HIGH DESERT EDUCATION SERVICE DISTRICT
DESCHUTES COUNTY, OREGON

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2020

12700 SW 72nd Ave.
Tigard, OR 97223

HIGH DESERT EDUCATION SERVICE DISTRICT

DESCHUTES COUNTY, OREGON

2019-2020 FINANCIAL REPORT

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HIGH DESERT EDUCATION SERVICE DISTRICT
DESCHUTES COUNTY, OREGON

PRINCIPAL OFFICIALS

BOARD MEMBER	TERM EXPIRES
Kathy Biles, Director	June 30, 2020
Seana Barry, Vice Chair	June 30, 2020
Gwenn Carr, Director	June 30, 2021
Peggy Kinkade, Director	June 30, 2020
John Lang, Director	June 30, 2021
Matt McGowan, Director	June 30, 2021
Bob Moore, Director	June 30, 2021
Carol Moorehead, Director	June 30, 2020
Scott Reynolds, Chair	June 30, 2021

ADMINISTRATION

Paul Andrews, Superintendent
Rochelle Friend, Chief Financial Officer

The Board Members receive mail at the following address:
High Desert ESD
2804 SW 6th St
Redmond, OR 97756

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HIGH DESERT EDUCATION SERVICE DISTRICT

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HIGH DESERT EDUCATION SERVICE DISTRICT

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PAULY, ROGERS AND CO., P.C.
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November 17, 2020

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
High Desert Education Service District
Deschutes County, Oregon

Report on the Financial Statements

We have audited the accompanying basic financial statements of the governmental activities, each major fund, and the remaining fund information of High Desert Education Service District (the District) as of and for the year ended June 30, 2020, and the related notes to the basic 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 basic 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 the basic financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these basic 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the basic 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 basic 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 basic 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 basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the remaining fund information of High Desert Education Service District as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the 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 schedules of net pension liability, net OPEB asset, or employer contributions for PERS or RHIA, schedule of changes in OPEB liability and related ratios for OPEB health insurance, or management's discussion and analysis because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance on them.

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

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 17, 2020 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 the reports 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. The reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance.

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated November 17, 2020, 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.

Roy R Rogers

Roy R. Rogers, CPA
PAULY, ROGERS AND CO., P.C.

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HIGH DESERT EDUCATION SERVICE DISTRICT
DESCHUTES COUNTY, OREGON

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the High Desert Education Service District (the "ESD" or the "District"), we offer readers of the ESD's annual financial statements this narrative overview and analysis of the financial activities of the ESD for the year ended June 30, 2020. We encourage readers to read the information presented here in conjunction with the information furnished in the District's financial statements, which follow this narrative.

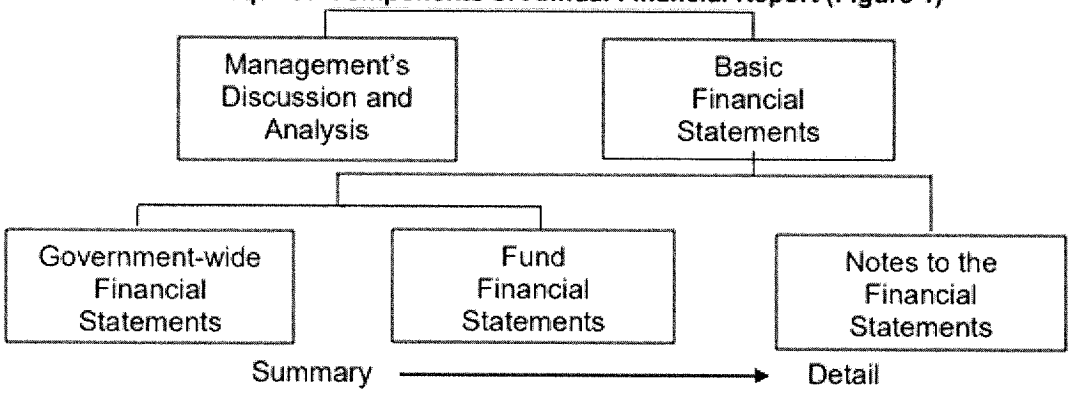
I. Financial Highlights

- The ESD's liabilities and deferred inflows exceeded assets and deferred outflows by $14,102,266 at the close of the fiscal year (*net position*).
- During the year, revenues generated from governmental activities were $3,965,838 less than expenses. In the prior year, revenues were $978,137 less than expenses.
- The ESD's revenue increased by $43,307 from the prior year due primarily to increases State School Fund Support.
- At the end of the current fiscal year, the ESD's governmental funds reported combined ending fund balances of $6,378,995, representing a decrease in fund balance of $1,070,891. Approximately 72.4%, or $4,618,079 is restricted or non-spendable.
- As of the close of the current fiscal year, the general fund unassigned fund balance was $16,476. Per Board policy, 5% of revenues are committed for future expenditures, as of June 30, 2020, this was $787,402. Combined unassigned and committed fund balance for the general fund was $803,878, which represents 6.9% of general fund expenditures.

II. Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the ESD's basic financial statements. The basic financial statements have three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the District through the use of government – wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that is designed to enhance the reader's understanding of the financial condition of the District.

Required Components of Annual Financial Report (Figure 1)



The first two statements in the basic financial statements are the **Government-wide Financial Statements.** They provide both short and long-term information about the District's financial status.

The next statements are the **Fund Financial Statements.** These statements focus on the activities of the individual parts of the District's functions. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental fund statements; 2) the internal service fund (enterprise fund) statements; 3) the fiduciary fund statements.

The next section of the basic financial statements is the **notes.** The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the District's debt service fund and internal service fund.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the ESD's finances, in a manner similar to a private-sector business. The government-wide statements provide short and long-term information about the District's financial status as a whole.

The *Statement of Net Position* on page 13 presents information on the net position of the ESD. Net position is the difference between the District's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the ESD is improving or deteriorating.

The *Statement of Activities* on page 14 presents information showing how the net position of the ESD changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

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

Fund Financial Statements. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The ESD, like all other governmental entities, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the ESD can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of 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 the government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial 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 ESD maintains three major governmental funds, the General Fund, Special Revenue Fund, and Debt Service Fund as well as one Internal Service Fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for each of these funds. The ESD adopts an annual appropriated budget for each fund. Budgetary comparison statements have been provided to demonstrate compliance with these budgets.

The basic governmental fund financial statements are on pages 15-18 of this report. The required budgetary comparison statements are on pages 55-56 with additional supplementary information beginning on page 57.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the governmental entity. Fiduciary funds are not reflected in the government-wide financial statement because the ESD cannot use these funds to finance its operations.

The District uses an agency fund to account for resources managed for other districts, groups or governmental agencies. The basic fiduciary fund financial statement is on page 22 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 23-50 of this report.

Government-wide Financial Statements

As noted earlier, changes in net position over time may serve as a useful indicator of a government's financial position. In the case of the ESD, liabilities and deferred inflows exceeded assets and deferred outflows by $14,102,266 at the close of the 2019-20 fiscal year compared to $10,136,428 at the end of the prior fiscal year, resulting in a decrease in net position of $3,965,838 between the two years.

Figure 2
ESD's Net Position

	Governmental Activities		
	June 30, 2020	June 30, 2019	Change
Current assets	$ 10,594,775	$ 11,160,037	$ (565,262)
Capital Assets	4,608,423	4,738,276	(129,853)
Related Party Receivable	154,387	-	154,387
Net OPEB asset - RHIA	228,764	129,033	99,731
Total Assets	15,586,349	16,027,346	(440,997)
Deferred Outlfows of Resources	8,016,226	9,044,182	(1,027,956)
Current Liabilities	4,435,727	4,016,606	419,121
Net Pension Liability	21,733,976	19,241,512	2,492,464
Total OPEB Liability	849,209	886,247	(37,038)
Long-term Debt	8,860,930	9,344,038	(483,108)
Total Liabilities	35,879,842	33,488,403	2,391,439
Deferred Inflows of Resources	1,824,999	1,719,553	105,446
Net Position			
Net Investment in Capital Assets	1,661,436	1,589,205	72,231
Restricted for Debt Service	10,402	16,639	(6,237)
Restricted for OPEB- RHIA	228,764	129,033	99,731
Restricted for Grant Programs	3,760,762	2,795,463	965,299
Restricted for Resolution Services	785,258	1,074,218	(288,960)
Unrestricted	(20,548,888)	(15,740,986)	(4,807,902)
Total Net Position	$ (14,102,266)	$ (10,136,428)	$ (3,965,838)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table compares current year fiscal operating activities to the previous year. During the current fiscal year, the ESD's total net position decreased by $3,965,838 compared to a prior year decrease of $978,317.

Figure 3
ESD's Change in Net Position

	Governmental Activities		
	June 30, 2020	June 30, 2019	Change
Revenues			
Property Taxes Levied for General Purposes	$ 2,687,424	$ 2,473,527	$ 213,897
State School Fund - General Support	11,128,547	10,464,282	664,265
Earnings on Investments	104,302	128,302	(24,000)
Charges for Services	9,636,376	9,420,568	215,808
Operating Grants and Contributions	14,452,920	15,049,155	(596,235)
Other Local Revenue	3,682,267	4,112,695	(430,428)
Total Revenues	41,691,836	41,648,529	43,307
Expenses			
Instructional Programs	23,298,109	17,242,914	6,055,195
Supporting Services	21,055,428	24,704,728	(3,649,300)
Enterprise and Community Service	164,630	119,549	45,081
Other Uses	500,000	-	500,000
Interest on Long-term Debt	639,507	607,484	32,023
Total Expenses	45,657,674	42,674,675	2,982,999
Change in Net Position before transfers	(3,965,838)	(1,026,146)	(2,939,692)
Transfers from fiduciary funds	-	47,829	(47,829)
Change in Net Position	(3,965,838)	(978,317)	(2,987,521)
Net Position, Beginning of the Year	(10,136,428)	(9,158,111)	(978,317)
Net Position, End of Year	$ (14,102,266)	$ (10,136,428)	$ (3,965,838)

Following are notable contributing factors to changes between fiscal years ending June 30, 2019 and June 30, 2020:

- Total revenue increased by $43,307 or .1%. This increase was much less than anticipated, largely due to the impact of COVID-19 on our local revenues.
- Revenue through the State School Fund formula (property taxes and state school fund) increased by $878,162 or 6.8%.
- Charges for service revenue increased by $215,808 or 2.3%.
- Total expenses increased by $2,982,999 due primarily to new programs provided in the LSP, additional expenditures correlating with new grant funding, and increased spending on existing grants. Additionally, this year a $500,000 one-time payment was made to our PERS side account to buy down future PERS rates.

III. Financial Analysis of the ESD's Funds

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

Governmental Funds. The focus of the ESD's governmental funds is to provide information on relatively short-term cash flow and funding for future basic services. Such information is useful in assessing the ESD's financing requirements. In particular, 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.

Referring to page 15, at June 30, 2020, the ESD's governmental funds reported combined ending fund balances of $6,378,995, a decrease of $1,070,891 from to the prior year.

	Governmental Activities	
	June 30, 2020	June 30, 2019
Fund Balance		
Nonspendable	72,059	$ 2,400
Restricted	4,546,020	3,886,320
Committed	828,777	1,219,493
Committed by board policy (5%)	787,402	728,389
Assigned	128,261	1,540,883
Unassigned	16,476	72,401
Total	$ 6,378,995	$ 7,449,886

General Fund. The general fund is the basic operating fund of the ESD. As of June 30, 2020, it had a fund balance of $1,869,311, which includes $785,258 restricted for component districts' resolution services. Of the remaining balance, $224,592 is unassigned and available for other general fund purposes. At June 30, 2019, the fund balance was $1,884,054 including $79,047 that was unassigned. While much of the fund balance is restricted for specific use, the ESD's positive ending balance enabled it to begin the 2020-21 year without borrowing through Tax Anticipation Notes to fund day to day operations.

Special Revenue Fund. The special revenue fund accounts for the operations of programs that are funded primarily by grants and contracts. As of June 30, 2020, the special revenue fund had a fund balance of $4,499,282 of which $3,760,762 is restricted under grant programs, $517,675 is committed for PERS contingency, $128,261 is assigned for use by Board intent which leaves negative unassigned fund balance of $(208,166).

