

NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT

Hillsboro, Oregon

*"Dedicated to Quality Education for All Students"*



Report on Audit of Basic Financial Statements  
And Supplemental Information

Year ended June 30, 2005

Prepared by: Fiscal Services

Jim Mabbott  
Superintendent

Tim Collier, CPA  
Chief Financial Officer

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## **ORGANIZATION**

Education service districts originated in Oregon's first laws establishing a general system of common schools - a system that has maintained but changed the responsibilities and names of Oregon's mid-level education service entity.

There have been eight major periods in the development of Oregon's ESD's:

- Origination and foundations (1849-1871)
- The County Unit as regulatory arm of the State (1872-1944)
- Rural School Districts and equalization (1945-1962)
- Intermediate Education Districts and Advent of Services (1963-1976)
- Education Service Districts (1977-present)
- Passage of SB 26, the ESD Reorganization Act (1994)
- Passage of Ballot Measure 47 and 50, as they converted ESD tax bases to "rates" (1997)
- The era of funding regional services on an equity-based formula (1998-present)

In 1945, the Legislature created the county "rural school district." In the early 1960's, rural school districts began to provide special education services for disabled children. The Legislature studied the role of the county school superintendent's office and its potential for the future. In 1963, it replaced the "rural school district" title with "Intermediate Education District" (IED).

In 1977, the Legislature changed the name of the intermediate education district to "education service district." This change reflected the growing recognition that the county office had become a major service center for local districts. Also, the passage of the Public Law 94-142, the federal legislation guaranteeing to all students with disabilities the right to a free and appropriate education, made the ESD's role as a provider of special education services even more important and necessary, as did the State's increased interest in early intervention and early childhood education programs, the same of which was occurring on a national basis.

The 1991 Legislature authorized a task force to study regional services on a statewide basis. The 1993 Legislature passed SB 26, the ESD Reorganization Act, which required the merger of 29 ESD's down to 21, including the annexation of six county units (Crook, Klamath, Lincoln, Morrow, Hood River, and Josephine) into one of the remaining 21 ESD's, i.e., Linn-Benton ESD annexed Lincoln County School District and became a three-county unit named Linn-Benton-Lincoln ESD; and Clatsop, Columbia, Tillamook, and Washington ESD's merged to become the Northwest Regional ESD. The original bill called for 15 ESD's, but was later amended by the Legislature to maintain 21 ESD's. Reorganization in and of itself did not change the mission of regional services.

Throughout the history of Oregon's regional services system, local governance and state statutes concerning the mission of ESD's has remained somewhat constant: "Education service districts assist school districts and the State of Oregon in achieving Oregon's education goals by providing excellent and equitable educational opportunities for all Oregon public school students."



In 2000 the Legislature completed an interim task force study of ESD's. As a result of that study, the Legislature passed two major pieces of legislation: SB 259 and SB 260.

Senate Bill 259 reestablished the primary mission of ESD's: "The mission of education service districts is to assist school districts and the Department of Education in achieving Oregon's educational goals by providing equitable, high quality, cost-effective and locally responsive educational services at a regional level." SB 259 also establishes that ESD's exist to help: 1) ensure an equitable and excellent education for all children in the state; 2) implement the Oregon Educational Act for the 21st Century; 3) foster the attainment of high standards of performance by all students in Oregon's public schools; and 4) facilitate inter-organizational coordination and cooperation among educational, social service, health care and employment training agencies.

Senate Bill 260 addressed the issue of funding for ESD's. There were two major issues addressed regarding ESD funding. 1) The state will progressively equalize ESD funding over the next five years, such that ESD funding will be equalized in fiscal year 2005-2006. 2) ESD funding shall be connected to local district funding in that a small portion of the State School Fund allocation to a region shall be distributed to the ESD with the remainder being distributed to local districts in accordance with the state funding formula. Beginning in fiscal year 2001-2002, 4.888% of the region's State School Fund allocation shall be used to fund the ESD. That percentage increases gradually over the next four years, such that 5.097% of the regional State School Fund allocation shall be used to fund the ESD in fiscal year 2004-2005.

Annually, 90% of the State School Fund revenue received by an ESD is subject to the resolution process. Under the resolution process, at least two-thirds of the school districts in an ESD, representing more than one-half of the student population, must approve the resolution plan. That determines how the State School Fund resources will be used. At Northwest Regional ESD all of our 20 school districts are committed to developing an annual resolution plan that every school district can support.

The Northwest Regional Education Service District is governed by a seven member Board of Directors. Board members are elected to four-year terms. An individual may run for a seat on the Board if they are a registered voter and have lived in the district for one year immediately preceding the election. Board members are elected by zones and are elected by all district voters. The NWRESD Board appoints a representative from the social service agencies in the area served by the district to be a non-voting advisory member of the Board. The advisory member is appointed to two-year terms and may be reappointed.

The Board of Directors has legal authority transacting all business coming within the jurisdiction of the education service district within the framework set by the State Legislature and State Board of Education. The Board also acts to provide Resolution Plan supported by the component districts in the area of programs and services that are identified to meet high priorities. The daily functioning of the District is under the supervision of the Superintendent. The Board is responsible for employing the Superintendent to administer the District.



**SALLY BUNNELL, Board Chair**  
Term expires June 2009

Director Bunnell fills the Zone 3 position. Bunnell formerly served on the Washington ESD Board and Washington Service Center Advisory Committee. Other board positions she has held were two terms on the Beaverton School Board, two terms on the Beaverton Education Foundation Board, past chair of the State Scholarship Commission, and past member of the Executive Committee of the Oregon Association of Education Service Districts. She is currently serving on the OSBA Legislative Policy Committee.

Phone number: 503-644-4916



**HARRY HEWITT, Board Vice Chair**  
Term expires June 2009

Director Hewitt fills the Zone 1 position. Hewitt is a former member of the Tillamook ESD Board, and Tillamook Service Center Advisory Committee. In addition to his board duties for NWRESA, he is also serving on the Tillamook PUD Board. Having taught for 28 years at Tillamook High School in the areas of Government and Economics, Director Hewitt is currently serving as part-time principal at Pacific Christian School in Tillamook.

Phone number: 503-842-7343



**KENDA SHOEMAKER, Director**  
Term expires June 2009

Director Shoemaker fills the Zone 7 position. Shoemaker is a retired Registered Nurse. During her professional career she has worked with Early Childhood Children, Special Needs Children, Severely Emotionally Disturbed Children, and children at Outdoor School. She has served on the board of the American Association of University Women, Beaverton Branch, for 5 years and is currently President. She has served on the boards of the Oregon and National Association of the American Society of Ophthalmic Registered Nurses and has served on the Adult Education Training Committee for the Columbia River Girl Scout Council.

Phone number: 503-292-4052



**GAIL YOUNG, Director**  
Term expires June 2007

Director Young fills the Zone 6 position. She was a former member of the Washington ESD Board, and the Washington Service Center Advisory Committee. Young is currently self-employed as a Vocational Consultant. Prior to serving on the Washington ESD Board, she served on the Douglas County ESD Board.

Phone number: 503-692-4259



**CANDACE M. (CANDY) COLE**  
Term expires June 2007

Director Cole fills the Zone 2 position. Cole is a retiree of Portland General Electric and formerly served as an ESD board member for Columbia County. She has served on the Scappoose School Board since 1984. Cole has a Certificate in Materials Management from Portland State University. She enjoys focusing her time and energy on family, school board activities and other volunteer opportunities.

Phone number: 503-397-2355



**MARILYN McGLASSON**  
Term expires June 2007

Director McGlasson fills the Zone 4 position. She currently serves as Superintendent of the Banks School District in Washington County. McGlasson was a former member of the Washington ESD Board, Washington Service Center Advisory Committee, and superintendent of the former Farmington View School District. Director McGlasson has also served on advisory boards for the Greater Hillsboro Foundation and Washington County Sheriff's Office.

Phone number: 503-324-8591



**DR. JOSEPH CHRISTY, Advisory Member**  
Term expires June 2006

Dr. Joseph Christy serves as a community agency advisory member on the Northwest Regional ESD Board. He has been Director of the Washington County Juvenile Department since 1991. He also manages the department's Conciliation Services, providing mediation for parents in disputes over child custody and parenting time.

Phone number: 503-846-8655

**LARRY SPIER, Director**  
Term expires June 2009

Director Larry Spier retired from the Beaverton School District after 28 years as a Special Education Teacher and School Administrator. He served for 12 years on the former Washington County Education Service District, and is currently serving his third year as a member of the Board of Directors for St. Mary's Home for Boys. Larry fills the Zone 5 position; his term expires in June 2009.

Phone number: 503-642-2303



## **MISSION STATEMENT**

Provide quality, cost-effective programs and services that address the needs and priorities of our component school districts.

## **GUIDING PRINCIPLES**

### **OUR CUSTOMERS**

- Will be treated with respect, dignity and professionalism.
- Will have fair and equal access to NWRESD programs and services.
- Will have ample opportunity for input regarding programs and services provided by the NWRESD, as well as evaluative responses regarding their quality.

### **OUR SERVICES**

- Will be aligned to the needs and priorities of our component districts and the Oregon Department of Education.
- Will represent quality, innovative and cost-effective options.
- Will maximize fiscal and human resources consistent with the district's mission and guiding principles.

