481,441	(77,967)
Total General Revenue	43,945,017	43,865,921	79,096
Total Revenues	49,940,217	49,881,312	58,905
Expenses			
Instruction	30,051,308	30,073,705	(22,397)
Support services	15,820,061	15,220,883	599,178
Community services	2,313,317	2,311,773	1,544
Interest on long-term debt	367,223	518,922	(151,699)
Total Expenses	48,551,909	48,125,283	426,626
Increase (decrease) in net position	1,388,308	1,756,029	(367,721)
Net Position – beginning, restated 2014	14,658,718	13,010,792	1,647,926
Prior Period Adjustments	112,000	108,103	3,897
Net Position - ending	\$16,159,026	\$14,658,718	\$1,500,308

Financial Analysis of the District's Funds

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

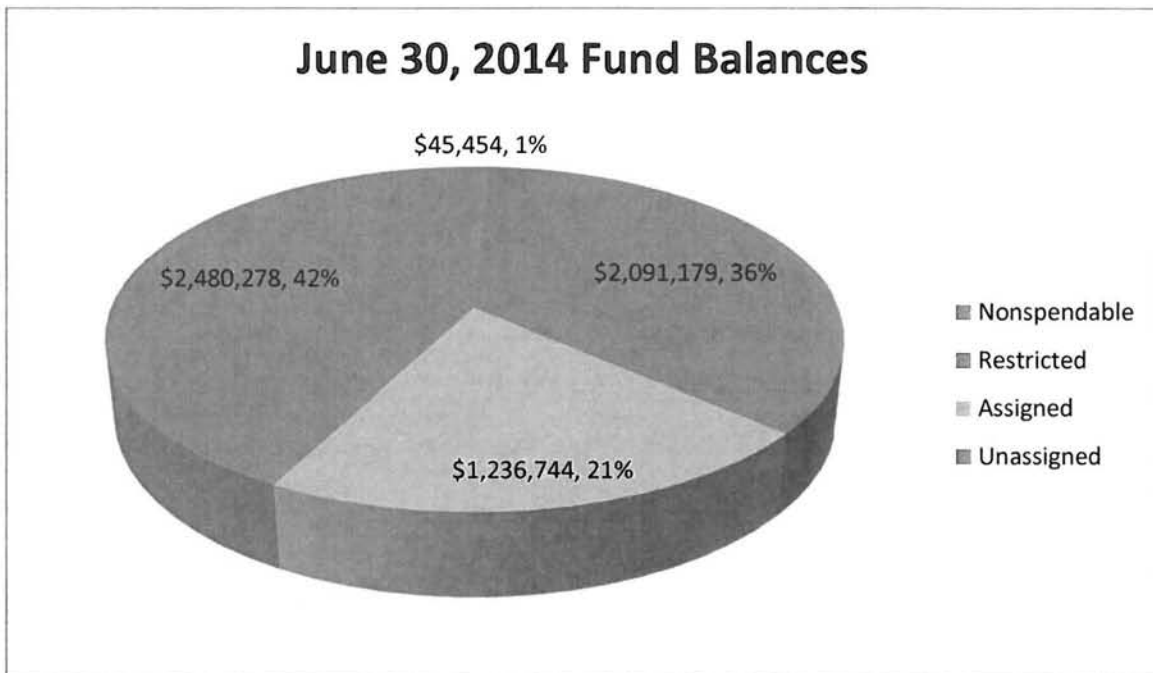
Governmental funds. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources; such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the District itself, or a group or individual that has been delegated authority to assign resources for particular purposes by the District's Board of Directors.

To further enhance this analysis, the District implemented GASB statement 54 for fiscal year ending June 30, 2011. This is the fourth year reporting under this new statement. GASB 54 requires an analysis and breakdown of ending fund balance between five new fund balance categories: Nonspendable, Restricted, Committed, Assigned, and Unassigned. Following is a brief explanation of each of these fund balance categories:

- Nonspendable – Includes items not immediately converted to cash, such as prepaid items and inventory.
- Restricted – Includes items that are restricted by external creditors, grantors or contributors, or restricted by legal constitutional provisions.
- Committed – Includes items committed by the District's Board of Education by formal board action.
- Assigned – Includes items assigned for specific uses authorized by the District's Superintendent and/or Chief Financial Officer.
- Unassigned – This is the residual classification used for those balances not assigned to another category.

Under GASB 54, the General Fund is the only fund type that should have an unassigned fund balance. Unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of a fiscal year. See Note 15 of the Basic Financial Statements for more information on the details behind each fund balance category.

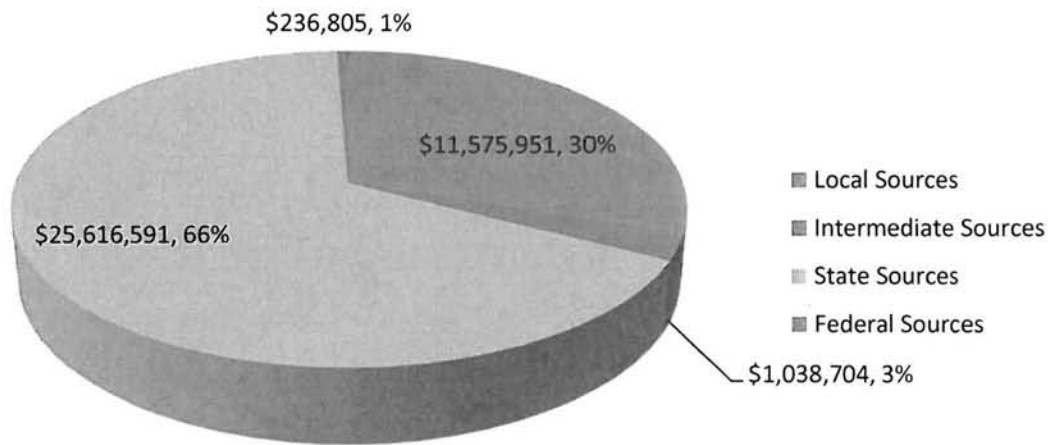
As of June 30, 2014, the District's governmental funds reported combined fund balances of \$5,853,655, an increase of \$496,567 in comparison with the prior year, of which \$181,275 was from increases in the unassigned general fund balance, \$290,641 was from increases in other fund balances, \$20,155 was from increases in the grants fund, and \$6,716 was from decreases in the capital projects fund. Approximately 42.4% of the combined fund balance amount of \$5,853,655 constitutes unassigned fund balance of \$2,480,278, which is available for spending at the District's discretion as shown in the following chart. The remainder of the fund balance is either nonspendable, restricted, or assigned to indicate that it is: 1) not in spendable form (\$45,454), 2) restricted for particular purposes (\$2,091,179), or 3) assigned for particular purposes (\$1,236,744).



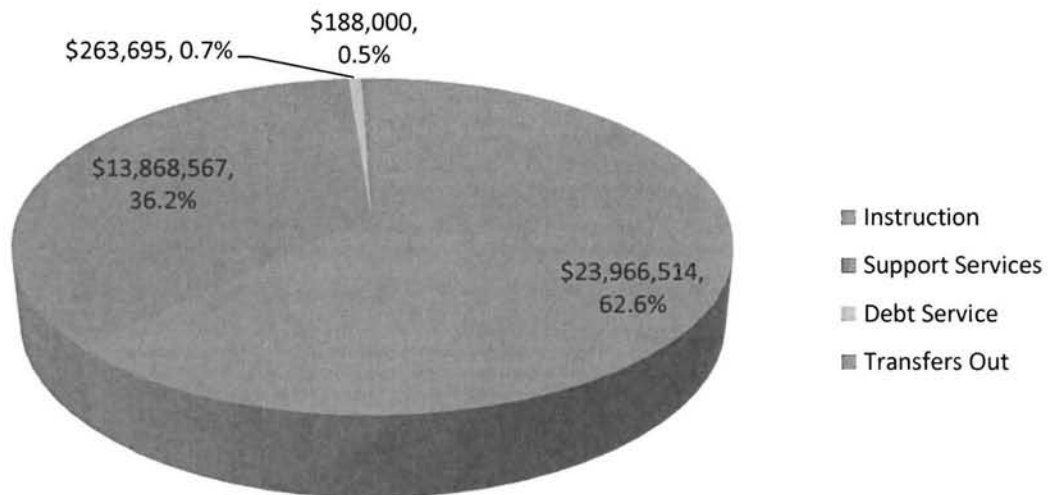
General Fund. The General Fund is the chief operating fund of the District. As of June 30, 2014, \$2,480,278 of General Fund balance is unassigned. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 6.5% of total General Fund expenditures, while total fund balance represents approximately 6.7% of that same amount. Other ending general fund balances are assigned to the unemployment reserve and bus replacement totaling \$66,169 and \$8,257, respectively.

In 2014-15, the total General Fund balance of \$2,299,003 increased by \$181,275. This increase can be attributed to an increase of revenues over expenses of \$369,275 less the transfers out of \$188,000. State revenue sources of \$25,616,591, primarily state school fund revenue, equal 66% of total general fund revenue. Local revenue sources of \$11,575,951, primarily property taxes and local option taxes, equal 30% of total general fund revenues. Of the total General Fund expenditures and transfers of \$38,286,776, instruction expenditures of \$23,966,514 equal 62.6%, support services expenditures of \$13,868,567 equal 36.2%, and debt service equals 0.7%. The following charts display the sources of General Fund revenue and expenditures by function.

13-14 General Fund Revenue



13-14 General Fund Expenditures



Grants Fund. The Grants Fund has a total fund balance of \$321,784, all of which is restricted for grant expenditures.

Capital Projects. The Capital Projects fund has a total fund balance of \$1,443,959, all of which is restricted for capital construction projects.

Other Funds. Other Funds have a total fund balance of \$1,533,208, of which \$45,454 is nonspendable prepaid and supplies inventory, \$325,436 is restricted for the payment of debt service, \$557,804 is

assigned to the School Lunch Fund, \$50,773 is assigned to the Community Education Fund, and \$553,741 is assigned to the Student body funds.

GENERAL FUND BUDGETARY HIGHLIGHTS

General Fund actual revenues were less than the adopted budget by \$72,673 or 0.19% as shown in the following table. Local revenue sources of revenue provided a favorable revenue variance of \$185,146 or 1.63% primarily from property taxes, transportation fees, and Medicaid administration revenue. The intermediate revenue source, primarily from the Columbia Gorge Educational Service District, provided an unfavorable revenue variance of \$36,016 or 3.35%. State sources overall provided an unfavorable revenue variance of \$434,917 or 1.67%. Within state revenue sources, the long term care and treatment contract provided a favorable variance of \$91,428, the common school fund provided a favorable variance of \$12,342, and other restricted grants in aid provided a favorable variance of \$943; and was offset by unfavorable variances in the state school fund grant of \$397,616 and local option equalization revenue of \$142,013. Federal sources provided a favorable revenue variance of \$213,113, primarily from federal forest fees.