Overall, fund balance has decreased by $1,049,911 from the previous fiscal year due to a decrease in grant awards. The majority of our grants are reimbursement based, meaning we first incur expenses then the grant reimburses us. Due to COVID-19, our reimbursable expenses this spring were far lower than typical, which resulted in less reimbursement revenue.

Debt Service Fund. The debt service fund was established in 2002 to manage the bonded debt incurred when the ESD's Unfunded Actuarial Liability to PERS was financed at a more favorable rate than the rate charged by the PERS system. The debt service fund had a June 30, 2020 ending balance of $10,402, all of which will be used to make future principal and interest payments. Payments are made monthly from other funds based on payroll to the debt service fund to cover the annual costs of PERS debt.

Internal Service Fund. The Internal Service fund was established in 2007 to manage and maintain the facilities owned by the ESD. The net position of $170,274 at June 30, 2020, is used to fund costs associated with facility maintenance. See page 19 for more information.

Budgetary Highlights

The ESD approved a supplemental budget during the year to authorize a one-time lump sum payment to our PERS Side account to buy down our future PERS rate. The ESD also approved a resolution to transfer funds between functions in the Special Revenue Fund to reflect an increase in the budget due primarily to new and/or increases in existing grant programs and external service contracts. All funds operated within the legal limits of their spending authority as approved by the Board.

Revenue in the General Fund was $74,361 less than budgeted. This is primarily due to a slight difference in the budgeted state school fund support and actual support.

General Fund expenditures were $764,496 (8.8%) less than budgeted. Most of the budget savings were generated due to strategic decisions made to conserve funding for 20/21 when we anticipated revenue shortfalls related to COVID-19.

Capital Asset and Debt Administration

Capital assets. The ESD's investment in capital assets includes land, buildings and equipment. As of June 30, 2020, the ESD had invested $4,608,423 in capital assets, net of depreciation. During the year, the ESD's new investment in capital assets (additions) was $293,871, consisting of equipment for the Career Technical Education (CTE) program, office furniture and computer network infrastructure. Depreciation expense for the year is $423,724.

Figure 5
ESD's Capital Assets
(net of accumulate depreciation)

	Governmental Activities		
	June 30, 2020	June 30, 2019	Change
Land	$ 705,833	$ 705,833	$ -
Construction in progress	1,647	-	1,647
Buildings and improvements	2,552,218	2,441,478	110,740
Equipment	1,348,725	1,590,965	(242,240)
Total	$ 4,608,423	$ 4,738,276	$ (129,853)

Additional information on the ESD's capital assets can be found in the notes to the financial statements on page 33 of this report.

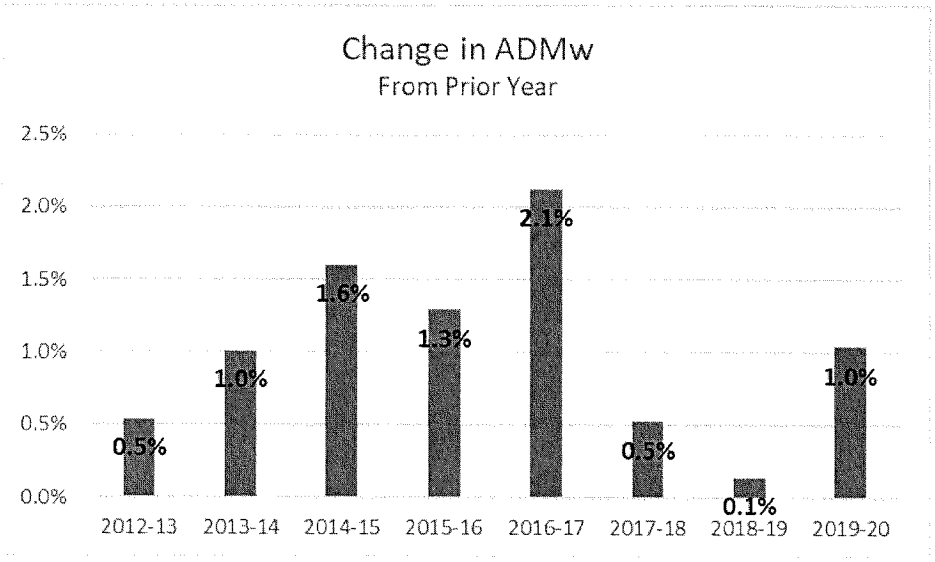
Long-term debt. At the end of the current fiscal year, the ESD had outstanding debt of $9,344,040. During the current fiscal year, the ESD's total debt decreased by $481,854 as a result of regular debt service payments. Additional information on long-term debt is in Note 9 beginning on page 34.

IV. Economic Factors and Next Year's Budget

Like school districts, the ESD's economic status is linked closely to revenue from state sources. State revenue comes from the State School Fund plus other state contracts for service and state program grants. While enrollments increased in 2019-20 and funding levels continued to grow, the spring of 2020 saw a substantial decline in economic stability. Subsequent to June 30, 2020 districts across the state have experienced enrollment decline, and a State level economic outlook that indicates potential declines in overall revenues.

In 2019-20, the State School Fund revenues increased by 6.4% from those of 2018-2019, and growth over the past five years has averaged about 3.5%. Property tax collections, a component of the State School Fund formula, have shown strong growth in recent years as well and have grown at an average 4.5% per year over the same period.

Enrollment (as measured by average daily membership-weighted) across our region have seen an increase each year for the past 8 years. Overall enrollment growth over that time averages 1.0%, however, the rate of increase per year has been declining.



Salary and benefit costs will continue to increase due to contractual agreements. Retirement and health insurance costs are expected to increase in future years at a rate that will outpace revenue growth.

The Public Employee Retirement System (PERS) employer rates for the ESD for the fiscal year ending June 30, 2020, were 22.04% of eligible payroll for Tier 1 and 2 employees and 16.59% for OPSRP employees. This is a biennial rate which will end June 30, 2021. The employee "pick-up" portion of PERS, which is 6% of payroll, is paid by the ESD in addition to these amounts

Although the Budget Committee and the Board take all known factors into consideration when developing the budget each year, the trend in recent years has been one of constant readjustment throughout the year in programs that rely on state money. This ESD continues to evaluate how services are delivered and pursues a wide variety of sources of funding and new programs to offset these reductions where possible.

Many school districts, by board policy, maintain a contingency and/or reserves in their budgets to accommodate volatility in funding and expenses. The ESD board adopted a policy requiring 5% of in General Fund revenues be placed into reserves for future spending.

Requests for Information

This financial report is designed to present the user (citizens, taxpayers, investors and creditors) with a general overview of the ESD's finances and to demonstrate the ESD's accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the ESD Director of Business Services at 2804 SW Sixth Street, Redmond, Oregon 97756.

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HIGH DESERT EDUCATION SERVICE DISTRICT

DESCHUTES COUNTY, OREGON

BASIC FINANCIAL STATEMENTS

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HIGH DESERT EDUCATION SERVICE DISTRICT
Statement of Net Position
June 30, 2020
(all amounts are in dollars)

	Governmental Activities	(Unaudited) Component Units		
		Better Together	Children's Forest	Heatlhy Beginnings
ASSETS				
Current Assets:				
Cash & Investments	$ 3,559,816	$ 399,454	$ 36,811	$ 41,740
Receivables (Net of Allowances):				
Property Taxes	80,042	-	-	-
Grants and Other Receivables	6,826,458	5,849	10,968	-
Related Party Receivable	54,000	-	-	-
Prepaid Items	74,459		-	-
Total Current Assets	10,594,775	405,303	47,779	41,740
Noncurrent Assets:				
Related Party Receivable	154,387	-		
Net OPEB Asset - RHIA	228,764	-	-	-
Capital Assets				
Non-Depreciable Assets	707,480	-	-	-
Depreciable Assets Net of Depreciation	3,900,943	-	-	-
Total Noncurrent Assets	4,991,574	-	-	-
Total Assets	15,586,349	405,303	47,779	41,740
DEFERRED OUTFLOWS OF RESOURCES:				
Pension Related Deferrals - PERS	7,945,620	-	-	-
OPEB Related Deferrals - RHIA	58,378	-	-	-
OPEB Related Deferrals -Health Insurance	12,228	-	-	-
Total Deferred Outflows of Resources	8,016,226	-	-	-
Total Assets and Deferred Outflows of Resources	23,602,575	405,303	47,779	41,740
LIABILITIES:				
Current Liabilities:				
Accounts Payable	2,499,257	-	6,596	-
Accrued Payroll, Withholdings and Benefits	1,448,490	-	-	-
Accrued Interest Payable	4,870	-	-	-
Long-term obligations due in one year	483,110	-	-	60,000
Total Current Liabilities	4,435,727	-	6,596	60,000
Noncurrent Liabilities:				
Total OPEB Liability - Health Insurance	849,209	-	-	-
Net Pension Liability - PERS	21,733,976	-	-	-
Long-term obligations, net of current maturities	8,860,930	-	-	175,265
Total Noncurrent Liabilities	31,444,115	-	-	175,265
Total Liabilities	35,879,842	-	6,596	235,265
DEFERRED INFLOWS OF RESOURCES				
Pension Related Deferrals - PERS	1,694,591	-	-	-
OPEB Related Deferrals - RHIA	46,700	-	-	-
OPEB Related Deferrals - Health Insurance	83,708	-	-	-
Total Deferred Inflows of Resources	1,824,999	-	-	-
Total Liabilities and Deferred Inflows of Resources	37,704,841	-	6,596	235,265
NET POSITION				
Net Investment in Capital Assets	1,661,436	-	-	-
Restricted for:				
Debt Service	10,402	-	-	-
OPEB- RHIA	228,764	-	-	-
Grant Programs	3,760,762	405,303	41,183	
Resolution Services	785,258	-	-	-
Unrestricted	(20,548,888)	-	-	(193,525)
Total Net Position	$ (14,102,266)	$ 405,303	$ 41,183	$ (193,525)

See accompanying notes to the basic financial statements.

HIGH DESERT EDUCATION SERVICE DISTRICT
Statement of Activities
For the year ended June 30, 2020
(all amounts are in dollars)

FUNCTIONS/PROGRAMS	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Total Governmental Activities	Component Units
Primary Government:					
Instruction	$ 23,298,109	$ 6,420,494	$ 9,299,438	$ (7,578,177)	$ -
Supporting Services	21,055,428	3,215,882	5,044,374	(12,795,172)	-
Enterprise and Community Services	164,630	-	109,108	(55,522)	-
Other Uses	500,000	-	-	(500,000)	
Interest	639,507	-	-	(639,507)	-
Total Governmental Activities	45,657,674	9,636,376	14,452,920	(21,568,378)	-
Component Units					
Better Together	516,678	-	778,567		261,889
Children's Forest	120,487	260	137,928		17,701
Healthy Beginnings	76,431	-	106,645		30,214
Total Component Units	$ 713,596	$ 260	$ 1,023,140		309,804
General Revenues:					
Property Taxes levied for General Purposes				2,687,424	-
State School Fund				11,128,547	-
Interest and Investment Earnings				104,302	-
Miscellaneous				3,682,267	4,235
Total General Revenues				17,602,540	4,235
Change in net position				(3,965,838)	314,039
Beginning net position				(10,136,428)	(61,078)
Ending net position				$ (14,102,266)	$ 252,961

See accompanying notes to the basic financial statements.