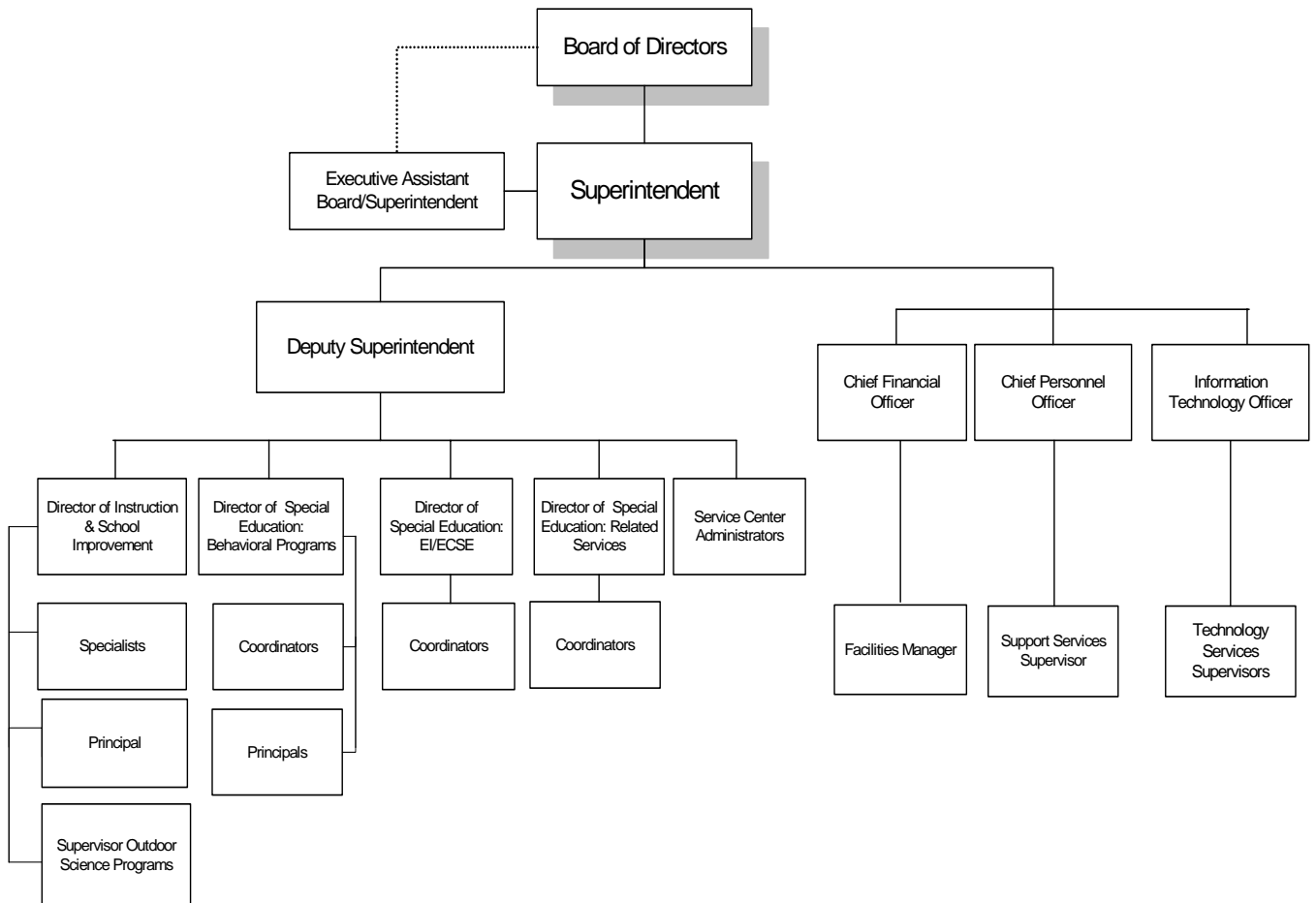
### **OUR STAFF**

- Represent efforts to hire the most talented people, who are excited about working at the NWRESD.
- Actively participate in continuous self and program improvement opportunities.
- Work in settings that communicate staff value and expectations of high performance.

### DISTRICT'S ORGANIZATION

The agency is organized such that five major departments provide services to our component districts as follows: Human Resources, Fiscal Services, Technology Services, Instruction and School Improvements, and Special Student Services.

The traditional organization chart is presented to identify the scope of responsibility with the organization and the organization structure.



## FINANCIAL SECTION



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**PAULY, ROGERS AND CO., P.C.**

**CERTIFIED PUBLIC ACCOUNTANTS**

- 
- 12700 SW 72ND AVENUE • TIGARD, OREGON 97223
  - (503) 620-2632 • FAX (503) 684-7523

August 23, 2005

To the Board of Directors  
Northwest Regional Education Service District  
Washington County, Oregon

INDEPENDENT AUDITORS' REPORT

We have audited the basic financial statements of the Northwest Regional Education Service District, Washington County, Oregon, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Northwest Regional Education Service District for the year ended June 30, 2004 were audited by other auditors whose report dated September 29, 2004, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Northwest Regional Education Service District, Washington County, Oregon, at June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis, as listed on the table of contents, is not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Northwest Regional Education Service District's basic financial statements. The Supplementary Information, including budgetary comparison schedules (which are required supplementary information for major governmental funds) as listed in the Table of Contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements. The Supplemental Information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Introductory Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*Pauly, Rogers and Co. P.C.*  
PAULY, ROGERS AND CO., P.C.

## MANAGEMENT'S DISCUSSION AND ANALYSIS





## MANAGEMENT DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2005

As management of Northwest Regional ESD (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2005.

### Financial Highlights

- In the government-wide statements, the assets of the District exceeded its liabilities at June 30, 2005 by \$11.68 million. Of this amount, \$1.5 million represents the District's investment in capital assets net of related debt and \$10.1 million is unreserved and available to meet the District's ongoing obligations to citizens and creditors.
- The District's total net assets decreased by \$.8 million. This is attributable to county allocation balances held and spent in the current year for the individual counties.
- The District's governmental funds report combined ending fund balance of \$9.42 million, a decrease of \$1.4 million in comparison with the prior year. Approximately 45 percent of this total amount, \$4.0 million, is available for spending at the District's discretion.
- At the end of the fiscal year, unreserved fund balance for the general fund was \$4.0 million, or about 10.5 percent of total general fund expenditures and other financing uses.

### Overview of the Financial Statements

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

#### **Government-wide financial statements.**

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

*The Statement of Net Assets.* The *Statement of Net Assets* presents information on all of the assets and liabilities of the District at year-end. Net assets are what remain after the liabilities have been paid or otherwise satisfied. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

*The Statement of Activities.* The *Statement of Activities* presents information showing how the net assets of the District changed over the year by tracking revenues, expenses and other transactions that increase or reduce net assets. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). In the government-wide financial statements, the District's activities are shown in two categories, governmental and business type.



**MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**  
**YEAR ENDED JUNE 30, 2005**

*Governmental Activities.* Most of the District's basic functions are shown here, such as regular and special education, administration, and facilities acquisition and construction. These activities are primarily financed through property taxes, Oregon's State School Fund and other intergovernmental revenues.

The government-wide financial statements can be found on pages 9 and 10.

*Fund Financial Statements.* The *fund financial statements* provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Northwest Regional ESD, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

*Governmental funds.* The *governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. 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 a government's near-term financing requirements.

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

The District maintains three individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances for the General, Special Revenue and Capital Projects Funds, all of which are considered to be major funds.

The basic governmental fund financial statements can be found on pages 11 and 13.

*Proprietary funds.* The District maintains one proprietary fund type (enterprise fund). This fund is an accounting device used to allow entrepreneurial activities to be tracked separately from other functions. Entrepreneurial functions include contracted technology services, co-op purchasing and workshops. These funds are combined into a single, aggregated presentation in the basic financial statements.

The basic proprietary fund financial statements can be found on pages 15 - 17.



**MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**  
**YEAR ENDED JUNE 30, 2005**

**Fiduciary fund.** The Fiduciary fund is used to account for resources held for the benefit of parties outside of the District. The accounting used for fiduciary funds is the same as that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 18.

**Notes to the basic financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the basic financial statements can be found on pages 21 – 31.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *supplementary information* concerning the District's operations.

Supplementary Information can be found on page 32 - 43.

**Government – Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$11.27 million at June 30, 2005.

Capital assets, which consist of the District's land, buildings, building improvements, construction in progress, vehicles, and equipment, represent about 43% percent of total assets. The remaining assets consist mainly of cash and grants and accounts receivable.

The District's largest liability (76.5 percent) is for the repayment of certificates of participation. Current liabilities, representing about 25.4 percent of the District's total liabilities, consist almost entirely of payables on accounts, salaries and benefits, and the current portion of long-term debt.

**Net Assets**

	June 30, 2005		June 30, 2004	
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Current and other assets	\$ 13,023,860	\$ 419,171	\$ 14,708,991	\$ 388,799
Capital assets	9,983,098	-	10,488,138	-
Total Assets	<u>23,006,958</u>	<u>419,171</u>	<u>25,197,129</u>	<u>388,799</u>
Current liabilities	3,280,272	10,064	3,749,968	12,771
Long-term debt	8,454,329	-	9,330,251	-
Total Liabilities	<u>11,734,601</u>	<u>10,064</u>	<u>13,080,219</u>	<u>12,771</u>
Net assets:				
Invested in capital assets, net of related debt	1,528,769	-	828,760	-
Unrestricted	9,743,588	409,107	11,288,150	376,028
Total Net Assets	<u>\$ 11,272,357</u>	<u>\$ 409,107</u>	<u>\$ 12,116,910</u>	<u>\$ 376,028</u>



**MANAGEMENT DISCUSSION AND ANALYSIS (Continued)  
YEAR ENDED JUNE 30, 2005**

During the current fiscal year, the District's net assets decreased by \$.8 million. Reasons for the decrease include the decrease in State School Support over the prior year, and a increase in expenses.

**Governmental activities.** A comparative analysis discussing and analyzing significant differences follows below. During the current fiscal year, the District's net assets decreased by \$.8 million. The key elements of the change in the District's net assets for the year ended June 30, 2005 are as follows:

- Spending previously held county allocations for districts.

**Statement of Activities  
June 30, 2005**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total June 30, 2005</u>	<u>Total June 30, 2004</u>
<b>Revenues:</b>				
Program revenues:				
Charges for services	\$ 3,970,971	\$ 357,577	\$ 4,328,548	\$ 3,951,100
Operating grants and operations	13,725,621		13,725,621	12,719,924
General revenue:				
Property taxes	7,101,134		7,101,134	6,401,043
Timber revenue	301,627		301,627	244,125
State school fund - general support	18,614,032		18,614,032	20,094,033
Earnings on investments	419,770		419,770	224,302
Miscellaneous			-	107,425
<b>Total Revenues</b>	<u>\$ 44,133,155</u>	<u>\$ 357,577</u>	<u>\$ 44,490,732</u>	<u>\$ 43,741,952</u>
<b>Expenses:</b>				
Instruction	19,109,050		19,109,050	17,854,808
Support services	15,396,917		15,396,917	13,217,064
Enterprise and community services	99,460		99,460	114,889
Facility acquisition and construction	-		-	48,618
Transits to other agencies	9,912,698		9,912,698	8,762,401
Interest on long-term debt	450,811		450,811	508,159
Loss on disposal of capital assets	8,772		8,772	17,199
Warehousing, distributing and purchasing	-		-	1,283
Data processing services		324,498	324,498	330,811
Other	-		-	19,073
<b>Total Expenses</b>	<u>44,977,708</u>	<u>324,498</u>	<u>45,302,206</u>	<u>40,874,305</u>
<b>Change in net assets</b>	<u>(844,553)</u>	<u>33,079</u>	<u>(811,474)</u>	<u>2,867,647</u>
<b>Net Assets, beginning of year</b>	12,116,910	376,028	12,492,938	9,031,062
<b>Restatement</b>	-	-	-	594,229
<b>Net Assets, as restated, beginning of year</b>	12,116,910	376,028	12,492,938	9,625,291
<b>Net Assets, end of year</b>	<u>\$ 11,272,357</u>	<u>\$ 409,107</u>	<u>\$ 11,681,464</u>	<u>\$ 12,492,938</u>



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)  
 YEAR ENDED JUNE 30, 2005

**Financial Analysis of the District's Funds**

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

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

At June 30, 2005, the District's governmental funds reported combined ending fund balances of \$9.42 million, a decrease of \$1.4 million in comparison with the prior year. About \$4.0 million (45 percent) of the ending fund balance constitutes General Fund *unreserved ending fund balance*, which is available for spending at the District's discretion.

*General Fund.* The General Fund is the chief operating fund of the District. As of June 30, 2005, unreserved fund balance was \$4.0 million. As a measure of the fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Fund balance represents 10.5 percent of total General Fund expenditures and other financing uses.

The fund balance increased by \$.2 million during the current fiscal year. This increase can be attributed to two main factors: the increase in State School Support and reductions in operational expenditures.