General Fund Actual Revenues vs. Budget
For the Year Ending June 30, 2014

Revenue	Final Budget	Actual	Variance	
			\$	%
Local Sources	\$11,390,805	\$11,575,951	\$185,146	1.63%
Intermediate Sources	1,074,720	1,038,704	(36,016)	(3.35%)
State Sources	26,051,507	25,616,591	(434,916)	(1.67%)
Federal Sources	23,692	236,805	213,113	899.51%
Total	\$38,540,724	\$38,468,051	(\$72,673)	(0.19%)

General Fund actual expenditures were within overall budgeted amounts by 1.8%. Instruction expenditures were \$346,283 or 1.43% less than budget primarily due to budget savings in the elementary K-5 programs, middle school programs, high school programs, high needs programs, physical disabled programs, tuition reimbursements, and adult continuing education; which exceeded unfavorable variances in other instruction functions. Support services expenditures were \$343,524 or 2.42% less than budget primarily due to favorable budget variances in speech pathology services, board of education services, director of business support, care and upkeep of buildings, human resources, and technology services; which exceeded unfavorable variances in other support services functions. The favorable budget variance in contingency of \$11,056 contributed to the overall expenditure budget savings of \$700,863 as shown in the following table.

General Fund Actual Expenditures & Transfers vs. Budget
For the Year Ending June 30, 2014

Expenditures	Final Budget	Actual	Variance	
			\$	%
Instruction	\$24,312,797	\$23,966,514	\$346,283	1.43%
Support Services	14,212,091	13,868,567	343,524	2.42%
Debt Service	263,695	263,695	0	0%
Contingency	11,056	0	11,056	100.00%
Transfers Out	188,000	188,000	0	0%
Total	\$38,987,639	\$38,286,776	\$700,863	1.8%

The net change in General Fund balance was \$181,275 or \$628,190 more than budgeted, was comprised of a favorable expenditure and transfers variance of \$700,863 of 1.8%, and an unfavorable revenue variance of \$72,673 of 0.19%.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. The District's investment in capital assets includes land, buildings and improvements, and vehicles and equipment. As of June 30, 2014, the District had invested \$40,539,540, net of accumulated depreciation, as shown in the following table:

Changes in Capital Assets
For the Years Ending June 30, 2014 and 2013

	FY 2013		Change
	FY 2014	Restated	
Land	\$4,066,141	\$4,066,141	\$0
Buildings and Improvements	64,591,443	64,326,002	265,441
Vehicles and Equipment	6,933,879	6,599,609	334,270
Total	71,525,322	70,925,611	599,711
Accumulated Depreciation	35,051,923	32,897,584	2,154,339
Total Net Capital Assets	\$40,539,540	\$42,094,168	\$2,754,050

Additional information on the District's capital assets can be found in Note 6 of the Basic Financial Statements.

Debt Administration. As of June 30, 2014, the District had total debt outstanding and obligations of \$44,791,234. Of this amount, \$17,650,000 is general obligation bonds, \$22,563,249 is pension obligation bonds, \$2,805,000 is qualified school construction bonds, \$1,329,805 is other post-employment benefits, \$322,485 is unamortized bond premiums and discounts, and \$120,695 is the capital lease. The District made all scheduled payments to reduce total debt by \$3,753,137, offset by the addition of the capital lease of \$120,695 for a net decrease in long term liabilities of \$3,632,442.

The District received an A+ (underlying) and an AA+ (Oregon School Bond Guaranty) rating from Standard and Poor's for the general obligation bonds issued in 2010. In February 2014, Standard and Poor's affirmed its ratings of AA+ for the long term rating, an A+ for the school issuer credit rating for

the general obligation bonds, and affirmed its rating of A+ for the long term rating of the District's qualified school construction bonds with a stable outlook for each rating. Oregon School Boards Association received an Aa2 rating from Moody's on behalf of the District and other participating districts of the pension obligation refunding bonds issued in 2011. The Oregon School Bond Guaranty pledges the full faith and credit of the State of Oregon for the District's bond issue.

The District's Measure 5 Real Market Value for fiscal year 2014 is \$3,042,560,167. Oregon Revised Statute 328.245 establishes the limit on bonded indebtedness for K-12 school districts at 7.95 percent of the Real Market Value of all taxable properties within the district. As of fiscal year 2014, the District's limit on bonded indebtedness is \$241,883,533, which is significantly in excess of the District's outstanding general obligation debt.

Detailed information on long-term debt activity may be found in Note 9 of the Basic Financial Statements.

ECONOMIC FACTORS AND 2014-15 BUDGET

The most significant factor for the District is the State of Oregon's State School Fund which distributes funds based primarily on average student enrollment and modified by several student factors. The Fund includes local resources (primarily property taxes) and state sources (primarily personal and business income taxes). Due to the expiration of federal stimulus dollars and a general decline in state income taxes, the K-12 budget for the state of Oregon for the 2013-15 biennium was approved at \$6.65 billion. This level reflects an increase of \$850 million over the previous biennium.

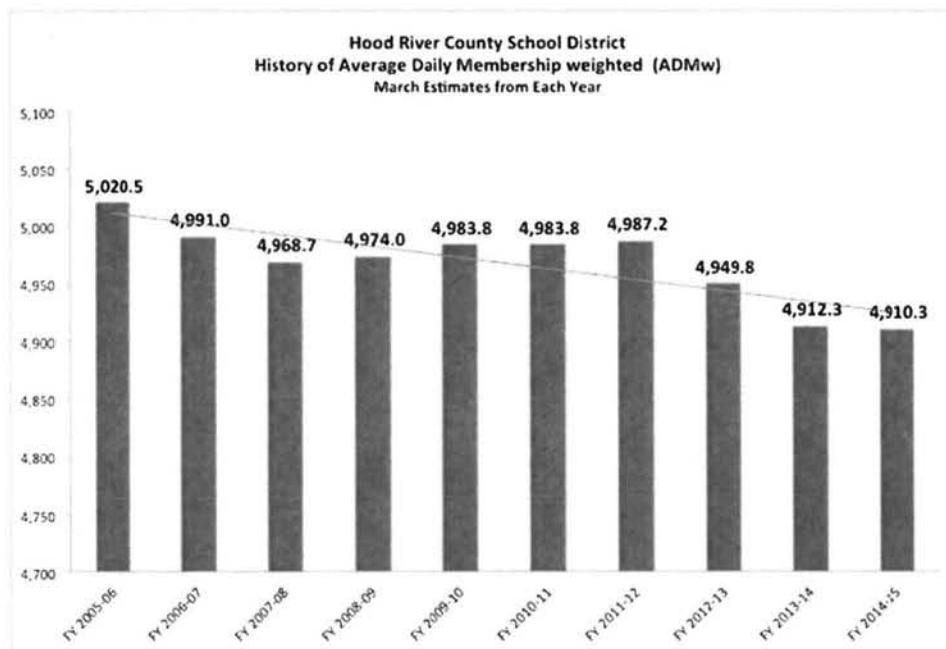
Despite the relative good news across the state in regards to a gradual, yet unmistakable economic recovery, due to factors specific to the Hood River County School District, the 2014-15 budget requires another year of reductions in the District's General Fund expenditures. The factors contributing to our budget shortfall along with our objective to develop a sustainable budget for the years to come are outlined below. Even with the implementation of efficiencies our school board already approved for the 2014-15 school year, such as a staggered-start schedule (reducing the necessary number of buses and routes) and repositioning our relationship with the Columbia Gorge ESD (gaining program efficiencies and savings of approximately \$250,000 through aggressively executing HB 3401), the recommended budget for the 2014-15 school year included a 2.5% reduction in our general fund expenditures. While every effort has been made to keep reductions away from the classroom, and after so many years of painful cuts, it is impossible to keep reductions away from staff.

Importantly, even after implementing this budget plan for 2014-15, if the State of Oregon does not substantially increase revenues for schools in the 2015-2017 biennium, budget reductions will undoubtedly continue in future years.

Major contributing budgetary factors for 2014-15 include a decline in weighted student enrollment, a history of spending down reserves, and increased operating costs. The 2013-14 budget put the District on a course that would have less than 1% in ending fund balance without major program cuts and/or a major inflow of state revenue; neither of which occurred in 2013-14. The 2014-15 budget includes reductions of \$1,024,633 to help balance operations with available resources with a total contingency and unappropriated ending fund balance of approximately 3%. The 2014-15 budget will change the spending curve away from reliance on one-time budget sources and place the District in a better position to reach the Board's goal of achieving reserves of 5% over the next two years and maintain this minimal level into the future.

Weighted student enrollment (ADMw) determines the amount of state school fund revenue. Weighted student enrollment is projected to be down approximately 40 students in 2014-15. Due to a formula factor called "ADMw extended," which allows the greater of the current year or the prior year's weighted student enrollment to be used in determining state school fund revenues, funding for 2013-14 was actually based on 2012-13 weighted enrollment data.

In 2012-13 and prior, an additional 50+ student weights was allowed for the Small High School factor (Cascade Locks). These additional student weights will no longer be provided to the district in 2014-15 and beyond. Furthermore, in January of 2014 it was confirmed that the Hood River County School District would be adversely affected by a new, state-adopted revision to the "poverty calculation." At the time, the Oregonian listed the Hood River County School District as one of the "Biggest Losers" in terms of the negative impact of the change. For 2014-15, the new Poverty Factor will further reduce the weighted student enrollment, resulting in the lowest ADMw in recent memory for the Hood River County School District.



While actual student enrollment (ADM_r: the raw number of students) is projected to be stable, the ten-year historical trend on weighted student enrollment (ADMw), the metric tied to state funding, is one of decline.

Like many school districts across the state, the Hood River County School District has spent reserves throughout most of the Great Recession to preserve programs and staff members. In eight of the past ten years, Hood River County School District has spent more in General Fund operations than it has received in operating revenues. This difference was covered by spending down the beginning fund balance, transfers in from other funds, and PERS bond proceeds, all one-time funding sources. In 2012-13, the Operational Reserve Fund was completely spent down. In future years, the district must plan to spend within its annual operating revenues. The \$1,024,633 in reductions planned for 2014-15 will move the district towards this reality.

The Government Finance Officers Association recommends adequate fund balance of no less than two months or 16.67% of regular general fund operating revenues or general fund operating expenditures. The

District General Fund balance went from a high of 10% in 2005-06 to a low of 2% in 2011-12. The 2014-15 budget proposed a General Fund total of ending balance and contingency of approximately 3%. Increased operational costs are expected such as salary and associated payroll costs, utilities, insurance, and other costs. Negotiations with our licensed personnel, which were in process during budget development, were completed in early July 2014 to determine licensed salary and associated payroll costs.

Future PERS state retirement system employer rates are sensitive to actual PERS investment earnings. Changes in PERS actuarial liability methods and assumptions by the PERS Board, such as reducing the fund's "assumed earnings rate" or changing the unfunded liability amortization period, could significantly impact future employer rates. The PERS rates for 2015-17, determined as of November 2014, will result in reduced rates for that biennium. Pending supreme court legal decisions on the recent legislative actions taken to reduce PERS costs may impact future employer rates. PERS rates for 2014-15 remain the same as for 2013-14.