HIGH DESERT EDUCATION SERVICE DISTRICT
Balance Sheet - Governmental Funds
June 30, 2020
(all amounts are in dollars)

ASSETS:	GENERAL	SPECIAL REVENUE	DEBT SERVICE	TOTAL
Cash & Investments	$ 2,297,894	$ 1,082,349	$ 10,402	$ 3,390,645
Receivables:				
Grants and Other Receivables	65,390	6,759,965	-	6,825,355
Taxes Receivable	80,042	-	-	80,042
Related Party Receivable	-	208,387	-	208,387
Prepaid Items	74,459	-	-	74,459
Total Assets	$ 2,517,785	$ 8,050,701	$ 10,402	$ 10,578,888
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts Payable	$ 379,967	$ 2,105,367	-	$ 2,485,334
Accrued Payroll, Withholdings and Benefits	210,499	1,237,665	-	1,448,164
Total Liabilities	590,466	3,343,032	-	3,933,498
Deferred Inflows of Resources:				
Unavailable Revenue - Long term Receivable	-	208,387	-	208,387
Unavailable Revenue - Property Taxes	58,008	-	-	58,008
Total Deferred Inflows	58,008	208,387	-	266,395
Fund Balances:				
Nonspendable	74,459	-	-	74,459
Restricted	785,258	3,760,762	-	4,546,020
Committed	787,402	818,375	10,402	1,616,179
Assigned	-	128,261	-	128,261
Unassigned	222,192	(208,116)	-	14,076
Total Fund Balances	1,869,311	4,499,282	10,402	6,378,995
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 2,517,785	$ 8,050,701	$ 10,402	$ 10,578,888

See accompanying notes to the basic financial statements.

HIGH DESERT EDUCATION SERVICE DISTRICT
Reconciliation of Balance Sheet to Statement of Net Position
June 30, 2020
(all amounts are in dollars)

Fund Balances - Governmental Funds		$ 6,378,995
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets:		
Non-Depreciable Assets	707,480	
Depreciable assets net of accumulated depreciation	3,900,943	4,608,423
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are unavailable.		58,008
Deferred outflows of resources represent amounts that were used to fund future expenditures and therefore are not reported in the governmental funds.		
Deferred Outflows - PERS	7,945,620	
Deferred Outflows - OPEB Health Insurance	12,228	
Deferred Outflows - OPEB RHIA	58,378	8,016,226
Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long term, are reported in the Statement of Net Position.		
Interest payable	(4,870)	
Bonds payable, net of discount	(6,397,053)	
Notes payable	(2,946,987)	
Net pension liability	(21,733,976)	
OPEB- RHIA	228,764	
OPEB - Health Insurance	(849,209)	(31,703,331)
Deferred inflows of resources represent amounts that were not available to fund current expenditures and therefore are not reported in the governmental funds.		
Long-term Receivable	208,387	
PERS	(1,694,591)	
OPEB - Health Insurance	(83,708)	
OPEB - RHIA	(46,700)	(1,616,612)
The assets and liabilities of the internal service funds are included in the governmental activitites in the Statement of Net Position		156,025
Net Position of Governmental Activities		$ (14,102,266)

See accompanying notes to the basic financial statements.

HIGH DESERT EDUCATION SERVICE DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance

Governmental Funds
For the year ended June 30, 2020
(all amounts are in dollars)

	GENERAL	SPECIAL REVENUE	DEBT SERVICE	TOTAL
REVENUES:				
Local Sources	$ 4,619,499	$ 10,208,008	$ 1,115,360	$ 15,942,867
State Sources	11,128,544	9,007,855	-	20,136,399
Federal Sources	-	4,731,719	-	4,731,719
Total Revenues	15,748,043	23,947,582	1,115,360	40,810,985
EXPENDITURES:				
Current				
Instruction	2,190,666	11,769,265	-	13,959,931
Supporting Services	5,743,731	12,440,110	-	18,183,841
Enterprise and Community Services	-	164,630	-	164,630
Facilities Acquisition/Construction	-	-	-	-
Other Uses	-	500,000	-	500,000
Debt Service	-	-	1,121,597	1,121,597
Total Expenditures	7,934,397	24,874,005	1,121,597	33,929,999
Excess of Revenues Over (Under) Expenditures	7,813,646	(926,423)	(6,237)	6,880,986
OTHER FINANCING SOURCES (USES):				
Apportionment of Funds	(3,666,825)	(4,068,665)	-	(7,735,490)
Transfers In	-	6,144,626	-	6,144,626
Transfers (Out)	(4,161,564)	(1,991,062)	-	(6,152,626)
Total Other Financing Sources (Uses)	(7,828,389)	84,899	-	(7,743,490)
Net Changes in Fund Balance	(14,743)	(841,524)	(6,237)	(862,504)
Beginning Fund Balance	1,884,054	5,549,193	16,639	7,449,886
Prior Period Adjustment	-	(208,387)	-	(208,387)
Beginning Fund Balance - Adjusted	1,884,054	5,340,806	16,639	7,241,499
Ending Fund Balance	$ 1,869,311	$ 4,499,282	$ 10,402	$ 6,378,995

See accompanying notes to the basic financial statements.

HIGH DESERT EDUCATION SERVICE DISTRICT
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the year ended June 30, 2020
(all amounts are in dollars)

Net Change in Fund Balances - Governmental Funds		$ (862,504)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlay as expenditures. However in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Expenditures for capital assets	293,871	
Less current year depreciation	(423,724)	(129,853)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		
Principal payments	486,225	
Change in deferred charges related to bond issues	(4,371)	481,854
Expenditures reported for other post employment benefits in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		101,859
Revenues in the funds that do not provide current financial resources are not reported as revenues in the Statement of Activities as follows:		12,492
In the Statement of Activities interest is accrued on long-term debt, in the governmental funds it is recorded as an interest expense when due.		236
Internal service funds are used to account for revenues and expenditures used in replacing and maintaining buildings and equipment.		21,034
Changes in pension assets and liabilities are not reported in governmental funds as they do not require the current use of financial resources. However, the Statement of Activities reports such changes as increases or decreases in the related expense accounts.		(3,590,956)
Change in Net Position of Governmental Activities		$ (3,965,838)

See accompanying notes to the basic financial statements.

HIGH DESERT EDUCATION SERVICE DISTRICT
Statement of Net Position - Internal Service Funds
June 30, 2020
(all amounts are in dollars)

ASSETS:	
Cash & Investments	$ 169,171
Receivables:	
Grants and Other Receivables	1,103
Total Assets	$ 170,274
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	
Liabilities:	
Accounts Payable	$ 13,923
Accrued Payroll, Withholdings and Benefits	326
Total Liabilities	14,249
NET POSITION	
Unrestricted	156,025
Total Fund Balances	156,025
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 170,274

See accompanying notes to the basic financial statements.

HIGH DESERT EDUCATION SERVICE DISTRICT
Statement of Revenues, Expenditures and Changes in Net Position - Internal Service Funds
For the year ended June 30, 2020
(all amounts are in dollars)

OPERATING REVENUES:	
Services Provided to Other Funds	$ 868,358
OPERATING DISBURSEMENTS:	
Cost of Services	855,324
Operating Income (Loss)	13,034
NONOPERATING RECEIPTS (DISBURSEMENTS)	
Transfer In	8,000
Change in Net Position	21,034
Net Position - Beginning	134,991
Net Position - Ending	$ 156,025

See accompanying notes to the basic financial statements.

HIGH DESERT EDUCATION SERVICE DISTRICT
Statement of Cash Flows- Internal Service Funds
For the Year Ended June 30, 2020
(all amounts are in dollars)

CASH FLOW FROM OPERATING ACTIVITIES:	
Receipts from other Funds	$ 868,358
Transfers from other funds	8,000
Accounts Receivable	(667)
Accounts Payable	8,744
Payroll Liabilities	45
Payments to Vendors	(855,324)
Net cash provided by (used for) operating activities	29,156
Cash Balance - Beginning	140,015
Cash Balance - Ending	$ 169,171

See accompanying notes to the basic financial statements.

HIGH DESERT EDUCATION SERVICE DISTRICT
Statement of Fiduciary Assets and Liabilities - Agency Fund
June 30, 2020
(all amounts are in dollars)

ASSETS:	
Cash & Investments	$ -
Receivables:	
Grants and Other Receivables	389,610
Total Assets	$ 389,610
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	
Liabilities:	
Accounts Payable	$ 389,610
Total Liabilities	$ 389,610

See accompanying notes to the basic financial statements.

HIGH DESERT EDUCATION SERVICE DISTRICT

DESCHUTES COUNTY, OREGON

NOTES TO THE BASIC FINANCIAL STATEMENTS

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V. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the High Desert Education Service District ("District" or "ESD") and its component units have been prepared in conformity with generally accepted accounting principles ("GAAP") as applied to governmental units in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. REPORTING ENTITY

The District is a municipal corporation governed by a nine-member board. The District is a political subdivision of the State of Oregon and is organized under provisions of Oregon Revised Statutes Chapter 334.010. The District qualifies as a primary government since it has a separately elected governing body, is a legally separate entity and is fiscally independent.

As required by accounting principles generally accepted in the United States of America, these financial statements present the District and its component units; legally separate entities for which the District is financially accountable. GASB defines component units as legally separate organizations for which the elected officials of the primary government (the District) are financially accountable if it appoints a voting majority of the organization's governing body, it is able to impose its will on that organization, or there is a potential for the organization to provide specific benefits to, or impose specific financial burdens upon, the primary government.

GASB provides two methods for reporting component units in the financial statements of the primary government: discrete presentation or blended. Discrete presentation means that data will be presented in one or more separate columns to the right of the primary government data columns. Blended presentation means that the component unit's financial data is reported as though the unit is part of the primary government. If the Component Unit provides services or benefits exclusively, or almost exclusively to the primary government, or if the primary government and the component unit have "substantially identical governing bodies", the legally separate component units should be considered a blended unit. If the component units do not meet this criteria, they should be presented discreetly.

The District includes three discretely presented component units and one blended component unit. The discretely presented units include the following:

> ***Better Together***, a 501(c)(3) partially funded through the local service plan, exists to improve education outcomes for children and youth in Central Oregon.
>
> ***The Children's Forest of Central Oregon***, a 501(c)(3) partially funded through the local service plan, exists to connect children and families to nature through learning, exploration and play.
>
> ***Healthy Beginnings***, also a 501(c)(3), provides comprehensive health and development assessments to children ages 0-5 years.

The District's blended component unit is as follows:

> ***I4Education***, a 501(c)(3) funded by the District, is an innovation ecosystem empowering educators in Central Oregon to incubate their ideas, share stories and investigate solutions to the challenges education faces. i4Education primarily serves the District, and as such is included as a blended component unit and is presented as a special revenue fund.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements (i.e. the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the District and its component units. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to those 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 requirements of a particular function. State school support, taxes, and other items not properly included among program revenues are reported instead as *general revenues.*

Separate fund financial statements are provided for governmental funds and the fiduciary fund, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The government-wide financial statements and Internal Service fund use 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 the eligibility requirements imposed by the provider have been met.

Governmental fund financial statements and the internal service fund are reported using the *current financial resources measurement focus* and the *modified accrual basis* of *accounting.* Revenues are recognized as soon as they are both measurable and available. 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, subject to the following:

Property taxes are recognized as revenue only if received within 60 days of year-end.
Entitlements, shared revenues, and interest are recognized as revenue in the period to which they relate.
Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.
Charges for services are recognized as revenue in the period in which the services are performed.
Other receipts are not considered measurable and available until cash is received.

Expenditures are recorded when the related fund liability is incurred.

The District reports the following major governmental funds:

General Fund - accounts for the general operations of the District. The General fund accounts for all financial resources except those required to be accounted for in another fund. The principal sources of revenue are property taxes and state school fund support from the State.

Special Revenue Fund - accounts for revenues and expenditures of specific educational programs funded from federal, state and local resources. The principal source of revenue is grant proceeds. Expenditures are primarily for vocational education, school programs for students with special needs and other special grant programs.

Debt Service Fund - accounts the accumulation of resources for the repayment of long-term debt. The primary source of revenue is interfund charges.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

There is also the following proprietary fund:

Internal Service Fund - accounts for the goods and services provided by one department to the other departments of the district on a reimbursement basis. The primary activity relates to facility costs and maintenance.

There is also the following fiduciary fund:

Agency Fund - is used to account for assets, receipts and disbursements held by the District in a fiduciary capacity for others. Agency Fund activity is custodial in nature and does not involve the measurement of results of operations.

C. ASSETS, LIABILITIES AND EQUITY

CASH AND CASH EQUIVALENTS

Cash and investments consist of cash on hand, demand deposits, money market accounts, and investments in the State of Oregon Local Government Investment Pool (LGIP). Investments in the LGIP are considered highly liquid investments with original maturities of three months or less to be cash equivalents.