**Capital Asset and Debt Administration**

**Capital assets.** The District's investment in capital assets includes land, buildings and improvements, and vehicles and equipment. As of June 30, 2005, the District had invested over \$9.9 million in capital assets, net of depreciation, as shown in the following table on the following page:

Capital Assets  
 (Net of Depreciation)

	Governmental Activities	
	June 30, 2005	June 30, 2004
Land	\$ 467,500	\$ 467,500
Buildings and improvements	8,238,530	8,379,810
Leaseholds improvements	30,399	34,260
Vehicles and equipments	1,246,668	1,606,568
	<u>\$ 9,983,097</u>	<u>\$ 10,488,138</u>

Additional information of the District's capital assets can be found in Note 4 on page 28.



**MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**  
**YEAR ENDED JUNE 30, 2005**

**Long-term debt.** At the end of the current fiscal year, the District had total bonded debt outstanding of \$8.5 million, consisting of certificates of participation debt net of unamortized premium/discount.

During the current fiscal year, the District's total debt decreased by \$.95 million (ten percent). The decrease results from the refinancing of principal on the Districts outstanding Certificates of Participation and not issuing any more debt.

Additional information on the District's long-term debt can be found in Note 5 on page 29.

**Economic Factors and Next Year's Budget**

The most significant economic factor for the District is the State of Oregon's State School Fund. For the year ended June 30, 2005, the State School Fund – General Support provided 62 percent of the District's program resources.

The District continues to benefit from the implementation of ESD equity statewide. Due to legislation passed in August 2005 the NWRES D funding will be reduced by approximately 8 percent. The district does not currently see any mayor program reduction with this less of revenue.

**Requests for Information**

This financial report is designed to present the user (citizens, taxpayers, investors, and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the District's Chief Financial Officer of Fiscal Services at 5825 NE Ray Circle, Hillsboro, Oregon 97124.

Tim Collier, CPA  
Chief Financial Officer



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**BASIC FINANCIAL STATEMENTS**

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**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**STATEMENT OF NET ASSETS**

**JUNE 30, 2005**

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	Governmental Activities	Business-type Activities	Total
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ 11,831,499	\$ 415,112	\$ 12,246,611
Cash held by County	44,231	-	44,231
Receivables	989,484	4,059	993,543
Bond issuance costs, net of accumulated amortization	158,646	-	158,646
Capital assets:			
Not being depreciated	467,500	-	467,500
Being depreciated, net of accumulated depreciation	9,515,598	-	9,515,598
<b>TOTAL ASSETS</b>	<b>23,006,958</b>	<b>419,171</b>	<b>23,426,129</b>
<b><u>LIABILITIES</u></b>			
Accounts payable	1,026,135	-	1,026,135
Accrued payroll and related liabilities	2,179,392	10,064	2,189,456
Accrued interest payable	36,497	-	36,497
Accrued compensated absences payable	38,248	-	38,248
Long-term debt:			
Due within one year	201,892	-	201,892
Due in more than one year	8,252,437	-	8,252,437
<b>TOTAL LIABILITIES</b>	<b>11,734,601</b>	<b>10,064</b>	<b>11,744,665</b>
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt	1,528,769	-	1,528,769
Unrestricted	9,743,588	409,107	10,152,695
<b>TOTAL NET ASSETS</b>	<b>\$ 11,272,357</b>	<b>\$ 409,107</b>	<b>\$ 11,681,464</b>

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*See notes to basic financial statements*

**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**STATEMENT OF ACTIVITIES**

**YEAR ENDED JUNE 30, 2005**

	Program Revenues			Net (Expense) Revenue and Change in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business- type Activities	Total
<b>Functions/Programs</b>						
Governmental activities:						
Instruction:						
Regular programs	\$ 1,062,504	620,385	\$ 110,571	\$ (331,548)	\$ -	\$ (331,548)
Special programs	18,046,546	1,064,168	13,076,043	(3,906,335)	-	(3,906,335)
Support services:						
Students services	6,236,170	398,171	27,628	(5,810,371)	-	(5,810,371)
Instructional staff services	1,988,857	132,405	249,511	(1,606,941)	-	(1,606,941)
General administration	1,414,243	-	-	(1,414,243)	-	(1,414,243)
School administration	260,383	61,009	-	(199,374)	-	(199,374)
Business services	2,209,625	1,611,934	-	(597,691)	-	(597,691)
Central activities	3,287,639	82,254	148,605	(3,056,780)	-	(3,056,780)
Enterprise and community services	99,460	96	113,263	13,899	-	13,899
Facility acquisition and construction	-	549	-	549	-	549
Transits to other agencies	9,912,698	-	-	(9,912,698)	-	(9,912,698)
Interest on long-term debt	450,811	-	-	(450,811)	-	(450,811)
<b>Total governmental activities</b>	<b>\$ 44,968,936</b>	<b>\$ 3,970,971</b>	<b>\$ 13,725,621</b>	<b>(27,272,344)</b>	<b>-</b>	<b>(27,272,344)</b>
Business-type activities:						
Data processing services	324,498	357,577	-	-	33,079	33,079
<b>Total business-type activities</b>	<b>\$ 324,498</b>	<b>\$ 357,577</b>	<b>\$ -</b>	<b>-</b>	<b>33,079</b>	<b>33,079</b>
<b>GENERAL REVENUES:</b>						
Property taxes levied for general purposes				7,101,134	-	7,101,134
Timber revenue				301,627	-	301,627
State school fund - general support				18,614,032	-	18,614,032
Earning on investments				419,770	-	419,770
Loss on disposal on capital assets				(8,772)	-	(8,772)
Total general revenues				26,427,791	-	26,427,791
<b>CHANGE IN NET ASSETS</b>				(844,553)	33,079	(811,474)
<b>NET ASSETS, July 1, 2004</b>				12,116,910	376,028	12,492,938
<b>NET ASSETS, June 30, 2005</b>				<b>\$ 11,272,357</b>	<b>\$ 409,107</b>	<b>\$ 11,681,464</b>

See notes to basic financial statements

**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**GOVERNMENTAL FUNDS**

**BALANCE SHEET**

**June 30, 2005**

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	General	Special	Capital	
	Fund	Revenue	Projects	Total
		Fund	Fund	
<b><u>ASSETS</u></b>				
Cash and investments	\$ 5,082,113	\$ 6,423,827	\$ 325,559	\$ 11,831,499
Cash held by County	44,231	-	-	44,231
Receivables:				
Taxes	294,521	-	-	294,521
Accounts	317,548	238,404	5,949	561,901
Grants	-	133,062	-	133,062
Prepaid expenses	1,965	-	-	1,965
<b>TOTAL ASSETS</b>	<b>\$ 5,740,378</b>	<b>\$ 6,795,293</b>	<b>\$ 331,508</b>	<b>\$ 12,867,179</b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 424,593	\$ 601,542	\$ -	\$ 1,026,135
Payroll liabilities	1,022,731	1,156,661	-	2,179,392
Deferred revenue	244,087	-	-	244,087
<b>TOTAL LIABILITIES</b>	<b>1,691,411</b>	<b>1,758,203</b>	<b>-</b>	<b>3,449,614</b>
<b>FUND BALANCES:</b>				
Unreserved:				
General Fund	4,048,967	-	-	4,048,967
Special Revenue Fund	-	5,037,090	-	5,037,090
Capital Projects Fund	-	-	331,508	331,508
<b>TOTAL FUND BALANCES</b>	<b>4,048,967</b>	<b>5,037,090</b>	<b>331,508</b>	<b>9,417,565</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 5,740,378</b>	<b>\$ 6,795,293</b>	<b>\$ 331,508</b>	<b>\$ 12,867,179</b>

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*See notes to basic financial statements*

**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**RECONCILIATION OF GOVERNMENTAL FUNDS  
BALANCE SHEET TO STATEMENT OF NET ASSETS**

**JUNE 30, 2005**

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<b>TOTAL FUND BALANCES</b>		<b>\$ 9,417,565</b>
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Capital assets are not financial resources and therefore are not reported in the governmental funds:

Cost	\$ 14,824,175	
Accumulated depreciation	<u>(4,841,078)</u>	9,983,097

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

244,087

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

These liabilities consist of:

Accrued interest payables	(36,497)	
Compensated absences	(38,248)	
Bonds payable	(8,810,000)	
Bond issuance costs, net of amortization	158,646	
Bond discount/premiums, net of amortization	<u>353,707</u>	<u>(8,372,392)</u>

<b>TOTAL NET ASSETS</b>		<b>\$ <u>11,272,357</u></b>
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*See notes to basic financial statements*

**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**GOVERNMENTAL FUNDS**

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES**

**June 30, 2005**

<b>REVENUES</b>	General Fund	Special Revenue Fund	Other Governmental Fund	Total
Local sources:				
Property taxes	\$ 6,789,999	\$ -	\$ -	\$ 6,789,999
Charges for services	2,705,911	1,527,128	-	4,233,039
Earnings on investments	369,581	-	8,446	378,027
Other	1,370	-	5,949	7,319
Intermediate sources	6,399	-	-	6,399
State sources	18,909,260	5,730,369	-	24,639,629
Federal sources	40,359	7,741,644	-	7,782,003
<b>Total revenues</b>	<b>28,822,879</b>	<b>14,999,141</b>	<b>14,395</b>	<b>43,836,415</b>
<b>EXPENDITURES</b>				
Current:				
Instruction	4,221,722	14,806,257	-	19,027,979
Support services	10,910,346	3,789,234	88,015	14,787,595
Enterprises and community services	-	99,460	-	99,460
Facilities acquisition and construction	-	-	175,839	175,839
Capital outlay	49,935	111,127	-	161,062
Debt service:				
Principal	365,000	-	-	365,000
Interest	450,811	-	-	450,811
<b>Total expenditures</b>	<b>15,997,814</b>	<b>18,806,078</b>	<b>263,854</b>	<b>35,067,746</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>12,825,065</b>	<b>(3,806,937)</b>	<b>(249,459)</b>	<b>8,768,669</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	172,012	5,798,381	-	5,970,393
Transfers out	(6,887,292)	(1,904,979)	-	(8,792,271)
Apportionment of funds	(5,911,168)	(1,427,521)	-	(7,338,689)
Total other financing sources (uses)	(12,626,448)	2,465,881	-	(10,160,567)
<b>NET CHANGE IN FUND BALANCES</b>	<b>198,617</b>	<b>(1,341,056)</b>	<b>(249,459)</b>	<b>(1,391,898)</b>
<b>FUND BALANCES, July 1, 2004</b>	<b>3,850,350</b>	<b>6,378,146</b>	<b>580,967</b>	<b>10,809,463</b>
<b>FUND BALANCES, June 30, 2005</b>	<b>\$ 4,048,967</b>	<b>\$ 5,037,090</b>	<b>\$ 331,508</b>	<b>\$ 9,417,565</b>