The 2020 Vision developed in 2013-14 specifies a new district mission: "Excellence, Every Student, Every Day;" a new concrete and laudable vision: "Every student graduates with the knowledge and courage to learn, serve, and pursue their dreams;" and a number of "Collective Commitments" that our entire staff will collaboratively focus on for the future. The 2020 Vision served as the basis for many of our budgeting decisions and will serve as a roadmap for the future.

The Hood River County School District has been very aggressive and competitive in seeking additional funds to support these collective commitments. In 2013-14, the District was successful in acquiring over \$3 million in grant funds (some grants spread over the course of the next few years) through the Oregon Department of Education (ODE), Oregon Children's Fund (OCF), and other sources. While these grants do not directly impact our class sizes, full time music and PE in elementary schools, staffing for a robust alternative education program at the secondary level, etc. they do provide resources to support our staff in professional learning, and special program development. With more state and federal funding tied to "strategic initiatives," the district must continue to join with other community partners for continued grant-writing activities into the future.

The District's general fund expenditure budget for the second year of the 2013-15 biennium is based on the February 2014 estimates of state school fund revenue and enrollment estimates for the 2014-15 year, other revenue, and resources from the estimated beginning General Fund balance. Increased operational costs such as salary and associated payroll costs, utilities, and other costs (including the one-time elementary reading textbook adoption) have been estimated in the budget.

Unfortunately without an adequate reserve, the District proposed a budget for 2014-15 in which expenditures and revenues were more closely aligned to begin the process of building a responsible reserve. While the School Board's goal of achieving a 5% reserve will not be achieved in 2014-15, the budget bends the curve on spending one-time funding. Again, even with the agonizing reductions included in the 2014-15 budget, and if the State of Oregon does not come through with a serious investment in its children in the 2015-17 biennium, we will be forced to reduce our program again for 2015-16.

REQUESTS FOR INFORMATION

This financial report is designed to present the users, citizens, taxpayers, investors, and creditors with a general overview of the Hood River County School District's finances and to demonstrate the District's accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the District's Chief Financial Officer, Sandra Buchanan, at 1011 Eugene Street, Hood River, Oregon 97031.

HOOD RIVER COUNTY SCHOOL DISTRICT

HOOD RIVER COUNTY, OREGON

STATEMENT OF NET POSITION

June 30, 2014

ASSETS

Cash and investments	\$ 5,452,977
Receivables	3,890,271
Supply Inventories	45,454
Prepaid pension costs, net	13,958,730
Capital assets:	
Land	4,066,141
Buildings and equipment, net	<u>36,473,399</u>
Total assets	<u>63,886,972</u>

LIABILITIES:

Accounts payable	522,940
Salaries and contracts payable	2,284,764
Accrued interest payable	27,632
Accrued vacation	101,376
Long-term obligations:	
Due within one year	3,879,488
Due in more than one year	<u>40,911,746</u>
Total liabilities	<u>47,727,946</u>

NET POSITION:

Net investment in capital assets	22,768,845
Restricted for:	
Grants	321,784
Capital Projects	1,443,959
Debt Service	325,436
Unrestricted	<u>(8,700,998)</u>
Total net position	<u>\$ 16,159,026</u>

See accompanying notes to basic financial statements.

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2014

FUNCTIONS	EXPENSES	PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	
Instruction	\$ 30,051,308	\$ 790,937	\$ 3,174,101	\$ (26,086,270)
Support Services	15,820,061	44,766	267,970	(15,507,325)
Community Services	2,313,317	289,841	1,427,585	(595,891)
Interest on Long-Term Debt	367,223	-	-	(367,223)
Total Governmental Activities	<u>\$ 48,551,909</u>	<u>\$ 1,125,544</u>	<u>\$ 4,869,656</u>	<u>(42,556,709)</u>

General Revenues

Taxes:

Property Taxes, levied for:

General purposes	10,829,050
Debt service	3,614,608
State school fund, general support	22,486,670
Common School fund	335,199
Construction excise tax	228,400
Unrestricted intermediate sources	1,833,044
Unrestricted state and local sources	3,149,707
Earnings on investments	64,865
Miscellaneous	<u>1,403,474</u>

Total General Revenues 43,945,017

Changes in Net Position 1,388,308

Net Position, Beginning - Restated, see note 16 14,658,718

Prior Period Adjustment 112,000

Net Position, Ending \$ 16,159,026

See accompanying notes to basic financial statements.

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2014

	General Fund	Grants Fund	Capital Construction Fund	Other Governmental Funds	Total
ASSETS					
Cash and investments	\$ 2,647,700	\$ -	\$ 1,410,082	\$ 1,395,195	\$ 5,452,977
Receivables:					
Taxes	593,198	-	-	198,239	791,437
Accounts	1,009,516	1,953,654	33,877	101,787	3,098,834
Supply Inventory	-	-	-	45,454	45,454
Due From	1,599,572	-	-	-	1,599,572
Total assets	<u>\$ 5,849,986</u>	<u>\$ 1,953,654</u>	<u>\$ 1,443,959</u>	<u>\$ 1,740,675</u>	<u>\$ 10,988,274</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE					
Liabilities:					
Accounts payable	\$ 465,474	\$ 32,298	\$ -	\$ 25,168	\$ 522,940
Salaries and contracts payable	2,284,764	-	-	-	2,284,764
Due To	-	1,599,572	-	-	1,599,572
Total liabilities	<u>2,750,238</u>	<u>1,631,870</u>	<u>-</u>	<u>25,168</u>	<u>4,407,276</u>
Deferred Inflows of Resources:					
Unavailable revenue - property taxes	<u>545,044</u>	<u>-</u>	<u>-</u>	<u>182,299</u>	<u>727,343</u>
Total deferred inflows of resources	<u>545,044</u>	<u>-</u>	<u>-</u>	<u>182,299</u>	<u>727,343</u>
Fund balances:					
Nonspendable	-	-	-	45,454	45,454
Restricted for:					
Grants	-	321,784	-	-	321,784
Capital Projects	-	-	1,443,959	-	1,443,959
Debt Service	-	-	-	325,436	325,436
Assigned	74,426	-	-	1,162,318	1,236,744
Unassigned	<u>2,480,278</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,480,278</u>
Total fund balances	<u>2,554,704</u>	<u>321,784</u>	<u>1,443,959</u>	<u>1,533,208</u>	<u>5,853,655</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 5,849,986</u>	<u>\$ 1,953,654</u>	<u>\$ 1,443,959</u>	<u>\$ 1,740,675</u>	<u>\$ 10,988,274</u>

See accompanying notes to basic financial statements.

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
June 30, 2014

Total Fund Balances - Governmental Funds	\$ 5,853,655
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The cost of capital assets (land, buildings, furniture and equipment) purchased or constructed is reported as an expenditure in governmental funds. The Statement of Net Position includes those capital assets among the assets of the District as a whole.

Net Capital Assets	40,539,540
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The unamortized portion of prepaid pension cost, bond premiums and bond issuance costs is not available to pay for current period expenditures, and therefore is not reported in the governmental funds.

Prepaid Pension costs	13,958,730
Premiums	(322,485)

Long-term liabilities applicable to the 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		
OPEB liability	\$ (1,329,805)	
Interest payable	(27,632)	
Accrued vacation	(101,376)	
General obligation bonds payable	(17,650,000)	
Limited tax pension bonds payable	(22,563,249)	
Capital lease payable	(120,695)	
Qualified school construction bond	(2,805,000)	(44,597,757)

A portion of the District's property taxes are collected after year-end but are not available soon enough to pay for the current years' operations, and therefore are considered unavailable in the funds.

<u>727,343</u>

Net Position	\$ <u><u>16,159,026</u></u>
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See accompanying notes to basic financial statements.

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	General Fund	Grants Fund	Capital Construction Fund	Other Governmental Funds	Total
Revenues:					
Local sources	\$ 11,575,951	\$ 417,870	\$ 395,033	\$ 5,821,494	\$ 18,210,348
Intermediate sources	1,038,704	794,340	-	-	1,833,044
State sources	25,616,591	206,376	-	24,665	25,847,632
Federal sources	236,805	2,403,473	-	1,427,585	4,067,863
Total revenues	38,468,051	3,822,059	395,033	7,273,744	49,958,887
Expenditures:					
Current:					
Instruction	23,966,514	2,964,005	-	1,123,193	28,053,712
Support services	14,045,355	722,948	-	153	14,768,456
Community services	-	49,491	-	2,110,053	2,159,544
Facilities acquisition and construction	-	-	257,003	-	257,003
Capital outlay	-	65,460	265,441	148,115	479,016
Debt service	263,695	-	-	3,601,589	3,865,284
Total expenditures	38,275,564	3,801,904	522,444	6,983,103	49,583,015
Revenues over (under) expenditures	192,487	20,155	(127,411)	290,641	375,872
Other financing sources (uses):					
Transfer out	(188,000)	-	-	-	(188,000)
Transfer in	188,000	-	-	-	188,000
Proceeds from capital lease	-	-	120,695	-	120,695
Total other financing sources (uses):	-	-	120,695	-	120,695
Net Change in Fund Balance	192,487	20,155	(6,716)	290,641	496,567
Fund balances, beginning of year	2,362,217	301,629	1,450,675	1,242,567	5,357,088
Fund balances, end of year	\$ 2,554,704	\$ 321,784	\$ 1,443,959	\$ 1,533,208	\$ 5,853,655

See accompanying notes to basic financial statements.

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

Total Net Changes in Fund Balances - Governmental Funds	\$	496,567
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Repayment of bond principal, capital leases 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 bond principal, capital leases and post retirement obligations is an expense for the Statement of Net Position but not the governmental funds. 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.

Accrued vacation	\$ (2,898)		
Amortization of bond premium	89,436		
Proceeds from capital lease	(120,695)		
Debt principal repaid	<u>3,494,750</u>		3,460,593

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

Capital Asset Additions	599,711		
Depreciation Expense	<u>(2,154,339)</u>		(1,554,628)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

3,311

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.

(18,670)

Payment for PERS UAL is recorded as an other financing use in the Governmental funds. The Government-wide statements record the prepaid pension asset.

(998,865)

Change in Net Position of Governmental Activities

	\$	<u><u>1,388,308</u></u>
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See accompanying notes to basic financial statements.

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

REPORTING ENTITY

The Hood River County School District is a municipal corporation, organized under the provisions of ORS 332, and governed by its board of directors who are elected to office by voters within the district. As required by generally accepted accounting principles, these financial statements present Hood River County District (the primary government) and any component units. Component units, as established by the Governmental Accounting Standards Board (GASB) Statements 14, 39 and 61, are separate organizations that are included in the District's financial statements because of the significance of their operational or financial relationships with the District. There are no component units.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (the statement of Net Position and the statement of activities) report information on the District as a whole, excluding nonfiduciary activities, if any. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the various functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The statement of activities reports the activities by *function*. The major functions are instruction and support services; however, amounts are also reported for community services (primarily food service). The statement of activities demonstrates the degree to which the direct expenses of a given function (i.e., instruction, support services, etc.) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Direct expenses are not eliminated from the various functional categories, whereas indirect expenses are eliminated from the functional categories in the statement of activities. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are “measurable and available”). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are considered to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received.