Oregon Revised Statutes 294.035 authorizes investment in the LGIP, general obligations of the U.S. Government and its agencies, bankers' acceptances, and commercial paper rated A-2 or better by Standard & Poor's Corporation or P-2 or better by Moody's Investors Service, among others.

RECEIVABLES

Receivables expected to be collected within sixty days following year-end are considered measurable and available and are recognized as revenues in the fund financial statements. Other receivables, except grants, are offset by deferred revenues and, accordingly, have not been recorded as revenue. Receivables, net of any allowance for doubtful accounts, are recorded as assets in the statement of net position. All receivables are considered fully collectible; accordingly no provision for uncollectible accounts has been made.

GRANTS

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY TAXES

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. The county treasurers in Deschutes and Crook counties and the Jefferson County Assessor, are the tax collection agents for all taxing entities within the counties.

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

INTERFUND TRANSACTIONS

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. This includes transfers occurring within governmental activities and interfund receivables and payables.

Internal service fund revenues and expenses are recorded to the appropriate function revenue and program expense in the statement of activities.

PREPAID ITEMS

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide and fund financial statements.

CAPITAL ASSETS

Capital assets are recorded at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value on the date of receipt. The District defines capital assets as assets with an initial cost of more than $5,000 and an estimated life in excess of one year. Maintenance and repairs that do not add to the value of the assets or materially extend the assets' lives are not capitalized.

The capital assets are depreciated using the straight-line method over the following estimated lives:

Buildings and Improvements	20 - 30 years
Equipment	5 - 7 years

In the fund financial statements, acquisition of capital assets is reported as an expenditure.

ACCRUED COMPENSATED ABSENCES

Sick leave benefits are unvested and are recorded as an expenditure when paid. Unused vacation pay expires on June 30 of each year.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

UNEARNED REVENUE

Unearned revenue is reported on the Statement of Net Position when resources are received before the District has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures.

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

ESTIMATES

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

LONG-TERM OBLIGATIONS, BOND DISCOUNTS, AND PREMIUMS

Bonds and notes payable and other long-term obligations are reported as liabilities in the government-wide financial statements. Bond premiums and discounts are deferred and amortized over the term of the bonds using the straight line method in the government-wide financial statements. Bonds payable are reported net of applicable bond premium or discounts. 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, premiums and discounts are recognized in the current period.

The governmental fund financial statements do not report long-term obligations because they do not require the use of current financial resources. Rather, governmental funds recognize the proceeds of debt issued as another financing source and report the repayment of debt principal and interest as an expenditure.

LEASES

Leases which meet certain criteria established by the Financial Accounting Standards Board (FASB) are classified as capital leases, and the assets and related liabilities are recorded at amounts equal to the lesser of the present value of minimum lease payments or the fair value of the leased property at the beginning of the respective lease term. Leases which do not meet the criteria of a capital lease are classified as operating leases. At June 30, 2020, there were no capital leases.

RETIREMENT PLAN/PENSIONS

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ENCUMBRANCES

During the year, encumbrances are recorded in the accounting records to demonstrate that appropriations are committed. At year end, encumbrances are reversed to the extent that a liability has not been incurred and encumbrance's lapse.

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net 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 future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District reports deferred pension and OPEB outflows or resources in the statement of net position.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources,* represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has two types of items which qualify for reporting in this category. The first, unavailable revenue is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available. The second, deferred pension and OPEB inflows, are reported on the statement of net position.

NET POSITION

Net position represents the difference between assets and liabilities. Net investment in capital assets, consists of capital assets net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

FUND BALANCES

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balances can be spent. The governmental fund types classify fund balances as follows:

- Nonspendable fund balance: represents amounts that cannot be spent because they are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact. The nonspendable fund balance represents prepaid items and long-term receivables not expected to be converted to cash during the subsequent fiscal year.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 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 a formal action of the District's governing board.

- Assigned fund balance: represents amounts that are constrained by the expressed intent to use resources for specific purposes that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body or by an official to whom that authority has been given by the governing body.

- Unassigned fund balance: is the residual classification of the General Fund. Only the General Fund may report a positive unassigned fund balance. Other governmental funds would report any negative residual fund balance as unassigned.

The District reduces restricted amounts first when expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) amounts are available. The District reduces committed amounts first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FAIR VALUE INPUTS AND METHODOLOGIES AND HIERARCHY

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

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

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

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

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

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

BUDGETARY INFORMATION

Legally required budgets are adopted for all funds on the modified accrual basis. The resolution authorizing appropriations sets the level by which expenditures cannot legally exceed appropriations. This resolution establishes appropriations at the functional level within each fund. A detailed budget is also prepared, containing more specific information than the above mentioned expenditure appropriation categories. Unexpected additional resources may be added to the budget through the use of a supplemental budget.

Original budgets may be modified by the preparation of supplemental budgets. There was one supplemental budget authorized by the Board of Directors during the year. Budgets may also be modified by appropriation transfers between the levels of control. Management may make transfers of appropriations within a function. Transfers of appropriations between functions require the approval of the Board of Directors. Expenditures of the various funds were within authorized appropriations.

III. BUDGET/GAAP REPORTING DIFFERENCES

While the government-wide statements report the financial position, results of operations, and changes in fund balance/net position on the accrual basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis of accounting differs from generally accepted accounting principles. The budgetary statements provided as part of supplementary information elsewhere in this report are presented on the modified accrual basis to provide a meaningful comparison of actual results with the budget. The primary differences between the budgetary basis and GAAP basis are described in Note 1.

IV. CASH AND INVESTMENTS

DEPOSITS

Deposits with financial institutions include bank demand deposits. Oregon Revised Statutes require deposits to be adequately covered by federal depository insurance or deposited at an approved depository as identified by the Treasury. The total bank balance per the bank statements as of June 30, 2020 was $2,185,376 of which $250,000 was insured by Federal Depository Insurance Corporation, and the balance was collateralized by the Oregon Public Funds Collateralization Program (PFCP).

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 exceed an 18 month maturity.

CREDIT RISK - DEPOSITS

In the case of deposits, this is the risk that in the event of a bank failure, the deposits may not be returned. There is no deposit policy for custodial credit risk. As of June 30, 2020, none of the bank balances were exposed to custodial credit risk.

CREDIT RISK - INVESTMENTS

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

CONCENTRATION OF CREDIT RISK

At June 30, 2020, 100% of total investments were in the State Treasurer's Investment Pool. State Statutes do not limit the percentage of investments in this instrument.

IV. CASH AND INVESTMENTS, CONTINUED

INVESTMENTS

Statutes authorize 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. According to District Procedures State statutes govern cash management policies.

Investments in the Local Government Investment Pool (LGIP) are included in the Oregon Short-Term Fund, which is an external investment pool that is not a 2a-7-like external investment pool, and is not registered with the U.S. Securities and Exchange Commission as an investment company. Fair value of the LGIP is calculated at the same value as the number of pool shares owned. The unit of account is each share held, and the value of the position would be the fair value of the pool's share price multiplied by the number of shares held. Investments in the Short-Term Fund are governed by ORS 294.135, Oregon Investment Council, and portfolio guidelines issued by the Oregon Short-Term Fund Board, which establish diversification percentages and specify the types and maturities of investments. The portfolio guidelines permit securities lending transactions as well as investments in repurchase agreements and reverse repurchase agreements. The fund's compliance with all portfolio guidelines can be found in their annual report when issued. The LGIP seeks to exchange shares at $1.00 per share; an investment in the LGIP is neither insured nor guaranteed by the FDIC or any other government agency. Although the LGIP seeks to maintain the value of share investments at $1.00 per share, it is possible to lose money by investing in the pool. We measure these investments at book value since it approximates fair value. The pool is comprised of a variety of investments. These investments are characterized as a level 2 fair value measurement in the Oregon Short Term Fund's audited financial report. Amounts in the State Treasurer's Local Government Investment Pool are not required to be collateralized. The audited financial reports of the Oregon Short Term Fund can be found here:

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

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

Cash and Investments at June 30, 2020, (recorded at fair value) consisted of:

Deposits with Financial Institutions:			Recorded In	
Demand Deposits	$	2,156,949	Governmental	$ 3,390,645
Investments		1,402,867	Internal Service	169,171
Total	$	3,559,816		$ 3,559,816

IV. CASH AND INVESTMENTS, CONTINUED

Investments and maturities at June 30, 2020 consisted of the following:

Investment Type		Investment Maturities (in months)		
	Fair Value	Less than 3	3-18	Greater than 18
State Treasurer's Investment Pool	$ 1,402,867	$ 1,402,867	$ -	$ -
Total	$ 1,402,867	$ 1,402,867	$ -	$ -

V. GRANTS RECEIVABLE

Special revenue fund grants receivable are comprised of claims for reimbursement of costs under various federal and state grant programs. No provision for bad debts has been made as management believes all amounts are collectible.

VI. CAPITAL ASSETS

A summary of changes in the governmental activities capital assets for the year ended June 30, 2020 is as follows:

	Beginning Balance	Adjustments	Additions	Deletions	Ending Balance
Non-depreciable Assets					
Land	$ 705,833	$ -	$ -	$ -	$ 705,833
Construction in Progress	-	-	1,647	-	1,647
Total Depreciable Assets	705,833	-	1,647	-	707,480
Depreciable Assets					
Buildings and Improvements	3,744,035	244,270	18,463	-	4,006,768
Equipment	3,202,675	(244,270)	273,761	-	3,476,436
Total Depreciable Assets	6,946,710	-	292,224	-	7,238,934
Accumulated Depreciation					
Buildings and Improvements	(1,302,557)	-	(151,993)		(1,454,550)
Equipment	(1,611,710)	-	(271,731)	-	(1,883,441)
Total Accumulated Depreciation	(2,914,267)	-	(423,724)	-	(3,337,991)
Net Depreciable Capital Assets	$ 4,032,443	$ -	$ (131,500)	$ -	$ 3,900,943

Depreciation expense for the year was charged to the following programs:

Instruction	$ 32,594
Supporting Services	391,130
Enterprise and Community	-
	$ 423,724

VII. INTERFUND TRANSACTIONS

Interfund transfers are comprised of the following at June 30, 2020:

	Transfers In:	Transfers Out:
Major Governmental Fund:		
General Fund	$ -	$ 4,161,564
Special Revenue Fund	6,144,626	1,991,062
Total Major Governmental Funds	6,144,626	6,152,626
Internal Service Fund	8,000	-
Totals	$ 6,152,626	$ 6,152,626

Transfers were made to fund operations. There were no interfund receivables/payables at June 30, 2020.

VIII. RELATED PARTY RECEIVABLE

At June 30, 2020, Healthy Beginnings owed the District $208,387 for payroll services. This amount will be repaid over the next four years as follow:

June 30:	
2021	$ 54,000
2022	54,000
2023	54,000
2024	46,387
	$ 208,387

IX. LONG TERM OBLIGATIONS

In 2012, the District signed a note payable to First Interstate Bank (FIB) for $434,110 related to improvements to a building in Redmond, Oregon. It calls for monthly payments of $2,077, including interest at 1.5%, through September, 2032. The note pledges the full faith and credit of the District and is unsecured. Payments are made from the Internal Service Fund.

In 2003, the District issued $10,682,844 of pension bonds to prepay its 25 year projected PERS liability. Interest ranges from 1.50% to 6.27% and is payable semi-annually. The bonds mature serially through June 30, 2028. The agreement is a binding, full faith and credit obligation which pledges a trust payment account. Payments are made from the Debt Service Fund which assesses funds with employees an amount that approximates the required debt payment. The bonds were issued at a discount of $73,318 which is being amortized over the life of the debt.

In 2015, the District entered into a financing agreement with First Interstate Bank (FIB) related to the purchase and subsequent improvements to a new administrative building in Redmond. Repayment terms call for monthly payments in the amount of $5,857, including interest at 2.71%. The maturity date on this loan is December 5, 2024. This financing agreement is secured by the property purchase.

In 2015, the District issued $2,280,000 of full faith and credit (FF&C) obligations, through Washington Federal (WF), to refund the 2005 full faith and credit obligation owed by the District. The original use of the 2005 obligation was to finance the acquisition and improvement of two buildings and related land in Redmond and Prineville. The 2015 obligation issue calls for semiannual payments of $90,556, including interest, at 2.34% maturing June 5, 2030. The financing agreement is secured by the general revenues of the District as a binding, full faith and credit obligation.