*See notes to basic financial statements*

**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO STATEMENT OF ACTIVITIES**

**JUNE 30, 2005**

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<b>NET CHANGES IN FUND BALANCES</b>		<b>\$ (1,391,898)</b>
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those activities is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceed capital outlay:		
Capital outlay capitalized	\$ 121,078	
Depreciation	<u>(617,347)</u>	(496,269)
In the Statement of Activities losses from disposal of capital assets are recorded in the year disposed, whereas in the governmental funds only the proceeds from the sale are recorded.		(8,772)
Long-term debt principal payment are recorded as expenditures in the governmental funds but reduce the liability in the Statement of Net Assets		1,315,000
Governmental funds report the effect of issuance costs and discounts when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities:		
Amortization of discount	(18,108)	
Amortization of issuance costs	<u>(337,563)</u>	
Payoff of prior issues unamortized discount	<u>125,078</u>	(230,593)
In the Statement of Activities interest is accrued on long-term debt whereas in the governmental funds it is recorded as an expenditure when paid.		5,650
Revenues that do not meet the measurable and available criteria are not recognized in the current year in the governmental funds. In the Statements of Activities revenues are recognized when earned		(30,867)
Compensated absences are recognized as an expenditure in the governmental funds when they are paid. In the Statement of Activities compensated absences are recognized as expenses when earned.		(6,804)
<b>CHANGE IN NET ASSETS</b>		<b><u>\$ (844,553)</u></b>

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*See notes to basic financial statements*

**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**ENTERPRISE FUND**

**STATEMENT OF NET ASSETS**

**June 30, 2005**

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**ASSETS**

Cash and cash equivalents	\$ 415,112
Receivables	<u>4,059</u>

<b>TOTAL ASSETS</b>	<b><u>419,171</u></b>
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**LIABILITY**

Accrued payroll and payroll liabilities	<u>10,064</u>
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**NET ASSETS**

Unrestricted	<b><u><u>\$ 409,107</u></u></b>
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*See notes to basic financial statements*

**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**ENTERPRISE FUND**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

**Year Ended June 30, 2005**

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<b>REVENUE:</b>	
Charges for service	\$ 53,179
Transfers in	304,398
	<hr/>
<b>TOTAL REVENUES</b>	<b>357,577</b>
	<hr/>
<b>EXPENSES :</b>	
Salaries	189,191
Employee benefits	72,016
Purchases services	14,711
Supplies	35,923
Miscellaneous	12,657
	<hr/>
<b>TOTAL EXPENSES</b>	<b>324,498</b>
	<hr/>
<b>OPERATING INCOME</b>	<b>33,079</b>
<b>NET ASSETS, July 1, 2004</b>	<b>376,028</b>
	<hr/>
<b>NET ASSETS, June 30, 2005</b>	<b>\$ 409,107</b>
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*See notes to basic financial statements*

**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**ENTERPRISE FUND**

**STATEMENT OF CASH FLOWS**

**JUNE 30, 2005**

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**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash received for services	\$ 95,396
Cash received from interfund services provided	304,398
Cash paid to suppliers for goods and services	(63,293)
Cash paid to employees for services	<u>(263,913)</u>

**NET CASH PROVIDED BY OPERATING ACTIVITIES AND  
NET CHANGE IN CASH AND CASH EQUIVALENTS**

72,588

**CASH AND CASH EQUIVALENTS, July 1, 2004**

342,524

**CASH AND CASH EQUIVALENTS, June 30, 2005**

\$ 415,112

**RECONCILIATION OF OPERATING LOSS TO NET CASH  
PROVIDED BY OPERATING ACTIVITIES**

Net Income	\$ 33,079
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Change in assets and liabilities:	
Accounts receivable	42,216
Payroll liabilities	<u>(2,707)</u>

**NET CASH FROM OPERATING ACTIVITIES**

\$ 72,588

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*See notes to basic financial statements*

**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**AGENCY FUNDS**

**STATEMENT OF FIDUCIARY NET ASSETS**

**June 30, 2005**

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**ASSETS:**

Cash and cash equivalents	\$	3,630,343
Accounts receivable		<u>93,338</u>
	\$	<u><u>3,723,681</u></u>

**LIABILITY:**

Accounts payable	\$	322,886
Due to school districts		<u>3,400,795</u>
	\$	<u><u>3,723,681</u></u>

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*See notes to basic financial statements*

**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**GENERAL FUND**

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL**

**June 30, 2005**

	Budget		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<b>REVENUES</b>				
Local sources:				
Property taxes	\$ 6,455,439	\$ 6,455,439	\$ 6,789,999	\$ 334,560
Charges for services	4,734,539	4,734,539	2,705,911	(2,028,628)
Earnings on investments	225,000	225,000	369,581	144,581
Other	-	-	1,370	1,370
Intermediate sources	-	-	6,399	6,399
State sources	19,887,969	19,887,969	18,909,260	(978,709)
Federal sources	37,000	37,000	40,359	3,359
<b>Total revenues</b>	<b>31,339,947</b>	<b>31,339,947</b>	<b>28,822,879</b>	<b>(2,517,068)</b>
<b>EXPENDITURES</b>				
Current:				
Instruction	4,949,013	4,199,013	4,221,861	(22,848)
Support services	11,076,847	11,076,847	10,960,142	116,705
Debt service *	849,577	849,577	815,811	33,766
Contingency	500,000	-	-	-
<b>Total expenditures</b>	<b>17,375,437</b>	<b>16,125,437</b>	<b>15,997,814</b>	<b>(127,623)</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>13,964,510</b>	<b>15,214,510</b>	<b>12,825,065</b>	<b>(2,389,445)</b>
<b>OTHER FINANCING USES:</b>				
Transfers in	-	-	172,012	172,012
Transfers out *	(7,255,721)	(8,505,721)	(6,887,292)	1,618,429
Apportionment of funds *	(7,208,789)	(7,208,789)	(5,911,168)	1,297,621
<b>Total other financing uses</b>	<b>(14,464,510)</b>	<b>(15,714,510)</b>	<b>(12,626,448)</b>	<b>2,916,050</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(500,000)</b>	<b>(500,000)</b>	<b>198,617</b>	<b>698,617</b>
<b>FUND BALANCE, July 1, 2004</b>	<b>3,500,000</b>	<b>3,500,000</b>	<b>3,850,350</b>	<b>350,350</b>
<b>FUND BALANCE, June 30, 2005</b>	<b>\$ 3,000,000</b>	<b>\$ 3,000,000</b>	<b>\$ 4,048,967</b>	<b>\$ 1,048,967</b>

\* Appropriated as other uses.

*See notes to basic financial statements*

**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**SPECIAL REVENUE FUND**

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL**

**June 30, 2005**

	Budget		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<b>REVENUES</b>				
Local sources:				
Charges for services	\$ 3,384,370	\$ 3,384,370	\$ 1,527,128	\$ (1,857,242)
Other	-	-	-	-
State sources	10,259,230	10,259,230	5,730,369	(4,528,861)
Federal sources	4,460,842	4,460,842	7,741,644	3,280,802
<b>Total revenues</b>	<b>18,104,442</b>	<b>18,104,442</b>	<b>14,999,141</b>	<b>(3,105,301)</b>
<b>EXPENDITURES</b>				
Current:				
Instruction	17,818,438	17,318,438	14,817,120	2,501,318
Support services	5,850,031	3,915,285	3,889,498	25,787
Enterprise and community services	190,599	125,345	99,460	25,885
Facilities acquisition and construction	40,426	40,426	-	40,426
<b>Total expenditures</b>	<b>23,899,494</b>	<b>21,399,494</b>	<b>18,806,078</b>	<b>2,593,416</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(5,795,052)</b>	<b>(3,295,052)</b>	<b>(3,806,937)</b>	<b>(511,885)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	3,768,630	3,893,320	5,798,381	1,905,061
Transfers out *	(1,435,000)	(2,409,924)	(1,904,979)	504,945
Apportionment of funds *	(182,475)	(1,707,551)	(1,427,521)	280,030
<b>Total other financing sources (uses)</b>	<b>2,151,155</b>	<b>(224,155)</b>	<b>2,465,881</b>	<b>2,690,036</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(3,643,897)</b>	<b>(3,519,207)</b>	<b>(1,341,056)</b>	<b>2,178,151</b>
<b>FUND BALANCE, July 1, 2004</b>	<b>3,643,897</b>	<b>3,519,207</b>	<b>6,378,146</b>	<b>2,858,939</b>
<b>FUND BALANCE, June 30, 2005</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,037,090</b>	<b>\$ 5,037,090</b>

\* Appropriated as other uses.

*See notes to basic financial statements*



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**NOTES TO BASIC FINANCIAL STATEMENTS**



**NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2005**

**1. Summary of Significant Accounting Policies**

**Reporting Entity**

The Northwest Regional Education Service District (the District) was formed under ORS 334.020 and Section 25, Chapter 784 Oregon Laws 1993. It provides educational services to school districts in Clatsop, Tillamook, Washington and Columbia counties. The District is a municipal corporation governed by an elected seven-member Board of Directors. Administrative officials are approved by the Board. The daily functioning of the District is under the supervision of the Superintendent-Clerk. As required by accounting principles generally accepted in the United States of America, all activities of the District have been included in these basic financial statements.

The District qualifies as a primary government since it has a separately elected governing body, is a legally separate entity, and is fiscally independent. There are various governmental agencies, school districts, and special service districts, which provide services within the District's boundaries. However, the District is not financially accountable for any of these entities, and therefore, none of them are considered component units in accordance with GASB 39 or included in these basic financial statements.

**Basis of Presentation**

**Government-wide Financial Statements**

The Statement of Net Assets and the Statement of Activities display information about the District. These statements include the governmental financial activities of the overall District, except fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities are financed through property taxes, intergovernmental revenues, and other nonexchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function/program. Direct expenses are those that are specifically associated with a function/program and, therefore, are clearly identifiable to that function/program. The District does not allocate indirect expenses. Program revenues include charges to students or others for tuition, fees, rentals, materials, supplies or services provided and operating grants and contributions. Revenues that are not classified as program revenues, including property taxes, are presented as general revenues.

Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter is excluded from the government-wide financial statements.



**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2005**

**1. Summary of Significant Accounting Policies - Basis of Presentation (Continued)**

**Fund Financial Statements**

The fund financial statements provide information about the District's funds including those of a fiduciary nature. Separate statements for each fund category – governmental, business-type and fiduciary - are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. The minimum numbers of funds are maintained consistent with legal and managerial requirements.

The District reports the following major funds:

General Fund – The General Fund provides for those programs and services authorized by local school districts through the resolution process or by service agreements. Major sources of revenue are property taxes, state reimbursements and charges to other agencies.

Special Revenue Fund – The Special Revenue Fund provides instructional and support services to local school districts through contracts and reimbursements. Major revenue sources are charges to other education districts and federal and state grants.

Additionally, the District also reports the following fund types:

Capital Projects Fund – This fund accounts for resources to replace or acquire new facilities and capital equipment. The principal resources are transfers from the General Fund and interest earnings.

Proprietary Fund Type – The proprietary fund accounts for services provided by the District, mainly data processing and warehousing, to other governmental agencies. The principal revenue sources are charges for services and supplies.

Fiduciary Fund Type – The agency fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This fund accounts for pass through money received from local and county sources and distributed to school districts. The agency funds are accounted for using the full accrual basis of accounting.

**Measurement Focus and Basis of Accounting**

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The fiduciary fund financial statements are reported using the accrual basis of accounting but does not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District receives value without giving equal value in exchange, include property taxes, grants, entitlements and donations. On the accrual basis of accounting, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.