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

Separate fund financial statements are provided for governmental funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The following *major governmental funds* are reported:

General Fund

This is the primary operating fund. This fund accounts for all financial resources and expenditures not required to be accounted for in another fund. The principal revenue sources are property taxes and an apportionment from the State of Oregon School Support Fund.

Grants Fund

This fund consists of the majority of the federal and state grant money received and expended. The principal revenue sources are federal and state grants. The primary expenditures are costs associated with running the specialized education programs.

Capital Construction Fund

This fund accounts for major capital improvements. The principal revenue sources are proceeds from the sale of bonds and state grants.

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)

Additionally, the following are reported as other (nonmajor) governmental funds:

Special Revenue:

Food Service - this fund accounts for revenue and expenditures of the food service program. Principal revenue sources are cash sales of food and subsidies under the National School Lunch Act.

Community Education - this fund accounts for adult education and community recreation programs. The principal revenue source is tuition.

Student Body - this fund accounts for extracurricular activities, fund raising and student fees earmarked for co-curricular activities and projects. The principal revenue sources are fundraising and student fees.

Debt Service Fund

This fund accounts for the repayment of principal and interest on general obligation bonds. The principal revenue source is property taxes.

When both restricted and unrestricted resources are available for use, it is the policy to use restricted resources first, then unrestricted resources as they are needed.

BUDGETS

A budget is prepared and legally adopted for each governmental fund type on the modified accrual basis of accounting in the main program categories required by Oregon Local Budget Law. The budgets for all budgeted funds are adopted on a basis consistent with generally accepted accounting principles except that property taxes received after year-end are not considered budgetary resources in the funds, inventory is expensed when purchased, debt, debt issuance costs, early retirement and accrued vacation are recorded as expenditures when paid, debt is recorded as a revenue when issued, capital outlay is recorded as an expenditure rather than capitalized, and depreciation and amortization are not recorded on capital assets. All annual appropriations lapse at fiscal year end.

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

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

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Budget amounts shown in the basic financial statements reflect the original budgeted appropriation amounts and final amounts after appropriation changes. Expenditures of the various funds were within authorized appropriations for the year ended June 30, 2014.

SUPPLY INVENTORY

Purchased inventory is valued at the lower of cost (first-in, first-out method) or market. Commodities inventory is valued at estimated market value at the date of donation. Inventory consists of commodities and purchased food and supplies. The cost of purchased inventory is recorded as an asset at the time of purchase and expensed when it is consumed in the government-wide financial statements, and expensed when purchased in the fund statements.

CAPITAL ASSETS

Capital assets include land, buildings, improvements, vehicles, furniture, fixtures, and equipment. Capital assets are recorded at original cost or estimated original cost. Donated capital assets are recorded at their estimated fair market value on the date donated. Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Interest incurred during construction is not capitalized. The cost of routine maintenance and repairs that do not add to the value of the assets or materially extend asset lives are charged to expenditures as incurred and are not capitalized. Capital assets are depreciated using the straight-line method over the following useful lives: Building over 50 to 70 years, Building improvements over 15-40 years, Land improvements over 20 years, and Vehicles and Equipment over 5 to 20 years. Major outlays for capital assets and improvements are capitalized as projects are constructed. A full year of depreciation is taken in the year the assets are acquired or retired. Gains or losses from sales or retirements of capital assets are included in operations of the current period.

LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities. Bond premiums and discounts are amortized over the life of the bonds, using the straight line method in the government-wide financial statements. The straight line method does not differ significantly from the effective interest rate method. Unamortized premiums and discounts are presented as additions or subtractions from the face amount of the bonds. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources, while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LONG-TERM OBLIGATIONS (CONTINUED)

Early retirement benefits are recognized when paid (i.e., after the eligible employee retires).

ACCRUED COMPENSATED ABSENCES

Sick Leave

State law permits school employees to accumulate unused sick leave at the rate of ten days per year or one day per month worked, whichever is greater. There is no compensation for employees' unused accumulations upon termination of employment.

Accumulated unpaid vacation

Full-time employees are allowed to earn vacation leave. The rate at which vacation is earned is determined by the employee's length of employment.

USE OF ESTIMATES

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

CASH AND INVESTMENTS

For financial reporting purposes, all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUND BALANCE

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

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

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

There are no committed fund balances at year end.

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

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

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

2. CASH AND INVESTMENTS

Cash and Investments at June 30, 2014 (recorded at fair value) consisted of:

Total investments	\$ 4,346,722
Local Government Employers Benefit Trust	65,410
Deposits with financial institutions	<u>1,040,845</u>
Total	<u>\$ 5,452,977</u>

DEPOSITS

Deposits with financial institutions include bank demand deposits. Oregon Revised Statutes require deposits to be adequately covered by federal depository insurance at an approved depository as identified by the Treasury. For the fiscal year ended June 30, 2014, the bank balance was \$2,158,313, with \$1,315,806 of the balance in excess over FDIC. There was also a balance of \$53,168 held in a credit union, which was fully insured by NCUA.

Custodial Credit Risk

In the case of deposits, this is the risk that in the event of a bank failure, the deposits may not be recovered. There is no formal deposit policy for custodial credit risk. For the fiscal year ended June 30, 2014, all deposits were collateralized in accordance with Oregon law.

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)

INVESTMENTS

State statutes authorize the investment in banker's acceptances, time certificates of deposit, repurchase agreements, obligations of the United States and its agencies and instrumentalities, and the Oregon State Treasurer's Local Government Investment Pool.

The State Treasurer's Local Government Investment Pool is not registered with the U.S. Securities and Exchange Commission as an investment company. The Oregon Revised Statutes and the Oregon Investment Council govern the State's investment policies. The State Treasurer is the investment officer for the Council and is responsible for all funds in the State Treasury. These funds must be invested, and the investments managed, as a prudent investor would, exercising reasonable care, skill and caution.

Investments in the Fund are further governed by portfolio guidelines issued by the Oregon Short-Term Fund Board (OSTFB), which establish diversification percentages and specify the types and maturities of investments. The portfolio guidelines permit securities lending transactions as well as investments in repurchase agreements and reverse repurchase agreements. The pool is not rated.

Amounts in the State Treasurer's Local Government Investment Pool are not required to be collateralized. At June 30, 2014 the fair value of the position in the LGIP approximates fair value of the Pool shares as reported in Oregon Short Term Fund audited financial statements. There were no known violations of legal or contractual provisions for deposits and investments during the fiscal year.

These are the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in months)		
		Less than 3	3-17	18-59
State Treasurer's Investment Pool	\$ 4,346,722	\$ 4,346,722	\$ -	\$ -
Total	<u>\$ 4,346,722</u>	<u>\$ 4,346,722</u>	<u>\$ -</u>	<u>\$ -</u>

Credit Risk

Oregon Statutes authorize investing in obligations of the U.S. Treasury and U.S. agencies, bankers' acceptances, repurchase agreements, commercial paper rated A-1 by Standard & Poor's Corporation of P-1 by Moody's Commercial Paper Record, and the state treasurer's investment pool.

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)

INVESTMENTS (CONTINUED)

Interest Rate Risk

Oregon Revised Statutes require investments to not exceed a maturity of 18 months, except when the local government has adopted a written investment policy that was submitted to and reviewed by the OSTFB. There are no investments that have a maturity date of more than 3 months.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the value of the investment will not be able to be recovered by collateral securities that are in the possession of an outside party. There is no formal investment policy for custodial credit risk.

Concentration Risk

At June 30, 2014, 100% of total investments were in the State Treasurer's Investment Pool. State statutes do not limit the percentage of investments in this instrument.

3. ACCOUNTS/GRANTS RECEIVABLE

Special revenue fund grants receivable are comprised of claims for reimbursement of costs under various federal and state grant programs. The receivables are considered fully collectible by management so no allowance for doubtful accounts has been made.

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

Accounts receivable consist of amounts due from intermediate sources and miscellaneous reimbursements. Accounts receivable are considered by management to be fully collectible; therefore, no allowance for uncollectible accounts has been made.

UNAVAILABLE REVENUE

On the fund financial statements, unavailable revenue arises when resources do not satisfy both the measurable and available criteria for recognition in the current year, for example, if property taxes are received more than 60 days after year-end. In subsequent periods, when recognition criteria are met, the liability for unavailable revenue is removed and revenue is recognized.

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

3. ACCOUNTS/GRANTS RECEIVABLE (CONTINUED)

PROPERTY TAXES RECEIVABLE

Uncollected real and personal property taxes are reflected on the statement of Net Position and the balance sheet as receivables. Uncollected taxes are deemed by management to be substantially collectible or recoverable through liens. All property taxes receivable are due from property owners within the District.

Under state law, county governments are responsible for extending authorized property tax levies, computing tax rates, billing and collecting all property taxes, and making periodic distributions of collections to entities levying taxes. Property taxes become a lien against the property when levied on July 1 of each year and are payable in three installments due on November 15, February 15 and May 15. Property tax collections are distributed monthly except for November, when such distributions are made weekly.

4. SUPPLY INVENTORY

	Other Governmental Funds
Commodities and purchased foods	\$ 45,454

5. INTERFUND PAYABLES, RECEIVABLES AND TRANSFERS

The receipt and payment of monies through one central checking account, as well as transfers between funds, result in interfund payables and receivables until cash is transferred from one fund to the other. These amounts, clearly shown in the basic financial statements, represent current assets and liabilities and are reported as due to or due from other funds.

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

6. CAPITAL ASSETS

The changes in capital assets for the year ended June 30, 2014 are as follows:

	Restated Balance Beginning of Year	Additions	(Deletions)	Balance End Of Year
Fixed Assets Not Being Depreciated				
Land	\$ 4,066,141	\$ -	\$ -	\$ 4,066,141
Fixed Assets Being Depreciated				
Buildings & Improvements	64,326,002	265,441	-	64,591,443
Vehicles & Equipment	6,599,609	334,270	-	6,933,879
Total Fixed Assets Depreciated	70,925,611	599,711	-	71,525,322
Accumulated Depreciation				
Buildings & Improvements	27,655,646	1,864,900	-	29,520,546
Vehicles & Equipment	5,241,938	289,439	-	5,531,377
Total Accumulated Depreciation	32,897,584	2,154,339	-	35,051,923
Total Net Capital Assets	\$ 42,094,168	\$ 2,754,050	\$ -	\$ 40,539,540

Depreciation was allocated to the functions as followed:

Instruction	\$ 1,340,367
Support Services	703,973
Community Services	109,999
Total	\$ 2,154,339

A restatement to beginning balances of capital assets was made to correct errors the District noted in the capital asset register. \$909,449 worth of old vehicles and equipment that were fully depreciated were deleted as the District did not have any of these items any longer. In addition, \$112,000 was added to the beginning balance of the equipment due to items there were not reported in prior years.