IX. LONG TERM OBLIGATIONS (CONTINUED)

Long-term obligations are reported as liabilities on the Statement of Net Position. In the government-wide financial statements, principal payments reduce the amount of these liabilities and new debt increases these liabilities. In the fund financial statements, principal payments are reported as expenditures and new debt is reported as other financing sources.

Long-term obligation activity for the year ended June 30, 2020, is as follows:

	Outstanding 7/1/2019	Issued	Redeemed	Outstanding 6/30/2020	Due in One Year
Bonds Payable					
Pension Bonds	$ 6,715,321	$ -	$ 284,141	$ 6,431,180	$ 280,568
Direct Borrowings					
Note Payable (FIB)	270,653	-	20,996	249,657	21,324
Building Loan (FIB)	1,130,881	-	40,048	1,090,833	41,230
FF&C 2015 (WF)	1,747,537	-	141,040	1,606,497	144,359
Subtotal	3,149,071	-	202,084	2,946,987	206,913
Discount Related to Bond					
Discount	(38,498)	-	(4,371)	(34,127)	(4,371)
Total	$ 9,825,894	$ -	$ 481,854	$ 9,344,040	$ 483,110

In the event of default, the Note Payable and Building Loan are subject to acceleration clauses rendering the balances immediately due and payable at the lender's option. Lender may also increase interest rate up to 5.00 percentage points, provided it does not exceed the maximum permitted by law. The 2015 Full Faith and Credit Loan is not subject to acceleration but in the event of default the lender may increase the interest rate by 3.00 percentage points.

Annual Debt Service Requirements to Maturity:

Fiscal Year Ending June 30,	Notes Payable		Pension Bond			Building Loan	
	Principal	Interest	Principal	Discount	Interest	Principal	Interest
2020-21	21,324	3,599	280,568	(4,371)	891,219	41,230	29,055
2021-22	21,646	3,277	280,319	(4,371)	951,468	42,362	27,923
2022-23	21,976	1,976	280,293	(4,371)	1,011,495	43,524	26,761
2023-24	22,298	2,281	1,035,000	(4,371)	316,788	44,648	25,636
2024-25	22,642	2,178	1,160,000	(4,371)	258,724	919,069	12,360
2026-2030	118,436	6,176	3,395,000	(12,272)	351,024	-	-
2031-2035	21,335	142	-		-	-	-
	$ 249,657	$ 19,629	$ 6,431,180	$ (34,127)	$ 3,780,718	$ 1,090,833	$ 121,735

IX. LONG TERM OBLIGATIONS (CONTINUED)

FF&C		Total		
Principal	Interest	Principal	Discount	Interest
144,359	36,752	487,481	(4,371)	960,625
147,757	33,355	492,084	(4,371)	1,016,023
151,235	29,877	497,028	(4,371)	1,070,109
154,795	26,317	1,256,741	(4,371)	371,022
158,438	22,674	2,260,149	(4,371)	295,936
849,913	55,646	4,363,349	(12,272)	412,846
-		21,335	-	142
$ 1,606,497	$ 204,621	$ 9,378,167	$ (34,127)	$ 4,126,703

X. OPERATING LEASES

A. LESSEE (EXPENSE)

The District leases twelve building spaces throughout Central Oregon. Total rent expense for the year ended June 30, 2020 was $315,741. Additionally, ten of these leases expired at June 30, 2020. All expired leases were renewed and are included below in the schedule of future minimum payments.

Future minimum lease payments are as follows:

Fiscal Year Ending June 30:	
2021	$ 329,286
2022	304,422
2023	292,394
	$ 926,102

B. LESSOR (REVENUE)

The District leases out a building and parking space in Bend, Oregon, through June 30, 2020. The lease was renewed through June 30, 2023. Under the terms of the lease, the District receives monthly rent of $17,493. The District leases additional parking spaces to Excel Fitness for $1,103 a month. Total lease revenue for the year ended June 30, 2020 was $223,154.

Future minimum lease revenues under this agreement are as follows:

Fiscal Year Ending June 30:	
2021	$ 229,408
2022	235,893
2023	242,573
	$ 707,874

XI. STATEWIDE LOCAL GOVERNMENT RETIREMENT SYSTEM

Plan Description - The Oregon Public Employees Retirement System ("PERS") consists of a single cost-sharing multiple-employer defined benefit plan. All benefits of the system are established by the legislature pursuant to Oregon Revised Statute (ORS) Chapters 238 and 238A. The plan complies with Internal Revenue Service rules 401(a). The Oregon Legislature has delegated the authority to the Public Employees Retirement Board ("PERB") to administer and manage the system. Oregon PERS produces an independently audited Comprehensive Annual Financial Report which can be found at: https://www.oregon.gov/pers/Documents/Financials/CAFR/2019-CAFR.pdf. If the link is expired please contact Oregon PERS for this information. PERS prepares their financial statements in accordance with GASB statements and generally accepted accounting principles. The accrual basis of accounting is used for all funds. Contributions are recognized when due, pursuant to legal (or statutory) requirements. Benefits are recognized in the month they are earned and withdrawals are recognized in the month they are due and payable. Investments are recognized at fair value, the amount at which financial institutions could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale.

There are currently two programs within PERS, with eligibility determined by the date of employment. Those employed prior to August 29, 2003 are PERS benefit member, and benefits are provided based on whether a member qualifies for Tier One or Tier Two as described below. Those employed on or after August 29, 2003 Oregon Public Service Retirement Plan ("OPSRP") Program members. PERS is a hybrid retirement plan with two components: 1) the Pension Program (defined benefit; established and maintained as a tax qualified governmental defined benefit plan), and 2) the Individual Account Program ("IAP") (defined contribution; established and maintained as a tax-qualified governmental defined contribution plan).

The 1995 Legislature created a second tier of benefits for those who became PERS program members after 1995 but before August 29, 2003. The second tier does not have the Tier One assumed earnings rate guarantee.

Beginning January 1, 2004, all employees who were active members of PERS became members of the OPSRP IAP Program. PERS plan member contributions (the employee contribution, whether made by the employee or employer) go into the IAP portion of OPSRP. PERS plan members retain their existing PERS accounts; however, member contributions after January 1, 2004 are deposited in the member's IAP, not into the member's PERS account.

A. ***Tier I/Tier II Retirement Benefit (Chapter 238).*** The ORS Chapter 238 Defined Benefit Plan is closed to new members hired on or after August 29, 2003.

1. **Pension Benefits.** The PERS retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary. A percentage (2.0 percent for police and fire employees, and 1.67 percent for general service employees) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefits results.

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

XI. STATEWIDE LOCAL GOVERNMENT RETIREMENT SYSTEM, CONTINUED

2. **Death Benefits.** Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance, provided on or more of the following contributions are met:

   - The member was employed by a PERS employer at the time of death,
   - The member died within 120 days after termination of PERS covered employment,
   - The member died as a result of injury sustained while employed in a PERS-covered job, or
   - The member was on an official leave of absence from a PERS-covered job at the time of death.

3. **Disability Benefits.** A member with 10 or more years of creditable service who becomes disabled from other than duty-connected causes may receive a non-duty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member (including PERS judge members) for disability benefits regardless of the length of PERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 (55 for police and fire members) when determining the monthly benefit.

4. **Benefit Changes After Retirement.** Members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in the market value equity investments. Under ORS 238.360 monthly benefits are adjusted annually through cost-of-living changes. The COLA is capped at 2.0 percent..

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

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

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

   General service: 1.5 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65, or age 58 with 30 years of retirement credit. A member of the pension program becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, and, if the pension program is terminated, the date on which termination becomes effective.

2. **Death Benefits.** Upon the death of a non-retired member, the spouse or other person who is constitutionally required to be treated in the same manner as the spouse, receives for life 50 percent of the pension that would otherwise have been paid to the deceased member. The surviving spouse may elect to delay payment of the death benefit, but payment must commence no later than December 31 of the calendar year in which the member would have reached 70 ½ years.

3. **Disability Benefits.** A member who has accrued 10 or more years of retirement credits before the member becomes disabled or a member who becomes disabled due to job-related injury shall receive a disability benefit of 45 percent of the member's salary determined as of the last full month of employment before the disability occurred.

XI. STATEWIDE LOCAL GOVERNMENT RETIREMENT SYSTEM, CONTINUED

C. ***Contributions*** - PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. The funding policy applies to the PERS Defined Benefit Plan and the Other Postemployment Benefit Plans. Employer contribution rates during the period were based on the December 31, 2017 actuarial valuation. The state of Oregon and certain schools, community colleges, and political subdivision have made unfunded actuarial liability payments and their rates have been reduced. Employer contributions for the year ended June 30, 2020 were $2,982,906, excluding amounts to fund employer specific liabilities. In addition, approximately $704,238 in employee contributions were paid or picked up by the District in 2019-2020.

D. Pension Asset or Liability

At June 30, 2020, the District reported a net pension liability of $21,733,976 for its proportionate share of the net pension liability. The pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. As of the measurement dates of June 30, 2019 and 2018, the District's proportion was .126 and .127 percent, respectively. Pension expense for the year ended June 30, 2020 was $5,417,650.

Employer Pension Expense		
Employer's proportionate share of collective system Pension Expense/(Income)	$	5,558,149
Net amortization of employer-specific deferred amounts from:		
Changes in proportionate share (per paragraph 54 of GASB 68)		48,802
Differences between employer contributions and employer's proportionate share of system contributions (per paragraph 55 of GASB 68)		(189,301)
Total Pension Expense	$	5,417,650

The rates in effect for the year ended June 30, 2020 were:

(1) Tier 1/Tier 2 – 22.04%
(2) OPSRP general services – 16.59%

XI. STATEWIDE LOCAL GOVERNMENT RETIREMENT SYSTEM, CONTINUED

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,198,565	$ -
Changes of assumptions	2,948,462	-
Net difference between projected and actual earnings on investments	-	616,136
Changes in proportionate share	811,755	408,192
Differences between employer contributions and employer's proportionate share of system contributions	3,932	670,263
Total (prior to post-MD contributions)	4,962,714	1,694,591
Contributions subsequent to the MD	2,982,906	-
Net Deferred Outflow/(Inflow) of Resources	$ 7,945,620	$ 1,694,591

The amount of contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the fiscal year ended June 30, 2021. Other amounts recognized as deferred outflows and deferred inflows of resources will be recognized in pension expense in subsequent years as follows:

Year ended June 30:	
2021	$ 1,973,348
2022	156,763
2023	685,906
2024	438,606
2025	13,501
Thereafter	-
Total	$ 3,268,123

*E. **Actuarial Methods and Assumptions***

1. **Actuarial Valuations** - The employer contribution rates effective July 1, 2017 through June 30, 2019, were set using the entry age normal actuarial cost method. For the Tier One/Tier Two component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (1) an amount for normal cost (estimated amount necessary to finance benefits earned by employees during the current service year), (2) an amount for the amortization unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial liabilities being amortized over 20 years.

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

XI. STATEWIDE LOCAL GOVERNMENT RETIREMENT SYSTEM, CONTINUED

2. Actuarial Assumptions:

Valuation Date	December 31, 2017 rolled forward to June 30, 2019
Measurement Date	June 30, 2019
Experience Study Report	2016, Published July 26, 2017
Actuarial cost method	Entry Age Normal
Amortization method	Amortized as a level percentage of payroll as layered amortization bases over a closed period; Tier One/Tier Two UAL is amortized over 20 years and OPSRP pension UAL is amortized over 16 years
Asset valuation method	Market value
Inflation rate	2.50 percent
Long-term rate of return	7.20 percent
Discount Rate	7.20 percent
Projected salary increase	3.50 percent overall payroll growth
Cost of Living Adjustment	Blend o f2% COLA and graded COLA (1.25%/.15%) in accordance with Moro decision, blend based on service
Mortality	Healthy retirees and beneficiaries: RP-2014 Healthy annuitant, sex-distinct, generational with Unisex, Social Security Data Scale, with collar adjustments and set-backs as described in the valuation. Active members: RP-2014 Employees, sex- distinct, generational with Unisex, Social Security Data Scale, with collar adjustments and set-backs as described in the valuation. Disabled retirees: RP-2014 Disabled retirees, sex-distinct, generational with Unisex, Social Security Date Scale.