**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2005**

**1. Summary of Significant Accounting Policies – (Continued)**

**Measurement Focus and Basis of Accounting-(Continued)**

Under terms of grant agreements, District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. Property taxes and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt and claims and judgments, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in the governmental funds and proceeds from long-term debt and acquisitions under capital leases are reported as other financing sources. For purposes of the government-wide and proprietary fund financial statements the District follows private-sector standards of accounting and financial reporting issued on or before November 30, 1989, unless those pronouncements conflict or contradict the guidance of Governmental Accounting Standards Board pronouncements.

The proprietary fund type (Enterprise fund) revenues and expenses generally result from providing services and producing and delivering goods in connection with ongoing operations. The principal revenues are charges to customers for sales and services. Expenses include the costs of sales and services, and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Use of Estimates**

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

**Cash and Cash Equivalents**

The District's cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less. Short-term investments are stated at cost, which approximates fair value.



**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2005**

**1. Summary of Significant Accounting Policies - (Continued)**

**Property Taxes**

Property taxes are levied and become a lien on all taxable property as of July 1. Property taxes are payable on November 15, February 15, and May 15. Discounts are allowed if the amount due is received by November 15 or February 15. Taxes unpaid and outstanding on May 16 are considered delinquent. 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.

**Receivables**

Receivables represent amounts due from the sale of services or materials to local education agencies and unreimbursed expenditures due from grantor agencies. Grant revenues are recorded at the time eligible expenditures are incurred. Grant revenues received prior to the occurrence of qualifying expenditures are recorded as deferred revenue.

**Capital Assets**

Capital assets are recorded at historical cost if purchased or constructed, or estimated historical cost when original cost is not available. Donated fixed assets are recorded at their estimated fair value at the date of donation. The District defines capital assets as assets with an initial cost of more than \$5,000 and an estimated life in excess of three years. Upon disposal of capital assets, the accounts are relieved of the related amounts, and any proceeds accounted for as revenue. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	40-50 years
Leasehold improvements	5-15 years
Vehicles and equipment	5-15 years

**Compensated Absences**

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service within the District. All unused vacation pay and related payroll taxes is accrued when earned in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignation and retirements.



**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2005**

**1. Summary of Significant Accounting Policies - (Continued)**

**Long-term Debt**

In the government-wide financial statements long-term debt (certificates of participation) is reported as a liability in the Statement of Net Assets. Discounts, as well as issuance costs, are deferred and amortized over the life of the certificates of participation using the straight-line method, which approximates the effective interest method. In the fund financial statements discounts, as well as issuance costs, are recognized when incurred and not deferred. The face amount of the debt issued and discounts on debt issuances are reported as other financing sources and uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Pension Plan**

Substantially all of the District's employees are participants in the State of Oregon Public Employees Retirement Fund (OPERF). Contributions to OPERF are made on a current basis as required by the plan.

**Budget**

In accordance with Oregon Local Budget Law, a budget is prepared and legally adopted for all funds on the modified accrual basis of accounting. The budgetary basis of accounting for the governmental fund types is the same basis as accounting principles generally accepted in the United States of America except capital outlay expenditures are budgeted by function. For the proprietary fund type the budgetary basis is the same as the accounting principles generally accepted in the United States of America basis except that service charges to other funds are budgeted as operating transfers in.

The District begins its budgeting process by appointing budget committee members in early fall of each year. Budget recommendations are developed through early spring and the Budget Committee and the Board of Directors approves the budget in late spring. Public notices of the budget hearing are generally published in early June and the public hearing is held in late June. The budget is adopted, appropriations are made, and the tax levy is declared not later than June 30.

Expenditure budgets are appropriated at the major function level (instruction, supporting services, enterprise and community services, building acquisition, construction and improvement, contingency, and other uses) for each fund.

Appropriations may not be legally over expended, except in the case of grant receipts, which could not be reasonably estimated at the time the budget was adopted. Management must obtain Board of Directors authorization for all appropriation transfers and supplemental budgets. Supplemental budgets less than 10% of the fund's original budget may be adopted by the Board of Directors at a regular Board meeting. A supplemental budget greater than 10% of the fund's original budget requires hearings before the public, publication in newspapers and approval by the Board of Directors. Supplemental budgets were adopted.



**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)  
YEAR ENDED JUNE 30, 2005**

Appropriation transfers were made during the year. Expenditures of the various funds were within authorized appropriations. Appropriations lapse at the end of each fiscal year.

**2. Deposits and Investments**

Cash and Investments consisted of:

Petty Cash	\$	2,200
Demand Deposits		12,837
State of Oregon Treasurer's Local Government Investment Pool		15,861,917
	\$	<u>15,876,954</u>

Cash and cash equivalents are reported as follows:

Governmental funds	\$	11,831,499
Proprietary funds		415,112
Fiduciary funds		3,630,343
	\$	<u>15,876,954</u>

**Deposits**

Deposits with financial institutions include bank demand deposits. The total bank balance per the bank statements is \$610,373, of which \$100,000 is covered by federal depository insurance and \$127,593 was fully collateralized with securities held by financial institutions acting as agents for the District and the remainder was uncollateralized. Oregon Revised Statutes require depository institutions to maintain on deposit, with a collateral pool manager, securities having a value not less than 25% of the outstanding certificates of participation issued by the pool manager.

**Investments**

Statutes authorize the District to invest in obligations of the U.S. Treasury and U.S. agencies, bankers' acceptances, repurchase agreements, commercial paper rated A-1 by Fitch Ratings and Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record (A-2/P-2 if Oregon commercial paper) and the state treasurer's investment pool. The District's investment at June 30, 2005, as listed above were invested in the state treasurer's investment pool. The District's investments during the year were also invested in the state treasurer's investment pool.

The State Treasurer's Local Government Investment Pool is not registered with the U.S. Securities and Exchange Commission as an investment company. The Oregon Revised Statutes and the Oregon Investment Council govern the State's investment policies. The State Treasurer is the investment officer for the Council and is responsible for all funds in the State Treasury. These funds must be invested, and the investments managed, as a prudent investor would, exercising reasonable care, skill and caution. Investments in the Fund are further governed by portfolio guidelines issued by the Oregon Short-Term Fund Board (OSTFB), which establish diversification percentages and specify the types and maturities of investments. The portfolio guidelines permit securities lending transactions as well as investments in repurchase agreements and reverse repurchase agreements. The fund was in compliance with all portfolio guidelines at June 30, 2005.



**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)  
YEAR ENDED JUNE 30, 2005**

Amounts in the State Treasurer’s Local Government Investment Pool are not required to be collateralized. There is no material difference between the fair value of the District’s position in the State Treasurer’s Local Government Investment Pool and the value of the pool shares at June 30, 2005. There were no known violations of legal or contractual provisions for deposits and investments during the fiscal year.

**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. The District does not have any investments that have a maturity date.

**Credit Risk**

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

**Concentration of Credit Risk**

At June 30, 2005, the District had 100% of total investments in the State Treasurer’s Investment Pool. State statutes do not limit the percentage of investments in this instrument.

**3. Receivables**

Receivable are comprised as follows:

Property taxes	\$	294,521
Grants		133,062
Trade and other		659,298
		<u>1,086,881</u>
	\$	<u>1,086,881</u>

Receivables are reported as follows:

Governmental funds	\$	989,484
Proprietary funds		4,059
Fiduciary funds		93,338
		<u>1,086,881</u>
	\$	<u>1,086,881</u>



NOTES TO BASIC FINANCIAL STATEMENTS (Continued)  
YEAR ENDED JUNE 30, 2005

4. Capital Assets

Capital assets activity for the year was as follows:

	Balance June 30, 2004	Increase	Decrease	Balance June 30, 2005
Capital assets not being depreciated:				
Land	\$ 467,500	\$ -	\$ -	\$ 467,500
Capital assets being depreciated:				
Buildings and Improvements	9,905,498	60,420	-	9,965,918
Leasehold improvements	74,156	-	-	74,156
Vehicles and equipment	4,617,507	60,658	(361,564)	4,316,601
Total capital assets being depreciated	<u>14,597,161</u>	<u>121,078</u>	<u>(361,564)</u>	<u>14,356,675</u>
Less accumulated depreciation for:				
Buildings and Improvements	(1,525,688)	(201,700)	-	(1,727,388)
Leasehold improvements	(39,896)	(3,861)	-	(43,757)
Vehicles and equipment	(3,010,939)	(411,786)	352,792	(3,069,933)
Total accumulated depreciation	<u>(4,576,523)</u>	<u>(617,347)</u>	<u>352,792</u>	<u>(4,841,078)</u>
Total capital assets being depreciated, net	<u>10,020,638</u>	<u>(496,269)</u>	<u>(8,772)</u>	<u>9,515,597</u>
Total capital assets, net	<u>\$ 10,488,138</u>	<u>\$ (496,269)</u>	<u>\$ (8,772)</u>	<u>\$ 9,983,097</u>

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

Instruction:	
Regular programs	\$ 14,590
Special programs	55,527
Support services:	
Student Services	44,933
Instructional staff services	15,033
General administration	28,108
Business services	39,739
Central activities	419,416
	<u>\$ 617,347</u>



NOTES TO BASIC FINANCIAL STATEMENTS (Continued)  
YEAR ENDED JUNE 30, 2005

5. Long-Term Debt

	Outstanding July 1, 2004	Payments and/or Adjustments	Outstanding June 30, 2005
Certificates of Participation: original issue, \$9,668,779; interest 3.0 - 6.35%	\$ 9,760,000	\$ (950,000)	\$ 8,810,000
	Current	Noncurrent	Total
Maturities - face value	\$ 220,000	\$ 8,590,000	\$ 8,810,000
Less unamortized bond discount	(18,108)	(337,563)	(355,671)
	\$ 201,892	\$ 8,252,437	\$ 8,454,329
Year Ending June 30,	Certificates of Participation	Interest	Total
2006	220,000	390,507	610,507
2007	235,000	389,045	624,045
2008	245,000	380,410	625,410
2009	255,000	370,540	625,540
2010	435,000	360,823	795,823
2011-2016	2,980,000	1,741,895	4,721,895
2017-2021	2,460,000	827,553	3,287,553
2022-2025	1,980,000	207,620	2,187,620
	8,810,000	\$ 4,668,392	\$ 13,478,392
Unamortized discount	(355,671)		
	\$ 8,454,329		

Changes in long-term debt for the year are as follows:

Principal and interest payments on certificates of participation are made from the General and Capital Projects Funds. Certificates of participation were issued to finance construction and acquisition of capital assets. During the fiscal year the agency refinance certificates of participation Series 1995 and Series 1995 with the new Series 2005 and Series 2005 B. Series 1994 for Washington County was paid off on June 2005 with the funds available on the escrow account.