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

7. RETIREMENT PLAN

Contributions are made to the State of Oregon Public Employees Retirement System (PERS), a cost sharing multiple-employer defined benefit pension plan administered by the Oregon Public Employees Retirement System (OPERS). PERS provides retirement and disability benefits, post employment health care benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

Oregon Revised Statutes 238 assigns the authority to establish and amend benefits provisions to the PERS Board of Trustees and the State Legislature.

In the 2003 legislative session, the Oregon Legislative Assembly created a successor plan for PERS. The Oregon Public Service Retirement Plan ("OPSRP") is effective for all new employees hired on or after August 29, 2003, and applies to any inactive PERS members who return to employment following a six month or greater break in service. The new plan consists of a defined benefit program (the "Pension Program") and a defined contribution portion (the Individual Account Program or "IAP"). The Pension Program portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated by a formula for members who attain normal retirement age. The formula takes into account final average salary and years of service and a factor that varies based on type of service.

Beginning January 1, 2004, all PERS member contributions go into the IAP portion of OPSRP. PERS members retain their existing PERS accounts, but any future member contributions are deposited into the member's IAP, not the member's PERS account. Those employees who had established a PERS membership prior to creation of OPSRP will be members of both the PERS and OPSRP system as long as they remain in covered employment.

Both PERS and OPSRP are administered under Oregon Revised Statute (ORS) Chapter 238. ORS 238.620 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. That report can be obtained by writing to PERS, P.O. Box 23700, Tigard, OR 97281-3700 or by calling 1-503-598-7377 or by accessing the PERS website at www.oregon.gov/PERS.

Members of PERS are required to contribute 6% of their salary covered under the plan. This 6% contribution is paid by the District on behalf of the member. ORS 238.225 requires employer contributions at an actuarially determined rate. The employer contribution rate effective July 1, 2011 was 13.79% of salary covered under the plan for PERS Tier 1 and Tier 2 employees and 11.79% for employees covered under the Oregon Public Services Retirement Plan (OPSRP). Contributions to the plan for the years ending June 30, 2014, 2013, and 2012 were \$6,057,865, \$5,597,449, and \$5,236,682 respectively.

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Early Retirement Stipend

Currently, the plan provides the retirees a stipend. Licensed participants with at least 15 years of service at retirement, who are eligible to retire under Oregon PERS, ineligible for the Explicit Medical benefits, and who made a one-time irrevocable election not to participate in the District's TSA program. Eligible license retirees will receive a one-time payment of \$17,500 upon retirement.

Annual Pension Cost and Net Pension Obligation - The District's annual pension cost and net pension obligation (NPO) to the Early Retirement Fund for the current year and prior year were as follows:

	2014	2013	2012
Annual required contribution	\$ 139,394	\$ 124,521	\$ 103,719
Interest on net pension obligation	4,662	5,395	4,264
Adjustment to annual required contribution	58,553	45,396	27,036
Annual pension cost (APC)	85,503	84,520	80,947
Contributions made	138,424	102,859	52,659
Increase in net pension obligation	(52,921)	(18,339)	28,288
Net Pension Obligation (Asset) at beginning of year	116,543	134,882	106,594
Net Pension Obligation (Asset) at end of year	\$ 63,622	\$ 116,543	\$ 134,882
Percentage of APC contributed	-162%	-122%	-65%

Actuarial Methods and Assumptions - The annual required contribution (ARC) for the current year was determined as part of the measurement date of July 1, 2013 actuarial valuation using the projected unit credit actuarial cost method. For stipend benefits, the unfunded accrued liability is initially being amortized over two years, and then being re-amortized over a closed period of five years beginning July 1, 2014.

Funding Status and Funding Progress – As of July 1, 2013, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was approximately \$255,226, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of approximately \$255,226. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$786,202, and the ratio of the UAAL to the covered payroll was 32.5%.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Early Retirement Stipend (Continued)

Program membership consisted on the following at June 30, 2014:

Active Program Members:

Vested	497
Non-vested	72
	<u>569</u>

Post-Employment Health Care Benefits - Explicit

Plan Description – Continued health care coverage is offered to eligible retirees and their spouses and dependents until eligible for Medicare. Retirees, who meet certain classification, hire date and service requirements at retirement have most of, or all of, their premium paid by the District. Other retirees who chose to participate in the program must pay the full active premium in order to maintain coverage. Eligible licensed participants with at least 15 years of service by the end of 2000-01 school year, and eligible to retire under Oregon PERS. Certain currently retired administrators are also covered. Qualified spouses and domestic partners may qualify for coverage. Benefits continue to the earlier of the retiree's age 65, or 96 months of payments. The District will pay up to the entire two-party premium.

Annual Pension Cost and Net Pension Obligation - The District's annual other postemployment benefit cost is calculated based on the annual required contribution of the employer (ARC), and amount actuarially determined in accordance within the parameter 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) over a period not to exceed thirty years. The following table shows the components of the OPEB obligation at the end of the year:

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Post-Employment Health Care Benefits - Explicit (Continued)

	2014	2013	2012
Annual required contribution	\$ 354,177	\$ 415,286	\$ 491,749
Interest on net pension obligation	25,457	26,772	28,107
Adjustment to annual required contribution	161,418	169,761	178,225
Annual OPEB Cost	218,216	272,297	341,631
Contributions made	254,450	305,192	375,003
Increase in net pension obligation	(36,234)	(32,895)	(33,372)
Net OPEB Obligation (Asset) at beginning of year	636,417	669,312	702,684
Net OPEB Obligation (Asset) at end of year	\$ 600,183	\$ 636,417	\$ 669,312
Percentage of APC contributed	117%	112%	110%

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The annual required contribution (ARC) for the current year was determined as part of the July 1, 2013 actuarial valuation using the projected unit credit method. The objective of this method is to fund each participant's benefits under the plans as they accrue. The unfunded accrued liability is amortized over an open period of four years. Interest rate for discounting future liabilities is 4.00% per year, overall payroll growth is 3.00% per year, and the general inflation rate is 2.50% per year.

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Post-Employment Health Care Benefits - Explicit (Continued)

Funding Status and Funding Progress – As of July 1, 2013, the plan was 0% funded. The actuarial accrued liability for benefits was \$4,144,028, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,144,028. The covered payroll (annual payroll of active employees covered by the plan) was \$23,303,848, and the ratio of the UAAL to the covered payroll was 17.8%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Program membership consisted on the following at June 30, 2014:

Active Program Members:	
Vested	497
Non-vested	72
Spouses of Ineligible Retirees	0
	<u>569</u>

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Post-Employment Health Care Benefits - Implicit

Plan Description – All classes of employee are eligible to continue medical coverage upon retirement. Qualified spouses, domestic partners, and children may qualify for coverage. Coverage may continue until Medicare eligibility. There is an implicit subsidy for medical benefits with respect to retired employees because the medical premium rates charged for coverage typically are less than actual expected retiree claim costs. This is due to medical premium rates being determined by blending both active employee and retiree experience.

Funding Policy – The benefits from this program are paid and the required contribution is based on projected pay-as-you go financing requirements. The retiree is to receive the same health care coverage as active employees. Employees may choose from multiple insurance plans and has the option to add a spouse. The retiree is responsible for any portion of the premiums not paid by the District.

Annual Pension Cost and Net Pension Obligation - The annual other postemployment benefit cost is calculated based on the annual required contribution of the employer (ARC), and amount actuarially determined in accordance within the parameter 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) over an open period of thirty years.

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual required contribution	\$ 276,241	\$ 271,625	\$ 268,554
Interest on net pension obligation	20,764	16,118	13,031
Adjustment to annual required contribution	<u>19,835</u>	<u>15,398</u>	<u>12,448</u>
Annual OPEB Cost	277,170	272,345	269,137
Contributions made	<u>130,245</u>	<u>156,218</u>	<u>191,952</u>
Increase in net pension obligation	146,925	116,127	77,185
Net OPEB Obligation (Asset) at beginning of year	<u>519,075</u>	<u>402,948</u>	<u>325,763</u>
Net OPEB Obligation (Asset) at end of year	<u>\$ 666,000</u>	<u>\$ 519,075</u>	<u>\$ 402,948</u>
Percentage of APC contributed	47%	57%	71%

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Post-Employment Health Care Benefits – Implicit (Continued)

Actuarial Methods and Assumptions - The annual required contribution (ARC) for the current year was determined as part of the July 1, 2013 actuarial valuation using the Projected Unit Credit Cost Method. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about mortality, claim cost and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Interest rate for discounting future liabilities is 4.00% per year, overall payroll growth is 3.00% per year, and the general inflation rate is 2.50% per year.

Program membership consisted on the following at June 30, 2014:

Active Program Members:

Vested	497
Non-vested	72
	<u>569</u>

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

9. LONG-TERM OBLIGATIONS

General Obligation Bonds

General obligation bonds were issued to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for general government funds and are reported in the Governmental Activities section of the government-wide financial statements. General obligation bonds are direct obligations and pledge the full faith and credit of the District. There are currently two outstanding general obligation bonds.

A summary of the general obligation bonds outstanding is as follows:

ISSUE	ORIGINAL ISSUE AMOUNT	INTEREST RATE	OUTSTANDING BALANCE 6/30/2014	FINAL MATURITY DATE
Series 2008	\$ 25,100,000	3.1-4.1%	\$ 15,735,000	6/15/2023
Series 2010	4,425,000	2.5-3.0%	1,915,000	6/15/2016
Total	<u>\$ 29,525,000</u>		<u>\$ 17,650,000</u>	

PERS Pension Obligation Bonds

During the years ended June 30, 2004 and 2002, the District issued PERS Pension Obligation Bonds. The net proceeds from these bonds were remitted to the Oregon Public Employees' Retirement System as a prepayment of the District's unfunded pension liability. The annual payments on the PERS Pension Obligation Bond are accounted for as additional contributions to the Public Employees' Retirement System by the District.

During the 2011-2012 fiscal year, the District refunded a portion of the 2002 PERS Pension Obligations Bonds. \$1,000,000 was issued of limited tax pension obligation bonds for the purpose of generating resources for the debt service payments of \$955,000 for the 2020-21 year of the 2002 limited tax pension obligation bonds. As a result, the refunded bonds were considered to be defeased, and the liability was removed from the government activities column of the statement of Net Position. The advance refunding was undertaken to reduce the total interest payments and resulted in an economic gain of \$69,778.

A summary of the pension obligation bonds outstanding is as follows:

ISSUE	INTEREST RATE	OUTSTANDING BALANCE 6/30/2014	FINAL MATURITY DATE
8/11/2011	2.06-6.10%	\$ 12,448,249	6/30/2028
2/19/2004	3.66-5.53%	10,115,000	6/30/2028
Total		<u>\$ 22,563,249</u>	

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

9. LONG-TERM OBLIGATIONS (CONTINUED)

Qualified School Construction Bond

A Qualified School Construction Bond was issued in February 2010 with the proceeds used to enter into an agreement to purchase equipment, property, or property improvements.