Actuarial valuations of an ongoing plan involve estimates of value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years. The method and assumptions shown are based on the 2018 Experience Study which is reviewed for the four-year period ending December 31, 2018.

3. Assumed Asset Allocation:

Asset Class/Strategy	Low Range	High Range	OIC Target
Debt Securities	15.0%	25.0%	20.0%
Public Equity	32.5%	42.5%	37.5%
Real Estate	9.5%	15.5%	12.5%
Private Equity	14.0%	21.0%	17.5%
Alternative Equity	0.0%	12.5%	12.5%
Opportunity Portfolio	0.0%	3.0%	0.0%
Total			100.0%

Source: June 30, 2019 PERS CAFR; p. 100

XI. STATEWIDE LOCAL GOVERNMENT RETIREMENT SYSTEM, CONTINUED

4. Long-Term Expected Rate of Return:

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

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

Source: June 30, 2019 PERS CAFR; p. 74

5. Discount Rate:

The discount rate used to measure the total pension liability, as of the measurement date June 30, 2019 was 7.20 for the Defined Benefit Pension Plan. The projection of cash flows used to determine the discount rate assumed that contributions from the plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Defined Benefit Pension Plan was applied to all periods of projected benefit payments to determine the total pension liability.

XI. STATEWIDE LOCAL GOVERNMENT RETIREMENT SYSTEM, CONTINUED

6. Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate:

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.20 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20 percent) or 1-percentage point higher (8.20 percent) than the current rate.

	1% Decrease (6.20%)	Discount Rate (7.20%)	1% Increase (8.20%)
District's proportionate share of system NPL	$ 34,805,033	$ 21,733,976	$ 10,795,301

7. Changes Subsequent to the Measurement Date

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

There are no changes subsequent to the June 30, 2019 Measurement Date that meet this requirement and would require a brief description under the GASB standard.

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

https://www.oregon.gov/pers/emp/pages/GASB.aspx

XII. OTHER POST EMPLOYMENT BENEFITS PLAN - (RHIA)

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

XII. OTHER POST EMPLOYMENT BENEFITS PLAN - (RHIA), CONTINUED

Funding Policy: Because RHIA was created by enabling legislation (ORS 238.420), contribution requirements of the plan members and the participating employers were established and may be amended only by the Oregon Legislature. ORS require that an amount equal to $60 dollars or the total monthly cost of Medicare companion health insurance premiums coverage, whichever is less, shall be paid from the Retirement Health Insurance Account established by the employer, and any monthly cost in excess of $60 dollars shall be paid by the eligible retired member in the manner provided in ORS 238.410. To be eligible to receive this monthly payment toward the premium cost the member must: (1) have eight years or more of qualifying service in PERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in PERS, (2) receive both Medicare Parts A and B coverage, and (3) enroll in an PERS- sponsored health plan. A surviving spouse or dependent of a deceased PERS retiree who was eligible to receive the subsidy is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died and the member retired before May 1, 1991.

Participating employers are contractually required to contribute to RHIA at a rate assessed each year by PERS, and the District currently contributes 0.06% of annual covered OPERF payroll and 0.00% of OPSRP payroll under a contractual requirement in effect until June 30, 2021. The PERS Board of Trustees sets the employer contribution rates based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The District's contributions equaled the required contributions each year.

At June 30, 2020, the District reported a net RHIA- OPEB asset of $228,764 for its proportionate share of the net OPEB asset. The OPEB asset was measured as of June 30, 2019, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2017. Consistent with GASB Statement No. 75, paragraph 59(a), The District's proportion of the net OPEB asset is determined by comparing the employer's actual, legally required contributions made during the fiscal year to the Plan with the total actual contributions made in the fiscal year of all employers. As of the measurement dates of June 30, 2019 and 2018, the District's proportion was 0.118% and 0.116%, respectively. OPEB income for the year ended June 30, 2020 was $31,057.

Employer's proportionate share of collective system OPEB Expense/(Income)	$	(29,752)
Net Amortization of employer- specific deferred amounts from:		
Changes in proportionate share (per paragraph 64 of GASB 75)		(1,305)
Employer's Total OPEB Expense/(Income)	$	(31,057)

Components of Deferred Outflows/Inflows of Resources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 30,167
Changes in Assumptions	-	237
Net difference between projected and actual earnings on pension plan investments	-	14,120
Net changes in proportionate share	-	2,176
Subtotal - Amortized deferrals (below)	-	46,700
District contributions subsequent to measurement date	58,378	-
Deferred Outflows (Inflows) of resources	$ 58,378	$ 46,700

XII. OTHER POST EMPLOYMENT BENEFITS PLAN - (RHIA), CONTNUED

District contributions subsequent to measurement date for RHIA are $58,378. The amount of contributions subsequent to the measurement date will be included as a reduction of the net OPEB asset in the fiscal year ended June 30, 2021. Other amounts recognized as deferred outflows and deferred inflows of resources will be recognized in pension expense in subsequent years as follows:

Year Ended June 30:	
2021	(24,141)
2022	(21,328)
2023	(2,686)
2024	1,455
2025	-
Thereafter	-
	(46,700)

All assumptions, methods and plan provisions used in these calculations are described in the Oregon PERS Retirement Health Insurance Account Cost-Sharing Multiple-Employer Other Postemployment Benefit (OPEB) Plan Schedules of Employer Allocations and OPEB Amounts by Employer report, as of and for the Year Ended June 30, 2019. That independently audited report was dated March 4, 2020 and can be found at:

https://www.oregon.gov/pers/EMP/Documents/GASB/2019/PERS%20GASB%2075%20RHIA%20Report%20FY%206.30.19.pdf

A. Actuarial Methods and Assumptions:

Valuation Date	December 31, 2017 rolled forward to June 30, 2019
Experience Study Report	2016 Published July 26, 2017
Actuarial cost method	Entry Age Normal
Inflation rate	2.50 percent
Investment rate of return	7.20 percent
Discount Rate	7.20 percent
Projected salary increase	3.50 percent overall payroll growth
Retiree healthcare participation	Healthy retirees: 58%; Disabled retirees: 20%
Mortality	Healthy retirees and beneficiaries: RP-2014 Healthy annuitant, sex-distinct, generational with unisex, social security data scale, with collar adjustments and set-backs as described in the valuation. Active members RP-2014 Healthy annuitant, sex-distinct, generational with unisex, social security data scale, with collar adjustments and set-backs as described in the valuation. Disabled retirees: Disabled retirees, sex-distinct, generational with Unisex, Social Security Data Scale.

XII. OTHER POST EMPLOYMENT BENEFITS PLAN - (RHIA), CONTNUED

Actuarial valuations of an ongoing plan involve estimates of value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years. The method and assumptions shown are based on the 2016 Experience Study which is reviewed for the four-year period ending December 31, 2016.

2. Discount Rate:
The discount rate used to measure the total OPEB liability as of the measurement date of June 30, 2019 and 2018, was 7.20 percent. The projection of cash flows used to determine the discount rate assumed that contributions from contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the RHIA plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments for the RHIA plan was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

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

(Source: June 30, 2019 PERS CAFR; p. 74)

XII. OTHER POST EMPLOYMENT BENEFITS PLAN - (RHIA), CONTNUED

3. Sensitivity of the District's proportionate share of the net OPEB asset to changes in the discount rate:

The following presents the District's proportionate share of the net OPEB asset calculated using the discount rate of 7.20 percent, as well as what the District's proportionate share of the net OPEB asset would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20 percent) or 1- percentage point higher (8.20 percent) than the current rate.

	1% Decrease (6.20%)	Discount Rate (7.20%)	1% Increase (8.20%)
Total OPEB (RHIA) Asset	$ (177,351)	$ (228,764)	$ (272,572)

4. Changes Subsequent to the Measurement Date

There are no changes subsequent to the June 30, 2019 Measurement Date that meet this requirement and thus would require a brief description under the GASB standard.

XIII. OTHER POST EMPLOYMENT BENEFITS – IMPLICIT SUBSIDY

Plan Description - The District is subject to ORS 243.303, which requires that early retirees (those not covered by Medicare) be allowed to stay on the District's health plan on a self-pay basis. The Statutory requirement under ORS 243.303 can result in an "implicit subsidy" (the difference between expected early retiree claim costs and the premium paid for the retiree) requiring an additional cost and liability recognition under GASB 75. The District participates in the Oregon Educators Benefit Board ("OEBB"), a statewide cost-sharing multiple-employer plan, as defined in GASB 75. In OEBB, the individual employer health plans are rated collectively, rather than individually by employer, and the same blended premium rates is charged to all active employees and non-Medicare-eligible retirees. The calculated OPEB liability is derived using the OPEB benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the patter of sharing of costs between the employer and plan members to that point. Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to the past expectations and new estimates are made about the future. Actuarial calculations of the OPEB plan reflect a long-term perspective.

XIII. OTHER POST EMPLOYMENT BENEFITS – IMPLICIT SUBSIDY, CONTINUED

Actuarial Methods and Assumptions - The Total OPEB Liability for the current year was determined as part of the July 1, 2019 actuarial valuation using the entry age normal 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. The actuarial assumptions included:

Valuation Date	July 1, 2019 rolled forward to June 30, 2020
Actuarial Cost Method	Entry Age Normal
Discount Rate	2.25%
Inflation rate	2.5%
Annual salary rate increase	3.5%
Medical premium annual trend rate	5.0% increase in 2019 with later increases reducing annually by 0.5% to 5% and stable thereafter
Participation	80% of active eligible employees are enrolled

Under this method, the expected accrued benefit of each participant at benefit commencement (reflecting future expected increases in salaries and medical premiums) is allocated in equal proportion over the participant's years of service from hire to expected retirement. The normal cost is the present value of benefits expected to accrue in the current year. The present value of benefits accrued as of the valuation date is called the accrued liability.

Funding Status and Funding Progress - As of July 1, 2019, the plan was 0% funded. The actuarial accrued liability for benefits was $849,209, and the actuarial value of assets was $0. Estimated covered payroll was $19,284,488.

At June 30, 2019, the following employees were covered by the benefit terms:

Active Participants	226
Inactive Participants	9
	235

Changes in Total OPEB Liability:

	2020
Total OPEB Liability - beginning	$ 886,247
Changes for the Year	
Service Costs	68,122
Interest	32,691
Differences between expected and actual experience	(100,449)
Effect of Assumption Changes or Inputs	3,276
Benefit Payments	(40,678)
Net Changes in Total OPEB Liability	(37,038)
Total OPEB Liability - end of year	$ 849,209

XIII. OTHER POST EMPLOYMENT BENEFITS – IMPLICIT SUBSIDY, CONTINUED

Sensitivity of the District's proportionate share of the net OPEB asset to changes in the discount rate:

The following presents the District's proportionate share of the net OPEB asset calculated using the discount rate of 2.25 percent, as well as what the District's proportionate share of the net OPEB asset would be if it were calculated using a discount rate that is 1-percentage-point lower (1.25 percent) or 1- percentage point higher (3.25 percent) than the current rate.

	1% Decrease (1.25%)	Discount Rate (2.25%)	1% Increase (3.25%)
Total OPEB (Health Insurance) Liability	$ 897,427	$ 849,209	$ 802,725

Sensitivity of the District's proportionate share of the net OPEB asset to changes in health care rates:

The following presents the District's proportionate share of the net OPEB asset calculated using the assumed rate increase for the various health plans, 3% to 6.5% as well as what the District's net OPEB asset would be if it were calculated using a rate that is 1-percentage-point lower or 1- percentage point higher than the current rate.

	1% Decrease	Current Health Care Trend Rates	1% Increase
Total OPEB (Health Insurance) Liability	$ 764,619	$ 849,209	$ 947,634

OPEB Expense and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2020, the District recognized OPEB expense for the Implicit Subsidy of $86,992 in the government wide Statement of Activities.