Certificates of Participation	7/1/2004	Increase	Decrease	Payments	6/30/2005
Series 1995 Columbia Service Center	\$ 350,000	\$ -	\$ -	\$ (15,000)	\$ 335,000
Series 1995 Washington Service Center	2,970,000	-	(2,970,000)	-	-
Series 1994 Washington Service Center	65,000	-	-	(65,000)	-
Series 1999 Washington Service Center	5,070,000	-	(5,070,000)	-	-
Series 2001 Pacific Academy	1,305,000	-	-	(90,000)	1,215,000
Series 2005 Washington	-	3,115,000	-	(30,000)	3,085,000
Series 2005 B - Washington	-	4,175,000	-	-	4,175,000
<b>Total Long-Term Debt</b>	<b>\$ 9,760,000</b>	<b>\$ 7,290,000</b>	<b>\$ (8,040,000)</b>	<b>\$ (200,000)</b>	<b>\$ 8,810,000</b>

**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)  
YEAR ENDED JUNE 30, 2005**

**6. Interfund Transfers**

The following is a reconciliation of interfund transfers.

	General Fund	Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Fiduciary Fund	TOTAL
Transfers In	\$ 172,012	\$ 5,798,381	\$ -	\$ 304,398	\$ 2,603,964	\$ 8,878,755
Transfers Out	\$ (6,887,292)	\$ (1,904,979)	\$ -	\$ -	\$ (86,484)	\$ (8,878,755)
	\$ (6,715,280)	\$ 3,893,402	\$ -	\$ 304,398	\$ 2,517,480	\$ -

**General Fund**

Transfers In - Recovery of expenses.

Transfers Out - Support to programs, cost associated with service credits and balance available on service credits to the school districts.

**Special Revenue Fund**

Transfers In - Revenue recorded as charges for services related with service credits and distribution of county allocations.

Transfers Out - Support to programs and discretionary funds to participating school districts.

**Capital Projects Fund**

Transfers In - No activity during the fiscal year.

Transfer Out - No activity during the fiscal year.

**Enterprise Fund**

Transfer In - Revenue recorded as charges for services related with service credits.

Transfer Out - No activity during the fiscal year.

**Fiduciary Fund**

Transfer In - Discretionary funds to participating school districts and remaining balances on service credits.

Transfer Out - Transfer to cover cost associated with services received by school districts.

**7. Operating Lease Agreements**

The District leases building space at various locations. Approximate future minimum rental commitments under these agreements are as follows:

Year Ending June 30,	Amount
2006	503,352
2007	425,518
2008	364,535
2009	358,807
2010	32,588
	<u>\$ 1,684,799</u>

The total rental expense under these or similar leases was approximately \$535,830 for the year ended June 30, 2005.



**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2005**

**8. Pension Plan**

The District contributes to the Oregon Public Employees Retirement Fund (OPERF), a cost-sharing multiple-employer defined benefit pension plan administered by the Oregon Public Employees Retirement System (PERS). PERS provides retirement and disability benefits, post employment health care benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS is administered under Oregon Revised Statute (ORS) Chapter 238. ORS 238.620 establishes the Public Employees Retirement Board as the governing body of PERS. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report can be obtained by writing to PERS, P.O. Box 23700, Tigard, OR 97281-3700 or by calling 1-503-598-7377.

Members of PERS are required to contribute 6% of their salary covered under the plan. The District is required by ORS 238.225 to contribute the remaining amounts to pay benefits when due. The current rate is 11.11% of salary covered under the plan. The contribution requirements for plan members are established by ORS Chapter 238 and may be amended by an act of the Oregon Legislature. The District's contribution to PERS for the years ended June 30, 2005, 2004, and 2003 was approximately \$2,461,479, \$1,868,000, and \$2,407,000 respectively, equal to the required contribution for each year.

The 2003 Oregon Legislature passed PERS reform legislation and essentially created a new retirement plan for employees hired on or after August 29, 2003. These employees become members of the Oregon Public Service Retirement Plan (OPSRP). OPSRP is a hybrid retirement plan with two components: the Pension Program (defined benefit plan) and the Individual Account Program (defined contribution; established and maintained as a tax-qualified governmental defined contribution plan). OPSRP is administered by PERS.

**9. Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance to minimize its exposure to these risks. The District has not had any losses in the past three years that exceeded their insurance coverage.

**10. Commitments and Contingencies**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by these agencies, principally the federal government. The amount, if any, of costs that may be disallowed by the grantor cannot be determined at this time, although District management expects such amounts, if any, to be immaterial.

The District is a defendant in certain legal actions currently pending. Although their outcome cannot be determined, it is the opinion of management that settlement of these matters will not have a material effect on the financial position and results of operations.



**SUPPLEMENTAL INFORMATION**

**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**CAPITAL PROJECTS FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

**Year Ended June 30, 2005**

	<b>Budget</b>		<b>Actual</b>	<b>Variance with Final Budget Over (Under)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES:</b>				
<b>Local sources:</b>				
Interest on investments	\$ -	\$ -	\$ 8,446	\$ 8,446
Recouping current expenses	-	-	5,949	5,949
<b>Total revenues</b>	<b>-</b>	<b>-</b>	<b>14,395</b>	<b>14,395</b>
<b>EXPENDITURES:</b>				
Support services *	185,000	185,000	88,015	96,985
Facilities acquisition and construction	425,000	425,000	175,839	249,161
<b>Total expenditures</b>	<b>610,000</b>	<b>610,000</b>	<b>263,854</b>	<b>346,146</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(610,000)</b>	<b>(610,000)</b>	<b>(249,459)</b>	<b>360,541</b>
<b>OTHER FINANCING SOURCE</b>				
Transfers in	-	-	-	-
<b>NET CHANGE IN FUND BALANCE</b>	<b>(610,000)</b>	<b>(610,000)</b>	<b>(249,459)</b>	<b>360,541</b>
<b>FUND BALANCE, July 1, 2004</b>	<b>610,000</b>	<b>610,000</b>	<b>580,967</b>	<b>(29,033)</b>
<b>FUND BALANCE, June 30, 2005</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 331,508</b>	<b>\$ 331,508</b>

\* Appropriated as facilities acquisition and construction

**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**ENTERPRISE FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

**Year Ended June 30, 2005**

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	Budget		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<b>REVENUES:</b>				
Local sources:				
Services provided to local districts	\$ 20,404	\$ 20,404	\$ 46,615	\$ 26,211
In house billing	-	-	442	442
Recouping current expenses	-	-	4,266	4,266
Supplies provided to other agencies	63,500	63,500	1,856	(61,644)
<b>Total revenues</b>	<b>83,904</b>	<b>83,904</b>	<b>53,179</b>	<b>(30,725)</b>
<b>EXPENDITURES:</b>				
Support services				
Technology services	455,742	455,742	324,498	(131,244)
<b>Total expenditures</b>	<b>455,742</b>	<b>455,742</b>	<b>324,498</b>	<b>131,244</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(371,838)</b>	<b>(371,838)</b>	<b>(271,319)</b>	<b>100,519</b>
<b>OTHER FINANCING SOURCE</b>				
Transfers in	206,838	206,838	304,398	97,560
Apportionments of funds	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>206,838</b>	<b>206,838</b>	<b>304,398</b>	<b>97,560</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(165,000)</b>	<b>(165,000)</b>	<b>33,079</b>	<b>198,079</b>
<b>FUND BALANCE, July 1, 2004</b>	<b>165,000</b>	<b>165,000</b>	<b>376,028</b>	<b>211,028</b>
<b>FUND BALANCE, June 30, 2005</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 409,107</b>	<b>\$ 409,107</b>

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**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**AGENCY FUNDS**

**SCHEDULE OF REVENUES, OTHER FINANCING SOURCES (USES)  
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

Year Ended June 30, 2005

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	<b>Budget</b>		<b>Actual</b>	<b>Variance with Final Budget Over (Under)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES:</b>				
<b>Local sources:</b>				
Earnings on investments	\$ -	\$ -	\$ 91,954	\$ 91,954
Revenue in lieu of taxes	4,000,000	4,000,000	\$ 2,405,000	(1,595,000)
Other state revenues	1,700,000	1,700,000	1,183,425	(516,575)
<b>Total revenues</b>	<b>5,700,000</b>	<b>5,700,000</b>	<b>3,680,379</b>	<b>(2,019,621)</b>
<b>OTHER FINANCING SOURCE</b>				
Transfers in	6,610,000	6,610,000	2,603,964	(4,006,036)
Transfers out	-	-	(86,484)	(86,484)
Apportionment of funds	(14,310,000)	(14,310,000)	(8,812,697)	5,497,303
<b>Total other financing sources (uses)</b>	<b>(7,700,000)</b>	<b>(7,700,000)</b>	<b>(6,295,217)</b>	<b>1,404,783</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(2,000,000)</b>	<b>(2,000,000)</b>	<b>(2,614,838)</b>	<b>(614,838)</b>
<b>FUND BALANCE, July 1, 2004</b>	<b>2,000,000</b>	<b>2,000,000</b>	<b>6,015,633</b>	<b>4,015,633</b>
<b>FUND BALANCE, June 30, 2005</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,400,795</b>	<b>\$ 3,400,795</b>

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**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**REVENUE SUMMARY - ALL FUNDS  
YEAR ENDED JUNE 30, 2005**

	Fund 100	Fund 200	Fund 400	Fund 500	Fund 700
<b>Revenue from Local Sources</b>					
1111 Taxes - current year's levy	\$ 6,396,849	\$ -	\$ -	\$ -	\$ -
1112 Taxes - prior year's levies	200,588	-	-	-	-
1114 Tax offsets	188,225	-	-	-	-
1190 Penalties and interest on taxes	4,337	-	-	-	-
1311 Tuition from other districts within the state	24,843	40,895	-	-	-
1312 Tuition from regional districts	293,512	113,137	-	-	-
1314 Tuition from IN/ST Out/Regional	313,761	-	-	-	-
1315 LIRP Evaluations	-	12,000	-	-	-
1410 Transportation fees	-	18,241	-	-	-
1510 Earnings on investments	369,581	50,189	8,446	-	91,956
1620 Nonreimbursable daily meals	5,331	-	-	-	-
1629 Visitor's meals	27	-	-	-	-
1811 GED fees	27,169	-	-	-	-
1910 Rentals	8,856	-	-	-	-
1920 Contributions and donations from private sources	1,370	21,774	-	-	-
1922 Grants from private sources	-	190,105	-	-	-
1941 Services provided other district within the state	519,253	671,824	-	46,615	-
1945 In house billings	65,432	-	-	442	-
1961 Recouping current expenses	20,014	85,374	5,949	4,266	-
1980 Fees charges to grants	1,307,005	-	-	-	-
1990 Miscellaneous	106,809	165,533	-	-	-
1992 Distirct support	-	50,000	-	-	-
1993 Services to other agencies	13,899	22,632	-	1,856	-
1994 NWRES D third-party billing	-	77,257	-	-	-
1995 District third-party billing	-	3,027	-	-	-
1998 HTR Catering Services	-	5,140	-	-	-
<b>Total Revenue from Local Sources</b>	<b>\$ 9,866,861</b>	<b>\$ 1,527,128</b>	<b>\$ 14,395</b>	<b>\$ 53,179</b>	<b>\$ 91,956</b>
<b>Revenue from Intermediate Sources</b>					
2105 Natural gas, oil and mineral receipts	6,399	-	-	-	-
2800 Revenue in lieu of taxes	-	-	-	-	2,405,000
<b>Total Revenue from Intermediate Sources</b>	<b>\$ 6,399</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,405,000</b>