A summary of the qualified school construction bond outstanding is as follows:

	ORIGINAL		OUTSTANDING	FINAL
ISSUE	ISSUE	INTEREST	BALANCE	MATURITY
	AMOUNT	RATE	6/30/2014	DATE
Series 2010	\$ 3,600,000	1.95%	\$ 2,805,000	3/16/2026

Capital Lease

During the 2013-14 school year, the District entered into a capital lease for a new bus in the amount of \$120,695 at 5.0% interest rate. The full amount of the capital lease is to be paid off during the 2014-15 fiscal year.

Changes in long-term liabilities

Long-term liability activity for the fiscal year ended June 30, 2014, was as follows:

	Beginning Balance 7/1/13	Additions	Deletions	Ending Balance 6/30/14	Due Within One Year
Governmental Activities:					
Bonds payable:					
General Obligation Bonds	\$ 20,455,000	\$ -	\$ 2,805,000	\$ 17,650,000	\$ 3,005,000
Pension Obligation Bonds	23,047,999	-	484,750	22,563,249	543,793
QSCB	3,010,000	-	205,000	2,805,000	210,000
Capital Lease	-	120,695	-	120,695	120,695
OPEB	1,498,756	-	168,951	1,329,805	-
Unamortized bond premiums and (discounts)	411,921	-	89,436	322,485	-
Total Liabilities	\$ 48,423,676	\$ 120,695	\$ 3,753,137	\$ 44,791,234	\$ 3,879,488

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

9. LONG-TERM OBLIGATIONS (CONTINUED)

On December 16, 2010, a general obligation refunding bond was issued in the amount of \$4,425,000. Principal payments are due annually on December 16. Interest is payable at rates that range between 2.50% and 3.00% Per annum. The funds were used to retire previously outstanding bonds which were issued on December 15, 2000, in the amount of \$9,100,000. Total debt service payable on the bond, including principal and interest was \$5,272,476. Total debt service after the refunding was \$4,905,994 for a total reduction of debt service amounting to \$366,482. The net present value of the savings is \$350,028.

The future maturities of long-term obligations outstanding as of June 30, 2014 are as follows:

Fiscal Year	General Obligation				Pension Obligation Bonds			
	Series 2010		Series 2008		Series 2011		Series 2004	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 930,000	\$ 30,475	\$ 2,075,000	\$ 641,900	\$ 278,793	\$ 853,664	\$ 265,000	\$ 549,926
2016	985,000	16,525	2,235,000	569,275	286,430	906,027	320,000	536,880
2017	-	-	1,280,000	479,875	290,986	961,471	380,000	520,807
2018	-	-	1,390,000	425,675	296,222	1,021,235	445,000	501,339
2019	-	-	1,500,000	370,075	301,417	1,086,040	515,000	478,097
2020-24	-	-	7,255,000	797,600	4,974,401	3,154,088	3,890,000	1,882,533
2025-29	-	-	-	-	6,020,000	786,713	4,300,000	559,433
	<u>\$ 1,915,000</u>	<u>\$ 47,000</u>	<u>\$ 15,735,000</u>	<u>\$ 3,284,400</u>	<u>\$ 12,448,249</u>	<u>\$ 8,769,238</u>	<u>\$ 10,115,000</u>	<u>\$ 5,029,015</u>

Fiscal Year	Qualified School Construction Bond		Capital Lease	Totals	
	Series 2010			Principal	Interest
	Principal	Interest			
2015	\$ 210,000	\$ 54,698	\$ 120,695	\$ 3,879,488	\$ 2,130,663
2016	215,000	50,603	-	4,041,430	2,079,310
2017	220,000	46,410	-	2,170,986	2,008,563
2018	220,000	42,120	-	2,351,222	1,990,369
2019	225,000	37,830	-	2,541,417	1,972,042
2020-24	1,200,000	121,389	-	17,319,401	5,955,610
2025-29	515,000	15,110	-	10,835,000	1,361,256
	<u>\$ 2,805,000</u>	<u>\$ 368,160</u>	<u>\$ 120,695</u>	<u>\$ 43,138,944</u>	<u>\$ 17,497,813</u>

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

10. COMMITMENTS AND CONTINGENCIES

A substantial portion of operating funding is received from the State of Oregon. State funding is determined through state-wide revenue projections that are paid to individual school districts based on pupil counts and other factors in the state school fund revenue formula. Since these projections and pupil counts fluctuate, they can cause either increases or decreases in revenue. Due to these future uncertainties at the state level, the future effect on operations cannot be determined.

A number of federally assisted grant programs are participated in. These programs are subject to program compliance audits by the grantors or their representatives. Compliance with grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although such amounts are expected by management to be immaterial.

11. CONTINGENCIES - SICK LEAVE

Portions of amounts accumulated at any point in time can be expected to be redeemed before termination of employment; however, such redemptions cannot be reasonably estimated. As of June 30, 2014, employees had accumulated 25,032 days of sick leave.

12. RISK MANAGEMENT

There is exposure 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 commercial insurance is carried to minimize the exposure to these risks. Settled claims have not exceeded this commercial coverage.

Workers' compensation insurance is purchased from a commercial carrier. Premiums are determined based on payroll paid at various employment classification rates. Loss prevention services are available from the carrier, and there is no potential liability beyond the premiums paid.

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

13. OPERATING LEASE

There are operating leases for copy machines. Total lease expenditures for the year amounted to \$92,825.

Remaining minimum lease payments are as follows:

2014-2015	\$	56,385
2015-2016		4,649
2016-2017		1,937
	\$	<u>62,971</u>

14. ACCRUED VACATION

At the beginning of the fiscal year, the District had an accrued vacation liability totaling \$98,478. During the year, the liability had a net increase of \$2,898, resulting in total accrued vacation liability of \$101,376 as of June 30, 2014.

15. PROPERTY TAX LIMITATIONS

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

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

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

16. PRIOR PERIOD ADJUSTMENTS AND RESTATEMENTS

During the 2013-14 fiscal year, the District incurred two restatements to beginning net position, and one prior period adjustment:

The prior period adjustment is to restate the beginning balances for capital assets to correct errors the District noted in the capital asset register. \$909,449 worth of old vehicles and equipment that were fully depreciated were deleted as the District did not have any of these items any longer. In addition, \$112,000 was added to the beginning balance of the equipment due to items there were not reported in prior years.

The first restatement is to remove bond issue costs due to the implementation of GASB 65, *Items Previously Reported as Assets and Liabilities*. The bond issue costs are no longer amortized.

The second restatement is for an adjustment made is to correct other postemployment benefits (OPEB) as this is the first year the District has gotten an actuarial valuation. The liability decreased by \$980,367 and the corrected balance is shown on the Statement of Net Position.

17. FUND BALANCE CONSTRAINTS

The specific purposes for each of the categories of fund balance as of June 30, 2014 are as follows:

Fund Balances:	General Fund	Grants Fund	Capital Projects	Other	Total
<u>Nonspendable:</u>					
Prepaid & Inventory	\$ -	\$ -	\$ -	\$ 45,454	\$ 45,454
<u>Restricted:</u>					
Grants	-	321,784	-	-	321,784
Capital Projects	-	-	1,443,959	-	1,443,959
Debt Service	-	-	-	325,436	325,436
	-	321,784	1,443,959	325,436	2,091,179
<u>Assigned to:</u>					
Unemployment Reserve	66,169	-	-	-	66,169
Bus Replacement	8,257	-	-	-	8,257
School Lunch	-	-	-	557,804	557,804
Community Education	-	-	-	50,773	50,773
Student Body	-	-	-	553,741	553,741
	74,426	-	-	1,162,318	1,236,744
<u>Unassigned:</u>	2,480,278	-	-	-	2,480,278
Total Fund Balances	\$ 2,554,704	\$ 321,784	\$ 1,443,959	\$ 1,533,208	\$ 5,853,655

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

REQUIRED SUPPLEMENTARY INFORMATION

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HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS
EARLY RETIREMENT PROGRAM

June 30, 2014

PLAN I (STIPENDS):

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(b)-(a) AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
7/1/2013	\$ -	\$ 255,226	\$ 255,226	0.00%	\$ 786,202	32.46%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2014	85,503	161.90 %

The above table presents the most recent actuarial valuations for the District's post-retirement pension stipend and it provides information that approximates the funding progress of the plan.

HOOD RIVER COUNTY SCHOOL DISTRICT

HOOD RIVER COUNTY, OREGON

SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

POST-EMPLOYMENT HEALTH CARE

June 30, 2014

PLAN II (HEALTH INSURANCE)

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b)-(a) AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
7/1/2013	\$ -	\$ 4,144,028	\$ 4,144,028	0.00%	\$ 23,303,848	17.78%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2014	\$ 495,386	77.70 %

The above table presents the most recent actuarial valuations for the District's post-retirement health insurance and it provides information that approximates the funding progress of the plan.

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance to Final Budget
Revenues:				
Local sources	\$ 11,210,000	\$ 11,390,805	\$ 11,575,951	\$ 185,146
Intermediate sources	1,000,000	1,074,720	1,038,704	(36,016)
State sources	26,022,475	26,051,507	25,616,591	(434,916)
Federal sources	-	23,692	236,805	213,113
Total revenues	38,232,475	38,540,724	38,468,051	(72,673)
Expenditures:				
Instruction	24,542,673	24,312,797 (1)	23,966,514	346,283
Support services	13,463,717	14,212,091 (1)	13,868,567	343,524
Debt service	275,000	263,695 (1)	263,695	-
Contingency	250,000	11,056 (1)	-	11,056
Total expenditures	38,531,390	38,799,639	38,098,776	700,863
Revenues over (under) expenditures	(298,915)	(258,915)	369,275	628,190
Other financing sources (uses):				
Transfers out	(148,000)	(188,000) (1)	(188,000)	-
Total other financing sources (uses)	(148,000)	(188,000)	(188,000)	-
Net change in fund balance	(446,915)	(446,915)	181,275	628,190
Fund balance, beginning of year	1,716,622	1,716,622	2,299,003	582,381
Fund balance, end of year	\$ 1,269,707	\$ 1,269,707	2,480,278	\$ 1,210,571

(1) Appropriation level

RECONCILIATION TO GAAP FUND BALANCE AS REQUIRED BY GASB 54

Ending Fund Balance:	
Unemployment Reserve Fund	66,169
Bus Replacement Reserve Fund	8,257
	<u>\$ 2,554,704</u>

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON
GRANTS - SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance to Final Budget
Revenues:				
Local sources	\$ 100,000	\$ 100,000	\$ 417,870	\$ 317,870
Intermediate sources	-	-	794,340	794,340
State Sources	-	-	206,376	206,376
Federal sources	4,600,000	5,151,512	2,403,473	(2,748,039)
Total revenues	4,700,000	5,251,512	3,822,059	(1,429,453)
Expenditures:				
Instruction	3,500,000	3,910,206 (1)	3,029,465	880,741
Support services	1,500,000	1,562,527 (1)	722,948	839,579
Community service	100,000	200,871 (1)	49,491	151,380
Facilities Acquisition	100,000	- (1)	-	-
Total expenditures	5,200,000	5,673,604	3,801,904	1,871,700
Revenues over (under) expenditures	(500,000)	(422,092)	20,155	442,247
Other Financing Sources, -Uses:				
Transfers Out	-	(77,908) (1)	-	77,908
Total other financing sources, -uses	-	(77,908)	-	77,908
Net change in fund balance	(500,000)	(500,000)	20,155	520,155
Fund balance, beginning of year	500,000	500,000	301,629	(198,371)
Fund balance, end of year	\$ -	\$ -	\$ 321,784	\$ 321,784