Change in Total OPEB Liability	$ (37,038)
(Increase)/Decrease in Deferred Outflows	(356)
Increase/(Decrease) in Deferred Inlows	83,708
Contributions Employer	40,678
OPEB Expense	$ 86,992

At June 30, 2020, components of deferred inflows and outflows related to OPEB Implicit Subsidy were as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 83,708
Changes of assumptions or other inputs	12,228	-
	$ 12,228	**$ 83,708**

Amounts recognized as deferred outflows and deferred inflows of resources will be recognized in pension expense in subsequent years as follows:

Year Ended June 30:	
2021	(13,821)
2022	(13,821)
2023	(13,821)
2024	(13,819)
2025	(16,198)
Thereafter	0
	(71,480)

XIV. PROPERTY TAX LIMITATIONS

The voters of the State of Oregon imposed a constitutional limit on property taxes for schools and non-school 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 voters 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.

XV. RISK MANAGEMENT

There is exposure to various risks of loss related to torts; theft or damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which commercial insurance is carried. Settled claims have not exceeded this commercial coverage for any of the past three fiscal years.

XVI. 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 student enrollment and other factors in the state school fund revenue formula. Since these projections and enrollment numbers fluctuate they can cause the District to either have increases or decreases in revenue. Due to these future uncertainties at the state level, the future effect on operations cannot be determined.

The COVID-19 outbreak in the United States has caused substantial disruption to business and local governments due to the mandated and voluntary suspension of operations and stay at home orders. There is considerable uncertainty around the duration of the outbreak and the long-term impact to the overall economy. However, the school expects the reductions of economic activity to negatively impact funds received.

XVII. TAX ABATEMENTS

As of June 30, 2020, the District had tax abatements through one program that impacted their levied taxes and requires disclosure under GASB 77. The only material program is:

Enterprise Zone (ORS 285C.175):

The Oregon Enterprise Zone program is a State of Oregon economic development program established, that allows for property tax exemptions for up to five years. In exchange for receiving property tax exemption, participating firms are required to meet the program requirements set by state statute and the local sponsor.

The Enterprise Zone program allows industrial firms that will be making a substantial new capital investment a waiver of 100% of the amount of real property taxes attributable to the new investment for a 5-year period after completion. Land or existing machinery or equipment is not tax exempt; therefore, there is no loss of current property tax levies to local taxing jurisdiction.

For the fiscal year ended June 30, 2020, the District had abated property taxes totaling $528,531 under this program.

XVIII. PRIOR PERIOD ADJUSTMENT

In the prior year, the District had a long-term receivable that was not collected within 60 days. For the year ended June 30, 2019, the District reported revenue in the amount of $208,387 related to that receivable, causing revenue to be overstated by that amount. Beginning fund balance for the special revenue fund was restated for the year ended June 30, 2020 to reduce revenue by $208,387.

HIGH DESERT EDUCATION SERVICE DISTRICT

DESHUTES COUNTY, OREGON

REQUIRED SUPPLEMENTARY INFORMATION

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HIGH DESERT EDUCATION SERVICE DISTRICT
Schedule of the Proportionate Share of the Net Pension Liability - PERS
For the Last Seven Fiscal Years

Year Ended June 30,	(a) District's proportion of the net pension liability (asset)	(b) District's proportionate share of the net pension liability (asset)	(c) District's covered payroll	(b/c) District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2020	0.12564731%	$ 21,733,976	$ 13,116,684	165.7%	80.2%
2019	0.12701772%	19,241,512	12,353,811	155.8%	82.1%
2018	0.11000000%	15,384,214	11,153,809	137.9%	83.1%
2017	0.12000000%	18,048,172	10,861,589	166.2%	80.5%
2016	0.12000000%	7,033,886	10,163,852	69.2%	91.9%
2015	0.14000000%	(3,062,445)	10,111,538	-30.3%	103.6%
2014	0.14000000%	6,894,606	10,002,374	68.9%	92.0%

HIGH DESERT EDUCATION SERVICE DISTRICT
Schedule of Required Penson Contributions - PERS
For the Last Seven Fiscal Years

Year Ended June 30,	(a) Statutorily required contribution	(b) Contributions in relation to the statutorily required contribution	(a-b) Contribution deficiency (excess)	(c) District's covered payroll	(b/c) Contributions as a percent of covered payroll
2020	2,982,906	2,982,906	-	14,206,163	21.0%
2019	2,819,543	2,819,543	-	13,116,684	21.5%
2018	2,701,122	2,701,122	-	12,353,811	21.9%
2017	2,050,130	2,050,130	-	11,153,809	18.4%
2016	1,953,710	1,953,710	-	10,861,589	18.0%
2015	1,891,704	1,891,704	-	10,163,852	18.6%
2014	1,855,716	1,855,716	-	10,111,538	18.4%

The amounts presented for each fiscal year were actuarially determined at December 31 and rolled forward to the measurement date.

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

HIGH DESERT EDUCATION SERVICE DISTRICT
Schedule of the Proportionate Share of the Net OPEB Asset - RHIA
For the Last Two Fiscal Years

Year Ended June 30,	(a) District's proportion of the net OPEB liability (asset)	(b) District's proportionate share of the net liability (asset)	(c) District's covered payroll	(b/c) District's proportionate share of the liability (asset) as a percentage of its covered payroll	Plan fiduciary net position as a percentage of the total liability
2020	-0.11559328%	$ (228,764)	$ 13,116,684	-1.7%	144.4%
2019	-0.11838598%	(129,033)	12,353,811	-1.0%	123.9%

HIGH DESERT EDUCATION SERVICE DISTRICT
Schedule of Required Contributions - RHIA
For the Last Two Fiscal Years

Year Ended June 30,	(a) Statutorily required contribution	(b) Contributions in relation to the statutorily required contribution	(a-b) Contribution deficiency (excess)	(c) District's covered payroll	(b/c) Contributions as a percent of covered payroll
2020	58,378	58,378	-	14,206,163	0.4%
2019	55,482	55,482	-	13,116,684	0.4%

The amounts presented for each fiscal year were actuarially determined at December 31 and rolled forward to the measurement date.

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

HIGH DESERT EDUCATION SERVICE DISTRICT
Schedule of Changes in SERHB OPEB Liability and Related Ratios
Last Two Fiscal Years

Subsidized Early Retirement Health Benefits

	2020	2019	2018
Total OPEB Liability - beginning	$ 886,247	811,367	752,308
Changes for the Year			
Service Costs	68,122	65,818	64,213
Interest	32,691	32,194	32,224
Differences between expected and actual experience	(100,449)	-	-
Effect of Assumption Changes or Inputs	3,276	14,246	-
Benefit Payments	(40,678)	(37,378)	(37,378)
Net Changes in Total OPEB Liability	(37,038)	74,880	59,059
Total OPEB Liability - end of year	$ 849,209	886,247	811,367
District's covered-employee payroll	$ 19,284,488	$ 17,058,258	$ 16,406,645
Total OPEB Liability as a percentage of covered payroll	4.40%	5.20%	4.95%

NOTES TO SCHEDULE

The District does not hold assets in a trust that meets the criteria of GASB Statement 77, paragraph 4, to pay related benefits.

10-year trend information will be presented as it becomes available.

HIGH DESERT EDUCATION SERVICE DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balance
BUDGET AND ACTUAL
For the year ended June 30, 2020
(all amounts are in dollars)

	GENERAL FUND			
REVENUES	ORIGINAL BUDGET	FINAL BUDGET	Actual	VARIANCE TO FINAL BUDGET
Local Sources	$ 4,581,399	$ 4,581,399	$ 4,619,499	$ 38,100
State Sources	11,241,005	11,241,005	11,128,544	(112,461)
Total Revenues	15,822,404	15,822,404	15,748,043	(74,361)
EXPENDITURES				
Instruction	2,400,695	2,400,695 (1)	2,190,666	210,029
Support Services	6,298,198	6,298,198 (1)	5,743,731	554,467
Total Expenditures	8,698,893	8,698,893	7,934,397	764,496
Excess of Revenues Over (Under) Expenditures	7,123,511	7,123,511	7,813,646	(838,857)
OTHER FINANCING SOURCES, (USES)				
Transfers (Out)	(4,334,935)	(4,334,935) (1)	(4,161,564)	173,371
Apportionment of Funds	(3,959,351)	(3,959,351)	(3,666,825)	292,526
Total Other Financing Sources, (Uses)	(8,294,286)	(8,294,286)	(7,828,389)	465,897
Net Changes in Fund Balance	(1,170,774)	(1,170,774)	(14,743)	(372,960)
Beginning Fund Balance	1,952,774	1,952,774	1,884,054	(68,720)
Ending Fund Balance	$ 782,000	$ 782,000	$ 1,869,311	$ (441,680)

(1) Appropriation Level

HIGH DESERT EDUCATION SERVICE DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balance
BUDGET AND ACTUAL
For the year ended June 30, 2020
(all amounts are in dollars)

SPECIAL REVENUE FUND

	ORIGINAL BUDGET	FINAL BUDGET		ACTUAL	VARIANCE TO FINAL BUDGET
REVENUES:					
Local Sources	$ 12,898,748	$ 12,898,748		$ 10,208,008	$ (2,690,740)
State Sources	9,270,784	9,839,151		9,007,855	(831,296)
Federal Sources	4,672,178	5,296,152		4,731,719	(564,433)
Total Revenues	26,841,711	28,034,052		23,947,582	(4,086,470)
EXPENDITURES:					
Instruction	13,002,083	13,053,890	(1)	11,769,265	1,284,625
Support Services	18,275,209	19,365,743	(1)	12,440,110	6,925,633
Enterprise and Community Services	138,334	188,334	(1)	164,630	23,704
Contingency	1,247,061	747,061	(1)	-	747,061
Other Uses	-	500,000	(1)	500,000	-
Total Expenditures	32,662,688	33,855,029		24,874,005	8,981,024
Excess of Revenues Over (Under) Expenditures	(5,820,977)	(5,820,977)		(926,423)	(13,067,494)
OTHER FINANCIAL SOURCES, (USES)	26,841,711	28,034,052		23,947,582	(4,086,470)
Transfers In	6,290,061	7,640,061		6,144,626	(1,495,435)
Transfers (Out)	(644,312)	(1,994,312)	(1)	(1,991,062)	3,250
Apportionment of Funds	(5,195,144)	(5,195,144)	(1)	(4,068,665)	1,126,479
Total Other Financing Sources, (Uses)	450,605	450,605		84,899	(365,706)
Net Changes in Fund Balance	(5,370,372)	(5,370,372)		(841,524)	(13,433,199)
Beginning Fund Balance	5,370,372	5,370,372		5,549,193	178,821
Prior Period Adjustment	-	-		(208,387)	1,463,446
Beginning Fund Balance- Adjusted	5,370,372	5,370,372		5,340,806	(29,566)
Ending Fund Balance	$ -	$ -		$ 4,499,282	$ (13,462,766)

(1) Appropriation Level

HIGH DESERT EDUCATION SERVICE DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balance
BUDGET AND ACTUAL
For the year ended June 30, 2020
(all amounts are in dollars)

DEBT SERVICE FUND

	ORIGINAL BUDGET	FINAL BUDGET		ACTUAL	VARIANCE TO FINAL BUDGET
REVENUES:					
Local Sources	$ 1,123,000	$ 1,123,000		$ 1,115,360	$ (7,640)
EXPENDITURES:					
Debt Service	1,123,000	1,123,000	(1)	1,121,597	1,403
Net Changes in Fund Balance	-	-		(6,237)	(9,043)
Beginning Fund Balance	-	-		16,639	16,639
Ending Fund Balance	$ -	$ -		$ 10,402	$ 7,596

(1) Appropriation Level

HIGH DESERT EDUCATION SERVICE DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balance
ACTUAL AND BUDGET
For the year ended June 30, 2020
(all amounts are in dollars)