**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**REVENUE SUMMARY - ALL FUNDS (Continued)**  
**YEAR ENDED JUNE 30, 2005**

**Revenue from State Sources**

	Fund 100	Fund 200	Fund 400	Fund 500	Fund 700
3101 State school support	\$ 18,614,032	\$ -	\$ -	\$ -	\$ -
3104 State timber revenue	295,228	-	-	-	-
3223 Early Intervention	-	5,430,363	-	-	-
3250 Oregon Youth Conservation Corp.	-	34,142	-	-	-
3260 State support assessment	-	12,158	-	-	-
3270 Committee on children and families	-	2,403	-	-	-
3299 Other restricted grants-in-aid	-	239,375	-	-	-
3990 Other state sources	-	9,928	-	-	1,183,425
3999 Other	-	2,000	-	-	-
<b>Total Revenue from State Sources</b>	<b>\$ 18,909,260</b>	<b>\$ 5,730,369</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,183,425</b>

**Revenue from Federal Sources**

	Fund 100	Fund 200	Fund 400	Fund 500	Fund 700
4311 Indian Education	-	74,000	-	-	-
4325 US Fish & Wildlife	5,000	-	-	-	-
4504 National School Breakfast Program	9,899	-	-	-	-
4505 National School Lunch Program	20,238	-	-	-	-
4508 IDEA	-	7,408,257	-	-	-
4510 Title II Math and Science	-	105,159	-	-	-
4514 Title III NCLB Grant	-	46,916	-	-	-
4515 Title IC Migrant Project	-	2,357	-	-	-
4517 Youth Transition	-	36,684	-	-	-
4521 Serve Oregon - L&S America	-	12,730	-	-	-
4540 Oregon Deaf/Blind Project	-	3,500	-	-	-
4580 Vocational Education Technology Prep	-	15,000	-	-	-
4581 Vocational Education Basic Grant	-	35,008	-	-	-
4584 Innovations in Education	-	2,033	-	-	-
4910 Food donation	5,222	-	-	-	-
<b>Total Revenue from Federal Sources</b>	<b>\$ 40,359</b>	<b>\$ 7,741,644</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**Revenue from Other Sources**

	Fund 100	Fund 200	Fund 400	Fund 500	Fund 700
5200 Interfund Transfers	172,012	5,798,381	-	304,398	2,603,964
5300 Apportionment of Funds	-	-	-	-	-
5400 Resources - Beginning Fund Balance	3,850,350	6,378,146	580,967	376,028	6,015,633
<b>Total Revenue from Other Sources</b>	<b>\$ 4,022,362</b>	<b>\$ 12,176,527</b>	<b>\$ 580,967</b>	<b>\$ 680,426</b>	<b>\$ 8,619,597</b>

**Total**

<b>\$ 32,845,241</b>	<b>\$ 27,175,668</b>	<b>\$ 595,362</b>	<b>\$ 733,605</b>	<b>\$ 12,299,976</b>
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**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**GENERAL FUND**

**EXPENDITURE SUMMARY  
YEAR ENDED JUNE 30, 2005**

	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
<b>Instruction Expenditures</b>							
1121 Middle / Junior high programs	\$ 243,854	\$ 69,438	\$ 188,539	\$ 83,663	\$ -	\$ 6,146	\$ -
1220 Restrictive programs for students with disabilities	278,822	139,819	8,599	1,365	-	5,180	-
1250 Students with disabilities - less restrictive	1,850,338	787,336	255,504	73,648	139	76,467	-
1281 Public alternative programs	103,809	44,839	34	1,784	-	2,538	-
<b>Total Instruction Expenditures</b>	<b>\$ 2,476,823</b>	<b>\$ 1,041,432</b>	<b>\$ 452,676</b>	<b>\$ 160,460</b>	<b>\$ 139</b>	<b>\$ 90,331</b>	<b>\$ -</b>
<b>Support Services Expenditures</b>							
2112 Attendance services	149,976	23,712	11,545	329	-	443	-
2119 Other attendance and social work	14,240	7,024	6,025	477	-	369	-
2139 Other health services	609,858	233,255	29,207	10,324	-	9,623	-
2140 Psychological services	1,050,143	350,020	38,876	34,765	-	13,505	-
2152 Speech pathology services	964,231	296,699	59,304	21,831	-	15,033	-
2153 Audiology services	20,619	10,680	338	-	-	649	-
2190 Service direction, student support services	73,315	26,873	-	-	-	-	-
2191 Special education administration	672,367	204,322	25,227	4,943	-	33,127	-
2212 School improvement administration	132,981	43,694	28,962	19,475	-	10,434	-
2213 Curriculum development	160,903	53,406	13,542	5,829	-	1,845	-
2219 Other improvement of instruction services	81,017	26,107	7,572	3,044	-	2,022	-
2223 Multimedia services	49,589	26,657	632	40,800	-	1,476	-
2224 Educational television services	54,203	19,142	-	850	-	738	-
2230 Assessment and testing	15,153	8,436	6,268	5,225	-	334	-
2240 Instructional staff and development	82,136	28,292	-	170	-	1,107	-
2310 Board of education services	-	-	146,285	1,725	-	9,868	-
2321 Office of the superintendent services	221,356	69,986	46,137	17,763	-	4,690	-
2322 Deputy superintendents office	142,663	44,730	4,724	1,196	-	2,100	-
2323 Regional superintendent council	-	-	2,567	-	-	-	-
2325 Superintendent relations	-	-	-	57	-	-	-
2329 Other executive administration services	341,111	128,309	101,939	29,550	-	69,398	-
2510 Direction of business support services	337,882	130,607	15,595	9,890	-	143,774	-
2540 Operation and maintenance of plant services	178,113	82,092	181,191	66,583	-	19,803	-
2573 Warehousing and distributing services	61,762	29,109	4,240	4,852	-	1,845	-
2574 Printing, publishing and duplicating services	52,551	22,931	93,267	23,941	-	10,273	-
2575 Warehouse services	12,661	8,244	-	-	-	369	-
2579 Other internal services	46,477	26,758	140	1,746	-	1,291	-
2633 Public information services	90,531	33,839	9,694	3,667	-	1,556	-
2640 Staff services	183,496	59,739	33,816	8,230	-	8,051	-
2661 Service area direction	123,073	33,455	1,046	-	-	1,476	-
2662 Systems analysis services	365,476	116,793	236,911	77,554	-	20,093	-
2663 Programming services	170,584	51,508	31,202	42,433	49,796	1,476	-
2664 Operation services	130,434	45,321	33,993	83,229	-	2,214	-
<b>Total Support Services Expenditures</b>	<b>\$ 6,588,901</b>	<b>\$ 2,241,740</b>	<b>\$ 1,170,245</b>	<b>\$ 520,478</b>	<b>\$ 49,796</b>	<b>\$ 388,982</b>	<b>\$ -</b>
<b>Other Uses Expenditures</b>							
5100 Debt Service	-	-	-	-	-	815,811	-
5200 Transfers of Funds	-	-	-	-	-	-	6,887,292
5300 Apportionment of Funds	-	-	-	-	-	-	5,911,168
<b>Total Other Uses Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 815,811</b>	<b>\$ 12,798,460</b>
<b>Totals</b>	<b>\$ 9,065,724</b>	<b>\$ 3,283,172</b>	<b>\$ 1,622,921</b>	<b>\$ 680,938</b>	<b>\$ 49,935</b>	<b>\$ 1,295,124</b>	<b>\$ 12,798,460</b>

**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**SPECIAL REVENUE FUND**

**EXPENDITURE SUMMARY  
YEAR ENDED JUNE 30, 2005**

**Instruction Expenditures**

	<b>Object 100</b>	<b>Object 200</b>	<b>Object 300</b>	<b>Object 400</b>	<b>Object 500</b>	<b>Object 600</b>	<b>Object 700</b>
1131 High school programs	\$ 253,440	\$ 51,893	\$ 86,296	\$ 60,212	\$ -	\$ 4,452	\$ -
1221 Students with disabilities - restrictive	811,609	333,959	378,294	44,530	-	68,552	-
1250 Students with disabilities - less restrictive	3,105,847	1,104,427	504,674	160,630	10,863	480,664	-
1260 Early intervention	4,509,113	1,743,608	486,764	160,641	-	18,144	-
1281 Public alternative programs	33,116	14,827	1,773	2,344	-	3,019	-
1289 Other alternative programs	21,823	3,842	1,384	209	-	500	-
1294 Youth corrections	127,319	57,282	38,210	3,495	-	-	-
1299 Other programs	69,882	22,221	23,389	13,873	-	-	-
<b>Total Instruction Expenditures</b>	<b>\$ 8,932,149</b>	<b>\$ 3,332,059</b>	<b>\$ 1,520,784</b>	<b>\$ 445,934</b>	<b>\$ 10,863</b>	<b>\$ 575,331</b>	<b>\$ -</b>

**Support Services Expenditures**

	<b>Object 100</b>	<b>Object 200</b>	<b>Object 300</b>	<b>Object 400</b>	<b>Object 500</b>	<b>Object 600</b>	<b>Object 700</b>
2117 ID/Recruitment migrant	630	94	1,506	15	-	112	-
2139 Other health service	14,349	1,331	2,831	306	-	-	-
2153 Audiology services	-	-	1,776	795	39,844	-	-
2190 Service direction, student support services	801,267	279,203	4,231	4,114	-	-	-
2191 Special education administration	3,838	735	-	10,977	-	-	-
2219 Other improvement of instruction services	13,500	4,574	59,892	20,071	-	774,478	-
2240 Instructional staff development	34,473	4,093	93,516	24,020	-	13,136	-
2410 Office of principal services	120,003	40,738	-	-	-	-	-
2490 Other support services - school administration	6,567	1,146	72,534	19,395	-	-	-
2523 Receiving and disbursing funds services	-	-	-	5,956	-	-	-
2529 Other fiscal services	60,452	25,853	10,025	2,549	-	47,461	-
2540 Operation Maintenance Plant Services	-	-	11,439	-	60,420	15,931	-
2579 Other internal services	39,059	83,703	-	-	-	24,288	-
2620 Planning, research, development, and evaluation, grant writing and statistical services	5,702	2,079	569	192	-	-	-
2640 Staff services	-	81,619	-	-	-	-	-
2660 Technology services	287,663	98,933	153,744	186,828	-	199	-
2999 Other support services	46,143	15,419	141,950	11,232	-	-	-
<b>Total Support Services Expenditures</b>	<b>\$ 1,433,646</b>	<b>\$ 639,520</b>	<b>\$ 554,013</b>	<b>\$ 286,450</b>	<b>\$ 100,264</b>	<b>\$ 875,605</b>	<b>\$ -</b>

**Enterprise and Community Services**

	<b>Object 100</b>	<b>Object 200</b>	<b>Object 300</b>	<b>Object 400</b>	<b>Object 500</b>	<b>Object 600</b>	<b>Object 700</b>
3390 Other community services	45,572	22,579	3,619	6,811	-	20,879	-
<b>Total Enterprise and Community Services</b>	<b>\$ 45,572</b>	<b>\$ 22,579</b>	<b>\$ 3,619</b>	<b>\$ 6,811</b>	<b>\$ -</b>	<b>\$ 20,879</b>	<b>\$ -</b>