(1) Appropriation level

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

SUPPLEMENTARY INFORMATION

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HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON
CAPITAL CONSTRUCTION FUND (A MAJOR FUND) -
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance to Final Budget</u>
Revenues:				
Local sources	<u>\$ 400,000</u>	<u>\$ 400,000</u>	<u>\$ 395,033</u>	<u>\$ (4,967)</u>
Total revenues	<u>400,000</u>	<u>400,000</u>	<u>395,033</u>	<u>(4,967)</u>
Expenditures:				
Facilities acquisition and construction	<u>1,400,000</u>	<u>1,400,000 (1)</u>	<u>522,444</u>	<u>877,556</u>
Total expenditures	<u>1,400,000</u>	<u>1,400,000</u>	<u>522,444</u>	<u>877,556</u>
Revenues over (under) expenditures	<u>(1,000,000)</u>	<u>(1,000,000)</u>	<u>(127,411)</u>	<u>872,589</u>
Other Financing Sources, -Uses:				
Capital lease proceeds	<u>-</u>	<u>-</u>	<u>120,695</u>	<u>120,695</u>
Net change in fund balance	<u>(1,000,000)</u>	<u>(1,000,000)</u>	<u>(6,716)</u>	<u>993,284</u>
Fund balance, beginning of year	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,450,675</u>	<u>450,675</u>
Fund balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,443,959</u></u>	<u><u>\$ 1,443,959</u></u>

(1) Appropriation level

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	Food Service Fund	Community Education Fund	Student Body Fund	Debt Service Fund	Total
ASSETS					
Cash and cash equivalents	\$ 491,213	\$ 62,455	\$ 553,741	\$ 287,786	\$ 1,395,195
Receivables:					
Taxes	-	-	-	198,239	198,239
Accounts	71,549	8,528	-	21,710	101,787
Supply inventories	45,454	-	-	-	45,454
Total assets	\$ 608,216	\$ 70,983	\$ 553,741	\$ 507,735	\$ 1,740,675
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE					
Liabilities:					
Accounts payable	\$ 4,958	\$ 20,210	\$ -	\$ -	\$ 25,168
Total liabilities	4,958	20,210	-	-	25,168
Deferred inflows of resources:					
Unavailable revenue - property taxes	-	-	-	182,299	182,299
Total deferred inflows of resources	-	-	-	182,299	182,299
Fund balances:					
Nonspendable	45,454	-	-	-	45,454
Restricted	-	-	-	325,436	325,436
Assigned	557,804	50,773	553,741	-	1,162,318
Total fund balance	603,258	50,773	553,741	325,436	1,533,208
Total liabilities, deferred inflows of resources, and fund balance	\$ 608,216	\$ 70,983	\$ 553,741	\$ 507,735	\$ 1,740,675

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	Food Service Fund	Community Education Fund	Student Body Fund	Debt Service Fund	Total
Revenues:					
Local sources	\$ 304,929	\$ 889,136	\$ 998,281	\$ 3,629,148	\$ 5,821,494
State sources	18,155	6,510	-	-	24,665
Federal sources	1,427,585	-	-	-	1,427,585
Total revenues	<u>1,750,669</u>	<u>895,646</u>	<u>998,281</u>	<u>3,629,148</u>	<u>7,273,744</u>
Expenditures:					
Instruction	-	191,852	931,341	-	1,123,193
Support services	-	153	-	-	153
Community services	1,605,300	652,868	-	-	2,258,168
Debt service	-	-	-	3,601,589	3,601,589
Total expenditures	<u>1,605,300</u>	<u>844,873</u>	<u>931,341</u>	<u>3,601,589</u>	<u>6,983,103</u>
Net change in fund balance	145,369	50,773	66,940	27,559	290,641
Fund balances, beginning of year	<u>457,889</u>	<u>-</u>	<u>486,801</u>	<u>297,877</u>	<u>1,242,567</u>
Fund balances, end of year	<u><u>\$ 603,258</u></u>	<u><u>\$ 50,773</u></u>	<u><u>\$ 553,741</u></u>	<u><u>\$ 325,436</u></u>	<u><u>\$ 1,533,208</u></u>

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON
FOOD SERVICE-SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance to Final Budget
Revenues:				
Local sources	\$ 400,000	\$ 400,000	\$ 304,929	\$ (95,071)
State Sources	-	-	18,155 (2)	18,155
Federal sources	<u>1,100,000</u>	<u>1,100,000</u>	<u>1,427,585</u>	<u>327,585</u>
Total revenues	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,750,669</u>	<u>250,669</u>
Expenditures:				
Enterprise and community services	<u>1,800,000</u>	<u>1,800,000 (1)</u>	<u>1,605,300</u>	<u>194,700</u>
Total expenditures	<u>1,800,000</u>	<u>1,800,000</u>	<u>1,605,300</u>	<u>194,700</u>
Net change in fund balance	(300,000)	(300,000)	145,369	445,369
Fund balance, beginning of year	<u>300,000</u>	<u>300,000</u>	<u>457,889</u>	<u>157,889</u>
Fund balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 603,258</u></u>	<u><u>\$ 603,258</u></u>

(1) Appropriation level

(2) The total amount of this revenue source is state lunch matching funds.

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON
COMMUNITY EDUCATION-SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance to Final Budget</u>
Revenues:				
Local sources	\$ 1,210,000	\$ 1,210,000	\$ 889,136	\$ (320,864)
State sources	<u>-</u>	<u>-</u>	<u>6,510</u>	<u>6,510</u>
Total revenues	<u>1,210,000</u>	<u>1,210,000</u>	<u>895,646</u>	<u>(314,354)</u>
Expenditures:				
Instruction	400,000	400,000 (1)	191,852	208,148
Support services	10,000	10,000 (1)	153	9,847
Enterprise and community services	<u>800,000</u>	<u>800,000 (1)</u>	<u>652,868</u>	<u>147,132</u>
Total expenditures	<u>1,210,000</u>	<u>1,210,000</u>	<u>844,873</u>	<u>365,127</u>
Net change in fund balance	-	-	50,773	50,773
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,773</u>	<u>\$ 50,773</u>

(1) Appropriation level

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON
STUDENT BODY-SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance to Final Budget
Revenues:				
Local sources	\$ 700,000	\$ 700,000	\$ 998,281	\$ 298,281
Total revenues	700,000	700,000	998,281	298,281
Expenditures:				
Instruction	1,200,000	1,200,000 (1)	931,341	268,659
Total expenditures	1,200,000	1,200,000	931,341	268,659
Net change in fund balance	(500,000)	(500,000)	66,940	566,940
Fund balance, beginning of year	500,000	500,000	486,801	(13,199)
Fund balance, end of year	\$ -	\$ -	\$ 553,741	\$ 553,741

(1) Appropriation level

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance to Final Budget</u>
Revenues:				
Local Sources	\$ 3,511,625	\$ 3,511,625	\$ 3,629,148	\$ 117,523
Total revenues	<u>3,511,625</u>	<u>3,511,625</u>	<u>3,629,148</u>	<u>117,523</u>
Expenditures:				
Debt service	<u>3,611,625</u>	<u>3,611,625 (1)</u>	<u>3,601,589</u>	<u>10,036</u>
Total expenditures	<u>3,611,625</u>	<u>3,611,625</u>	<u>3,601,589</u>	<u>10,036</u>
Net change in fund balance	(100,000)	(100,000)	27,559	127,559
Fund balance, beginning of year	<u>100,000</u>	<u>100,000</u>	<u>297,877</u>	<u>197,877</u>
Fund balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 325,436</u></u>	<u><u>\$ 325,436</u></u>

(1) Appropriation level

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON
UNEMPLOYMENT RESERVE-SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance to Final Budget
Expenditures:				
Support services	\$ 100,000	\$ 140,000 (1)	\$ 28,673	\$ 111,327
Total Expenditures	100,000	140,000	28,673	111,327
Revenues over (under) expenditures	(100,000)	(140,000)	(28,673)	111,327
Other Financing Sources (Uses)				
Transfer In	-	40,000	40,000	-
Total Other Financing Sources (Uses)	-	40,000	40,000	-
Net change in fund balance	(100,000)	(100,000)	11,327	111,327
Fund balance, beginning of year	100,000	100,000	54,842	(45,158)
Fund balance, end of year	\$ -	\$ -	\$ 66,169	\$ 66,169

(1) Appropriation level

Note: This fund's activities have been combined with the General Fund activities in accordance with GASB 54 due to its financing resources being derived primarily from General Fund transfers.

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON
BUS REPLACEMENT-SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance to Final Budget</u>
Revenues:				
Local Sources	\$ 104,000	\$ 104,000	\$ -	\$ (104,000)
Total revenues	<u>104,000</u>	<u>104,000</u>	<u>-</u>	<u>(104,000)</u>
Expenditures:				
Support services	<u>260,000</u>	<u>260,000 (1)</u>	<u>148,115</u>	<u>111,885</u>
Total expenditures	<u>260,000</u>	<u>260,000</u>	<u>148,115</u>	<u>111,885</u>
Revenues over (under) expenditures	(156,000)	(156,000)	(148,115)	7,885
Other financing sources (uses)				
Transfer in	<u>148,000</u>	<u>148,000</u>	<u>148,000</u>	<u>-</u>
Total other financing sources (uses)	<u>148,000</u>	<u>148,000</u>	<u>148,000</u>	<u>-</u>
Net change in fund balance	(8,000)	(8,000)	(115)	7,885
Fund balance, beginning of year	<u>8,000</u>	<u>8,000</u>	<u>8,372</u>	<u>372</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,257</u>	<u>\$ 8,257</u>

(1) Appropriation level

Note: This fund's activities have been combined with the General Fund activities in accordance with GASB 54 due to its financing resources being derived primarily from General Fund transfers.