INTERNAL SERVICE FUND

	ORIGINAL BUDGET	FINAL BUDGET		ACTUAL	VARIANCE TO FINAL BUDGET
REVENUES:					
Local Sources	$ 876,749	$ 876,749		$ 868,358	$ (8,391)
Total Revenues	876,749	876,749		868,358	(8,391)
EXPENDITURES:					
Support Services	740,713	740,713	(1)	579,005	161,708
Debt Service	278,000	278,000	(1)	276,319	1,681
Total Expenditures	1,018,713	1,018,713		855,324	163,389
Excess of Revenues Over (Under) Expenditures	(141,964)	(141,964)		13,034	154,998
OTHER FINANCING SOURCES, (USES)					
Transfers from Other Funds	8,000	8,000		8,000	-
Total Other Financing Sources (Uses)	8,000	8,000		8,000	-
Net Changes in Fund Balance	(133,964)	(133,964)		21,034	154,998
Beginning Fund Balance	133,964	133,964		134,991	1,027
Ending Fund Balance	$ -	$ -		$ 156,025	$ 156,025

(1) Appropriation Level

HIGH DESERT EDUCATION SERVICE DISTRICT
Schedule of Changes in Assets and Liabilities - Agency Fund

For the year ended June 30, 2020
(all amounts are in dollars)

	Balance June 30, 2019	ADDITIONS	DEDUCTIONS	Balance June 30, 2020
ASSETS				
Cash and Investments	$ -	$ 1,530,452	$ (1,530,452)	$ -
Grants and Other Receivables	358,914	1,544,872	(1,514,176)	389,610
Total Assets	$ 358,914	$ 3,075,324	$ (3,044,628)	$ 389,610
LIABILITIES				
Accounts Payable	$ 358,914	$ 1,920,062	$ (1,889,366)	$ 389,610
Total Liabilities	$ 358,914	$ 1,920,062	$ (1,889,366)	$ 389,610

HIGH DESERT EDUCATION SERVICE DISTRICT
Schedule of Property Tax Transactions - District Taxes - General Fund
For the year ended June 30, 2020
Tax Control Records
(all amounts are in dollars)

	TAXES RECEIVABLE July 1	CURRENT* YEAR LEVY	NET ADJUSTMENTS	DEDUCT TAX COLLECTIONS	TAXES RECEIVABLE June 30
2019-20	$ -	$ 2,698,218	$ (63,315)	$ 2,596,922	$ 37,980
2018-19	42,219	-	6,703	19,395	29,527
2017-18	2,507	-	13,349	8,200	7,656
2016-17	7,213	-	7,338	12,998	1,553
2015-16	3,441	-	13,761	15,493	1,709
2014-15	925	-	1,841	2,356	410
2013-14	407	-	1,789	1,870	326
all other prior years	1,335	-	3,311	3,766	880
TOTALS	$ 58,047	$ -	$ 48,092	$ 2,661,000	$ 80,042

Balance above	$ 2,661,000
Closed settlements	9,778
June 30, 2020 receivable	58,008
June 30, 2019 receivable	(45,516)
Payment in lieu of tax	4,154
Total Tax collections	$ 2,687,424

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HIGH DESERT EDUCATION SERVICE DISTRICT

DESCHUTES COUNTY, OREGON

SUPPLEMENTARY INFORMATION

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HIGH DESERT EDUCATION SERVICE DISTRICT
DESCHUTES COUNTY, OREGON

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2020

Program Title	Pass Through Organization	Federal CFDA Number	Pass Through Entity Number	Period Covered	Federal Expenditures	Passed Through to Subrecipients
U.S. Department of Education - DOE						
Title I Grants to Local Education Agencies						
Title 1A Grants to Local Educational Agencies (MTSS)	Oregon Department of Education	84.010	53716	03/01/19-09/30/19	$ 8,128	
Migrant Education State Grant Programs						
Title IC Grants to Local Educational Agencies (Migrant Ed)	Oregon Department of Education	84.011	53719	07/01/19-09/30/20	$ 288,470	
Title IC Grants to Local Educational Agencies (Migrant Ed)	Oregon Department of Education	84.011	53734	07/01/19-09/30/20	$ 18,676	
Title IC Grants to Local Educational Agencies (Migrant Ed)	Oregon Department of Education	84.011	54444	10/07/19-11/30/19	$ 8,063	
Title IC Grants to Local Educational Agencies (Migrant Ed)	Oregon Department of Education	84.011	49209	07/01/18-09/30/19	$ 222,231	
Title IC Grants to Local Educational Agencies (Migrant Ed)	Oregon Department of Education	84.011	52517	03/15/19-09/30/19	$ 101,696	
Title IC Grants to Local Educational Agencies (Migrant Ed)	Oregon Department of Education	84.011	57312	03/15/20-09/30/20	$ 16,113	
Title IC Grants to Local Educational Agencies (Migrant Ed)	Oregon Department of Education	84.011	49228	07/01/18-09/30/19	$ 15,702	
Title IC Grants to Local Educational Agencies (Migrant Ed)	Oregon Department of Education	84.011	44981	07/01/18-09/30/19	$ 17,782	
Total Migrant Education State Grant Programs					$ 688,733	
Title I - Programs for Neglected and Delinquent Children	Oregon Department of Education	84.013	10999	07/01/18 - 06/30/20	$ 7,100	
Education for Homeless Children and Youth						
McKinney Homeless Grant	Oregon Department of Education	84.196	46122	07/01/17-09/30/19	$ 646	
McKinney Homeless Grant	Oregon Department of Education	84.196	54903	10/01/16-09/30/20	$ 56,165	
Total Education for Homeless Children and Youth					$ 56,811	
Career and Technical Education - Perkins IV						
Vocational Ed - Perkins	Oregon Department of Education	84.048	48923	07/01/18-09/30/19	$ 5,560	
Vocational Ed - Perkins	Oregon Department of Education	84.048	52493	07/01/19-09/30/20	$ 733,319	
Vocational Ed - Perkins	Oregon Department of Education	84.048	48942	07/01/18-09/30/19	$ 10,655	
Vocational Ed - Perkins	Oregon Department of Education	84.048	52474	07/01/19-09/30/20	$ 84,488	
Total Career and Technical Education - Perkins IV					$ 834,022	
Vocational Rehabilitation	Oregon Department of Education	84.126	10199	07/01/19-06/30/20	$91,315	
Mathematics and science partnerships	Oregon Department of Education	84.051	52038	10/01/2018-9/30/2021	$ 15,447	
Personnel Development	Oregon Department of Education	84.323	46078	9/1/2017-06/30/20	$ 65,846	
Preschool Development Grants	Oregon Department of Education	93.434	55025	10/01/19-01/31/20	$ 13,000	
Elementary and Secondary School Emergency Relief	Oregon Department of Education	84.425D		03/16/20-06/30/21	$ 177,176	
Special Education Cluster						
Special Education Grants to States	Oregon Department of Education	84.027		07/01/17 - 06/30/20	$ 2,600	
Special Education Grants to States	Oregon Department of Education	84.027	11111	07/01/17 - 06/30/20	$ 1,203,224	
Special Education Grants to States	Oregon Department of Education	84.027	11111	07/01/17 - 06/30/20	$ 514,246	
Special Education Grants to States	Oregon Department of Education	84.173	11111	07/01/17 - 06/30/20	$ 99,177	
CPS Local Sites	Oregon Department of Education	84.173	54139	08/01/19-09/30/19	$ 9,434	
Total Special Education Cluster					$ 1,828,681	
Special Education - Grants for Infants and Families						
Special Education Grants to States	Oregon Department of Education	84.181	11111	07/01/17 - 06/30/20	$ 279,956	
Special Education Grants to States	Oregon Department of Education	84.181	54978	07/01/19-06/30/20	$ 2,400	
Total Special Education - Grants for Infants and Families					$ 282,356	
Promoting Safe and Stable Families						
Title IV-B2 Family Preservation & Support	Oregon Department of Education	93.556	52600	7/01/2017-9/30/2019	$ 55,116	$ 49,150
Medical Assistance Programs						
Title XIX-Medicaid - Healthy Families Oregon	Oregon Department of Education	93.778	44191	7/1/2017-6/30/2021	$ 168,791	$ 8,711
Total U.S. Department of Education					$ 4,292,522	$ 57,861

U.S. Dept of Health & Human Services - HHS						
Maternal Infant & EC Homevisitor	Dept. Of Human Services	93.870	K155272	7/01/2018-9/30/2019	$ 94,618	$ 86,718
Maternal Infant & EC Homevisitor	Dept. Of Human Services	93.870	K155272	7/01/2018-9/30/2019	$ 674	$ -
Total Maternal Infant & EC Homevisitor					$ 95,292	$ 86,718
Total U.S. Department of Education					**$ 95,292**	$ 86,718
U.S. Dept. of Agriculture - USDA						
USDA Forest Service - Partnership Agreements	USDA	10.699	15-CS-11060120-037	7/01/2017-6/30/2019	$ 21,470	$ 21,470
USDA Forest Service - Partnership Agreements	USDA	10.699	15-CS-11060120-040	7/01/2017-6/30/2019	$ 44,000	$ -
Total US Dept. of Agriculture					$ 65,470	$ 21,470
U.S. Dept. of Homeland Security						
Grants to States for Emergency Management	Oregon Department of Education	84.184Q	12519	09/01/19-09/30/20	$ 54,734	$ -
Corporation For National And Community Service (CNCS)						
Volunteers in Service to America	Vista State	94.013	15VSPOR001	2/18/2019-9/30/19	**$ 7,200**	$ -
Total Grants Expended or Passed Through to Subrecipients					$ 4,515,218	$ 166,049

Reconciliation to Federal Revenue	
Federal Awards	$ 4,515,218
Accrual/Deferrals	$ 216,501
Total Federal Revenue Recognized	$ 4,731,719

HIGH DESERT EDUCATION SERVICE DISTRICT

DESCHUTES COUNTY, OREGON

INDEPENDENT AUDITORS' REPORT REQUIRED BY OREGON STATE REGULATIONS

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November 17, 2020

Independent Auditors' Report Required by Oregon State Regulations

We have audited the basic financial statements of High Desert Education Service District as of and for the year ended June 30, 2020, and have issued our report thereon dated November 17, 2020. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards.

Compliance

As part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statues 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 the basic financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

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

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

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

OAR 162-10-0230 Internal Control

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

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

Roy R Rogers

Roy R. Rogers, CPA
PAULY, ROGERS AND CO., P.C.

HIGH DESERT EDUCATION SERVICE DISTRICT

DESCHUTES COUNTY, OREGON

GRANT COMPLIANCE REVIEW

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November 17, 2020

To the Board of Directors
High Desert Education Service District
Deschutes 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 basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of High Desert Education Service District as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the basic financial statements, and have issued our report thereon dated November 17, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic 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 basic 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 basic financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

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

Roy R. Rogers

Roy R. Rogers, CPA
PAULY, ROGERS AND CO., P.C.

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November 17, 2020

To the Board of Directors
High Desert Education Service District
Deschutes County, Oregon

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required By the Uniform Guidance

Report on Compliance for Each Major Federal Program

We have audited High Desert Education Service District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the major federal programs for the year ended June 30, 2020. The major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, High Desert Education Service 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, 2020.

Report on Internal Control Over Compliance

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

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

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

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

Roy R Rogers

Roy R. Rogers, CPA
PAULY, ROGERS AND CO., P.C.

HIGH DESERT EDUCATION SERVICE DISTRICT
DESCHUTES COUNTY, OREGON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2020

SECTION I – SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of Auditors' report issued:	Unmodified	
Internal control over financial reporting:		
• Material weakness(es) identified?	____Yes	__X__No
• Significant deficiency(ies) identified that are not considered to be material weaknesses	____Yes	__X__None reported
Noncompliance material to financial statements noted?	____Yes	__X__No
Any GAGAS audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	____Yes	__X__No

FEDERAL AWARDS

Internal control over Major Programs:		
• Material weakness(es) identified?	____Yes	__X__No
• Significant deficiency(ies) identified that are not considered to be material weaknesses	____Yes	__X__None reported
Type of auditors' report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	____Yes	__X__No

IDENTIFICATION OF MAJOR PROGRAMS

CFDA NUMBER(S):	NAME OF FEDERAL PROGAM:
84.048	Perkins
84.011	Migrant Education

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

Auditee qualified as low-risk auditee? __X__Yes ____No

HIGH DESERT EDUCATION SERVICE DISTRICT
DESCHUTES COUNTY, OREGON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2020

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. BASIS OF PRESENTATION

The schedule of expenditures of federal awards in the financial report includes federal grant activity and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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