**Other Uses Expenditures**

	<b>Object 100</b>	<b>Object 200</b>	<b>Object 300</b>	<b>Object 400</b>	<b>Object 500</b>	<b>Object 600</b>	<b>Object 700</b>
5200 Transfers of Funds	-	-	-	-	-	-	1,904,979
5300 Apportionment of Funds	-	-	-	-	-	-	1,427,521
<b>Total Other Uses Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,332,500</b>
<b>Totals</b>	<b>\$ 10,411,367</b>	<b>\$ 3,994,158</b>	<b>\$ 2,078,416</b>	<b>\$ 739,195</b>	<b>\$ 111,127</b>	<b>\$ 1,471,815</b>	<b>\$ 3,332,500</b>

**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**CAPITAL PROJECTS FUND**

**EXPENDITURE SUMMARY  
YEAR ENDED JUNE 30, 2005**

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**Support Services Expenditures**  
2540 Operation Maintenance Plant Services  
2660 Technology Services  
**Total Support Services Expenditures**

Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
\$ -	\$ -	\$ -	\$ 1,817	\$ -	\$ -	\$ -
\$ -	\$ -	\$ 4,363	\$ 81,835	\$ -	\$ -	\$ -
\$ -	\$ -	\$ 4,363	\$ 83,652	\$ -	\$ -	\$ -

**Facilities Acquisition and Construction**  
4150 Building acquisition, construction and  
improvement  
**Total Facilities and Construction  
Expenditures**

Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
127,772	47,947	-	-	-	120	-
\$ 127,772	\$ 47,947	\$ -	\$ -	\$ -	\$ 120	\$ -

**Totals**

<b>\$ 127,772</b>	<b>\$ 47,947</b>	<b>\$ 4,363</b>	<b>\$ 83,652</b>	<b>\$ -</b>	<b>\$ 120</b>	<b>\$ -</b>
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**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**ENTERPRISE FUND**

**EXPENDITURE SUMMARY  
YEAR ENDED JUNE 30, 2005**

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	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
<b>Support Services Expenditures</b>							
2660 Technology services	189,191	72,016	14,711	35,923	-	12,657	-
2999 Other support services	-	-	-	-	-	-	-
<b>Total Support Services Expenditures</b>	<b>\$ 189,191</b>	<b>\$ 72,016</b>	<b>\$ 14,711</b>	<b>\$ 35,923</b>	<b>\$ -</b>	<b>\$ 12,657</b>	<b>\$ -</b>
<b>Other Uses Expenditures</b>							
5200 Transfers of Funds	-	-	-	-	-	-	-
<b>Total Other Uses Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Totals</b>	<b>\$ 189,191</b>	<b>\$ 72,016</b>	<b>\$ 14,711</b>	<b>\$ 35,923</b>	<b>\$ -</b>	<b>\$ 12,657</b>	<b>\$ -</b>

**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**AGENCY FUND**

**EXPENDITURE SUMMARY  
YEAR ENDED JUNE 30, 2005**

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	<b>Object 100</b>	<b>Object 200</b>	<b>Object 300</b>	<b>Object 400</b>	<b>Object 500</b>	<b>Object 600</b>	<b>Object 700</b>
<b>Other Uses Expenditures</b>							
5200 Transfer of Funds	-	-	-	-	-	-	86,484
5300 Apportionment of Funds	-	-	-	-	-	-	8,812,697
<b>Total Other Uses Expenditures</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,899,181
<b>Totals</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 8,899,181</b>

**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**SCHEDULE OF PROPERTY TAX TRANSACTIONS**

**YEAR ENDED JUNE 30, 2005**

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	Tax Year	Uncollected July 1, 2004	Levy	Discounts Allowed	Interest	Adjustments	Collections	Uncollected June 30, 2005
Current:	2004-2005	\$ -	\$ 6,862,558	\$ (167,823)	\$ 3,220	\$ (35,041)	\$ (6,471,216)	\$ 191,698
Prior:	2003-2004	194,191	-	108	7,374	(7,642)	(138,817)	55,214
	2002-2003	70,600	-	31	5,634	(6,927)	(42,604)	26,734
	2001-2002	37,131	-	18	5,317	(6,781)	(24,514)	11,171
	2000-2001	14,377	-	17	3,153	(4,298)	(11,192)	2,057
	1999-2000 and prior	9,621	-	34	690	(1,123)	(1,575)	7,647
Total Prior		325,920	-	208	22,168	(26,771)	(218,702)	102,823
Total Taxes		\$ 325,920	\$ 6,862,558	\$ (167,615)	\$ 25,388	\$ (61,812)	\$ (6,689,918)	\$ 294,521

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Reconciliation to Revenue:

Collections	\$ 6,689,919
June 30, 2004 accrual	(50,972)
June 30, 2005 accrual	50,434
Tax offsets and other	100,618
Property tax revenue	<u>\$ 6,789,999</u>

# Northwest Regional Education Service District Hillsboro, Oregon

## SUPPLEMENTAL INFORMATION REQUIRED BY THE STATE OF OREGON DEPARTMENT OF EDUCATION YEAR ENDED JUNE 30, 2005

This page is a required part of your annual audited financial statements. Please make sure it is included.

Parts B, D, & E are needed for computing Oregon's full allocation for ESEA, Title I & other Federal Funds for Education.

A. If your district purchased garages, vehicles or capital improvements for pupil transportation, please review and complete as indicated below in order for ODE to correctly calculate the district transportation reimbursement.

- 1) If the purchase was from a reserve account, validate that the audit reflects the expenditure in Function 2550 and Object 540 or 520. If the amount was recorded in the General Fund, it will be captured from the electronic data submission. However, if this amount **was not** recorded in the General Fund, please complete the following table:

Fund	Audit Pg #	Amount

- 2) If the purchase was from the proceeds of a debt instrument, validate that the audit reflects the purchase in Function 2550 and Object 520 or 540. If the amount was recorded in the General Fund, it will be captured from the electronic data submission. However, if this amount **was not** recorded in the General Fund, please complete the following table:

Fund	Audit Pg #	Amount

- 3) If payments are made against the debt referred to above, validate that the audit reflects the expenditure in Function 5110 and Object 610 and 620. Please complete the following table for only the interest portion of loan payments:

Fund	Audit Pg #	Amount

B. Energy Bill for Heating - All Funds:  
Please enter your expenditures for electricity & heating fuel for these Functions & Objects.

	Objects 325 & 326
Function 2540	
Function 2550	

C. Replacement of Equipment - General Fund:  
Include all General Fund expenditures in object 542, except for the following exclusions:

Exclude these functions:	Exclude these functions:
1113, 1122 & 1132	4150 Construction
1140 Co-curricular Activities	2550 Pupil Transportation
1300 Pre-Kindergarten	3100 Food Service
1400 Continuing Education	3300 Community Services

D. Tuition your School District paid to other Local Education Agencies - All Funds:

Object Tuition Paid To:	Amount
371 Public LEAs in State	\$
372 Public LEAs out of State	\$
373, 4 Private Schools & Others	\$

E. Tuition & Transportation Fees your School District Received from other Local Education Agencies - All Funds:

Regular Day School Tuition Received From:	Amount
1311 Individuals	\$ 65,738
1312 LEAs within State	\$ 406,650
1313 LEAs out of State	\$

Transportation Receipts Received from:	Amount
1411 Individuals	\$
1412 LEAs within State	\$
1413 LEAs our of State	\$

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# PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

- 
- 12700 SW 72ND AVENUE • TIGARD, OREGON 97223
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August 23, 2005

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## AUDITORS' COMMENTS AND DISCLOSURES

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Oregon Administrative Rules 162-10-000 through 162-16-000 of the Minimum Standards for Audits of Oregon Municipal Corporations, enumerate the financial statements, schedules, comments and disclosures required in audit reports. The required statements and schedules are set forth in preceding pages of this report. Required comments and disclosures related to our audit of such statements and schedules are set forth as follows.

### REPORT ON INTERNAL ACCOUNTING CONTROL

We have audited the basic financial statements of Northwest Regional Education Service District, Washington County, Oregon, as of and for the year ended June 30, 2005, and have issued our report thereon dated August 23, 2005.

We conducted our audit in accordance with auditing standards generally accepted in 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 of material misstatement.

The management of Northwest Regional Education Service District, Washington County, Oregon, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of basic financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the basic financial statements Northwest Regional Education Service District, Washington County, Oregon, for the year ended June 30, 2005, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

## AUDITORS' COMMENTS AND DISCLOSURES (CONTINUED)

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### REPORT ON INTERNAL ACCOUNTING CONTROL (CONTINUED)

Our consideration of the internal control structure would not necessarily disclose all matters in the structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors and irregularities in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We have issued a report on reportable conditions dated August 23, 2005.

These factors were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the 2005 Basic financial statements, and this report does not affect our report on the Basic financial statements dated August 23, 2005.

This report is intended solely for the information and use of the board, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

### ACCOUNTING RECORDS

The District's accounting records are adequate for audit.

### BUDGET TRANSACTIONS

Expenditures of the various funds were within authorized appropriations.

### 2004-2005 and 2005-2006 BUDGETS

The budgets adopted by the District for the current and ensuing fiscal year were reviewed during the audit. Based on testing, it was determined that budget preparation and adoption procedures followed by the District complied with the Oregon Local Budget law.

### COLLATERAL SECURING BANK DEPOSITS

Collateral pledged by the depositories appeared adequate at all times during the year to meet requirements of Oregon Law. Each depository is required by ORS Chapter 295 to maintain securities having a value of not less than 25% of the face amount of the collateral certificate issued by the pool manager, for funds deposited in the depository in excess of the amounts insured by the Federal Deposit Insurance Corporation. Deposits in the State Local Government Investment Pool are not required to be collateralized.

INVESTMENTS

The District's investments for the year ending June 30, 2005, were reviewed and based on our testing, appeared to comply with the legal requirements pertaining to the investment of public funds contained in ORS 294.035.

PUBLIC CONTRACTS AND PURCHASING

The District's procedures for awarding public contracts were reviewed and appeared to be in compliance with ORS Chapter 279.

INSURANCE AND FIDELITY BONDS

Details concerning insurance and fidelity bond coverage were reviewed during the audit. The coverage provided appears to meet legal requirements. We do not have the professional expertise to state whether the insurance coverage is adequate.

STATUTORY BONDED DEBT LIMITATION

The District did not have any bonded debt outstanding at June 30, 2005.

OUTSTANDING WARRANTS

The District did not have any outstanding endorsed warrants at June 30, 2005.

PROGRAMS FUNDED FROM OUTSIDE SOURCES

We reviewed and tested, to the extent we considered necessary in the circumstances, transactions and reports relative to federal and state grant programs. Since the District did not expend greater than \$500,000 in federal financial assistance for programs subject to A-133 laws and regulations for the fiscal year ended June 30, 2005, it was not necessary to perform, nor did we perform, tests in accordance with the Federal Single Audit Act, as amended (U.S. Office of Management and Budget Circular A-133).

STATE HIGHWAY

The District had no programs funded from State Highway Funds during the year ended June 30, 2005.

*Pauly, Rogers and Co., P.C.*  
PAULY, ROGERS AND CO., P.C.