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2014

Federal Grantor/Pass-through Grantor Program Title or Cluster	Grant Award	CFDA No.	Grant Amount	13-14 Revenues	13-14 Expenditures
DEPARTMENT OF EDUCATION					
Passed through State Department of Education:					
Special Education - Grants to States	2013-2014	84.027	661,591	661,591	661,591
	2012-2013	84.027/173	7,276	4,811	4,811
	2013-2014	84.173	6,769	5,694	5,694
	2013-2014	84.027	3,232	3,232	3,232
	2013-2014	84.027	5,196	5,196	5,196
	2013-2014	84.027	900	900	900
	2013-2014	84.027	5,305	5,305	5,305
					686,730 (1)
Migrant Education - State Grant Program	2012-2013	84.011	344,407	100,675	100,675
	2013-2014	84.011	401,317	259,017	259,017
					359,692
Title I Grants to Local Educational Agencies	2012-2013	84.010	825,855	77,590	77,590
	2013-2014	84.010	743,663	656,439	656,439
					734,028
Improving Teacher Quality State Grants	2012-2013	84.367	163,283	1,641	1,641
	2013-2014	84.367	152,973	81,825	81,825
					83,465
English Language Acquisition State Grants	2012-2013	84.365	113,751	5,601	5,601
	2013-2014	84.365	114,423	104,771	104,771
					110,373
21st Century Community Learning Centers	2013-2014	84.287	474,714	344,290	344,290 (1)
Title I State Agency Program for Neglected Delinquent Children and Youth	2013-2014	84.013	29,148	29,148	29,148
Career and Technical Education - Basic Grants to State	2012-2013	84.048	36,205	3,049	3,049
	2013-2014	84.048	31,923	31,923	31,923
					34,972
Fresh Fruit and Vegetable Program	2012-2013	10.582	26,335	-	-
	2013-2014	10.582	21,668	20,776	20,776
					20,776
TOTAL DEPARTMENT OF EDUCATION				2,403,476	2,403,476

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

DEPARTMENT OF AGRICULTURE

Passed through State Department of Education:						
National School Lunch:						
Commodities Supplemental Food Program	2013-2014	10.555	108,820	108,820	108,820	
School Breakfast Program	2013-2014	10.553	365,719	365,719	365,719	
National School Lunch Program	2013-2014	10.555	861,753	860,345	860,345	
Summer Food Service Program for Children	2012-2013	10.559	18,751	18,751	18,751	
					<u>1,353,635</u>	(1)
CNP Block Child Care	2013-2014	10.558	73,738	73,738	73,738	
Passed through Hood River County:						
School and Roads - Grants to States	2013-2014	10.665	204,335	<u>204,335</u>	<u>204,335</u>	
TOTAL DEPARTMENT OF AGRICULTURE				<u>1,631,708</u>	<u>1,631,708</u>	
OTHER FEDERAL SOURCES						
Passed through Employment Dept						
Child Care and Development Block Grant	2013-2014	93.575	32,662	<u>32,470</u>	<u>32,470</u>	
TOTALS				<u>\$ 4,067,653</u>	<u>\$ 4,067,653</u>	

Note 1 - Basis of Presentation

This schedule of federal awards includes the federal grant activity and is presented on the modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2 - Food Distribution

Nonmonetary assistance is reported in this schedule at the fair value of the commodities received and disbursed. During the 2013-14 fiscal year, the district received U.S.D.A. commodities in the amount of \$108,820.

(1) - Major Program

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON
GENERAL FUND
SCHEDULE OF PROPERTY TAX TRANSACTIONS AND OUTSTANDING BALANCES
For the Year Ended June 30, 2014

Transactions By Year	Original Levy or Balanced Uncollected at July 1, 2013	Interest	Discounts	Collections	Adjustments	Property Taxes Uncollected at June 30, 2014
2013-2014	\$ 11,105,975	\$ 6,030	\$ 281,168	\$ 10,539,885	\$ (24,411)	\$ 260,511
2012-2013	275,980	9,747	(74)	114,423	(9,852)	151,779
2011-2012	158,230	9,508	(21)	43,710	(9,932)	104,609
2010-2011	91,814	14,429	(24)	42,431	(5,362)	44,045
2009-2010	38,917	8,377	(10)	21,227	(2,149)	15,551
2008-2009 & Prior	22,449	1,783	(4)	2,973	(2,777)	16,703
	<u>\$ 11,693,365</u>	<u>\$ 49,874</u>	<u>\$ 281,035</u>	<u>\$ 10,764,649</u>	<u>\$ (54,483)</u>	<u>\$ 593,198</u>

Reconciliation to revenue:

Collections	\$ 10,764,649
Accrual of receivables:	
June 30, 2013	(28,243)
June 30, 2014	48,154
Taxes in lieu	<u>5,861</u>
	<u>\$ 10,790,421</u>

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON
DEBT SERVICE FUND
SCHEDULE OF PROPERTY TAX TRANSACTIONS AND OUTSTANDING BALANCES
For the Year Ended June 30, 2014

Transactions By Year	Original Levy or Balanced Uncollected at July 1, 2013	Interest	Discounts	Collections	Adjustments	Property Taxes Uncollected at June 30, 2014
2013-2014	\$ 3,708,422	\$ 2,014	\$ 93,886	\$ 3,519,398	\$ (8,151)	\$ 86,987
2012-2013	92,881	3,280	(25)	38,509	(3,316)	51,081
2011-2012	52,067	3,140	(7)	14,434	(3,094)	34,546
2010-2011	30,168	4,758	(8)	13,992	(1,660)	14,524
2009-2010	13,341	2,882	(4)	7,303	(692)	5,350
2008-2009 & Prior	7,785	614	(1)	1,024	(1,011)	5,751
	<u>\$ 3,904,664</u>	<u>\$ 16,688</u>	<u>\$ 93,841</u>	<u>\$ 3,594,660</u>	<u>\$ (17,924)</u>	<u>\$ 198,239</u>

Reconciliation to revenue:

Collections	\$ 3,594,660
Accrual of receivables	
June 30, 2013	(9,376)
June 30, 2014	15,940
Taxes in Lieu	<u>27,030</u>
	<u>\$ 3,628,254</u>

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HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

INDEPENDENT AUDITORS' REPORT AS REQUIRED BY
OREGON STATE REGULATIONS

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December 22, 2014

Independent Auditors' Report Required by Oregon State Regulations

We have audited the basic financial statements of the Hood River County School District as of and for the year ended June 30, 2014, and have issued our report thereon dated December 22, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards.

Compliance

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

We performed procedures to the extent we considered necessary to address the required comments and disclosures, 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 Hood River County School District was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations except as follows:

1. Competitive quotes could not be located for two invoices.

OAR 162-10-0230 Internal Control

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

We noted matters involving the internal control structure and its operation that we consider to be significant deficiencies under standards established by the American Institute of Certified Public Accountants, which are noted in the schedule of findings and questioned costs on pages 71-74.

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

A handwritten signature in black ink that reads "Tara M. Kamp, CPA". The signature is written in a cursive, flowing style.

Tara M. Kamp, CPA
PAULY, ROGERS AND CO., P.C.

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

GRANT COMPLIANCE REVIEW

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December 22, 2014

**To the Board of Directors
Hood River County School District
Hood River County, Oregon**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hood River County School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the basic financial statements, and have issued our report thereon dated December 22, 2014.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs as item 2014-FA-1.

Response to Findings

The management responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the responses and, accordingly, we express no opinion on them.

Purpose of this Report

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



Tara M. Kamp, CPA
PAULY, ROGERS AND CO., P.C.



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December 22, 2014

**To the Board of Directors
Hood River County School District
Hood River County, Oregon**

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

Report on Compliance for Each Major Federal Program

We have audited Hood River County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the major federal programs for the year ended June 30, 2014. The major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Hood River County 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.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2014-FA-1.

The District's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-FA-1 to be a significant deficiency.

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. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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.



Tara M. Kamp, CPA
PAULY, ROGERS AND CO., P.C.

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

SCHEDULE OF FINDINGS
AND QUESTIONED COSTS

For the Year Ended June 30, 2014

SECTION I – SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

☐ yes ☒ no

Significant deficiency(s) identified that are not considered
to be material weaknesses?

☒ yes ☐ none reported

Noncompliance to material financial statements noted?

☐ yes ☒ no

Any GAGAS audit findings disclosed that are required to be reported
In accordance with section 505(d)(2) of OMB Circular A-133?

☐ yes ☒ no

FEDERAL AWARDS

Internal control over major programs:

Material weakness(es) identified?

☐ yes ☒ no

Significant deficiency(s) identified that are not considered
to be material weaknesses?

☒ yes ☐ none reported

Type of auditors' report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance
with OMB Circular A-133, section 510(a)?

☒ yes ☐ no

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

SCHEDULE OF AUDIT FINDINGS
AND QUESTIONED COSTS

For the Year Ended June 30, 2014

IDENTIFICATION OF MAJOR PROGRAMS

<u>CFDA NUMBER</u>	<u>NAME OF FEDERAL PROGRAM CLUSTER</u>
---------------------------	---

84.027 and 84.173	Special Education – Grants to States
84.287	21 st Century Community Learning Centers
10.555, 10.553, 10.559	National School Lunch Program Cluster

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

Auditee qualified as low-risk auditee?

☐ yes ☒ no

SECTION II – FINANCIAL STATEMENT FINDINGS

2014-FS-1

CONDITION:

There are no written internal control policies or procedures.

CRITERIA:

The District should adopt formal policies/procedures for all financial accounting and reporting areas.

EFFECT:

Without adequate documentation of internal controls, it is difficult for management and the board to ensure that assets are being safeguarded and that policies concerning controls are being adhered to.

CAUSE:

Insufficient documentation of internal controls.

RECOMMENDATION:

We recommend the District document its internal controls.

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

SCHEDULE OF FINDINGS
AND QUESTIONED COSTS

For the Year Ended June 30, 2014

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

MANAGEMENT RESPONSE:

District concurs. The chief financial officer, Sandra Buchanan, will complete the review of internal controls and document the District's internal controls by March 31, 2015. The Board adopted updated financial policies in 2013-2014. Any necessary changes to Board policies as a result of this review will be presented to the Board for action.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONS COSTS:

2014-FA-1 – SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL AND INSTANCE OF NON-COMPLIANCE

FEDERAL PROGRAM:

Special Education – Grants to States

SPECIFIC REQUIREMENTS:

Under OMB A-87, when an employee is paid from a single federal funding source a Semi-Annual Certification is required to be prepared twice yearly and states that the employee spent 100% of their time working on activities supported by that funding source.

CONDITION:

During our testing, we noted one employee who was charged 100% to the grant who did not have a Semi-Annual Certification. Additionally, we noted that Semi-Annual Certifications were only performed once during the fiscal year, rather than twice yearly.

QUESTIONED COSTS:

None noted.

CONTEXT:

During our testing, we selected time and effort documentation to view.

EFFECT:

Without adequate time and effort documentation put in place, there is a possibility of noncompliance with OMB A-87.

HOOD RIVER COUNTY SCHOOL DISTRICT
HOOD RIVER COUNTY, OREGON

SCHEDULE OF FINDINGS
AND QUESTIONED COSTS

For the Year Ended June 30, 2014

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONS COSTS (CONTINUED):

CAUSE:

Management has not appropriately placed controls around time and effort documentation for federal grants.

RECOMMENDATION:

We recommend that the District implement controls around time and effort documentation for federal grants to ensure all requirements are being met.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION PLAN:

District concurs. As a corrective action, the chief financial officer, Sandra Buchanan, will provide a list of employees for semi-annual time and effort certification for federal grants to the Curriculum and Instruction office who tracks time and effort documentation by December 31, 2014 and in future years, at the start of each school year or grant year, whichever comes first. Requirements for time and effort certifications were reviewed with department staff in December 2014.

SECTION IV – SCHEDULE OF PRIOR FEDERAL AWARD FINDINGS AND QUESTIONS COSTS:

None Noted.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. **BASIS OF PRESENTATION**

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