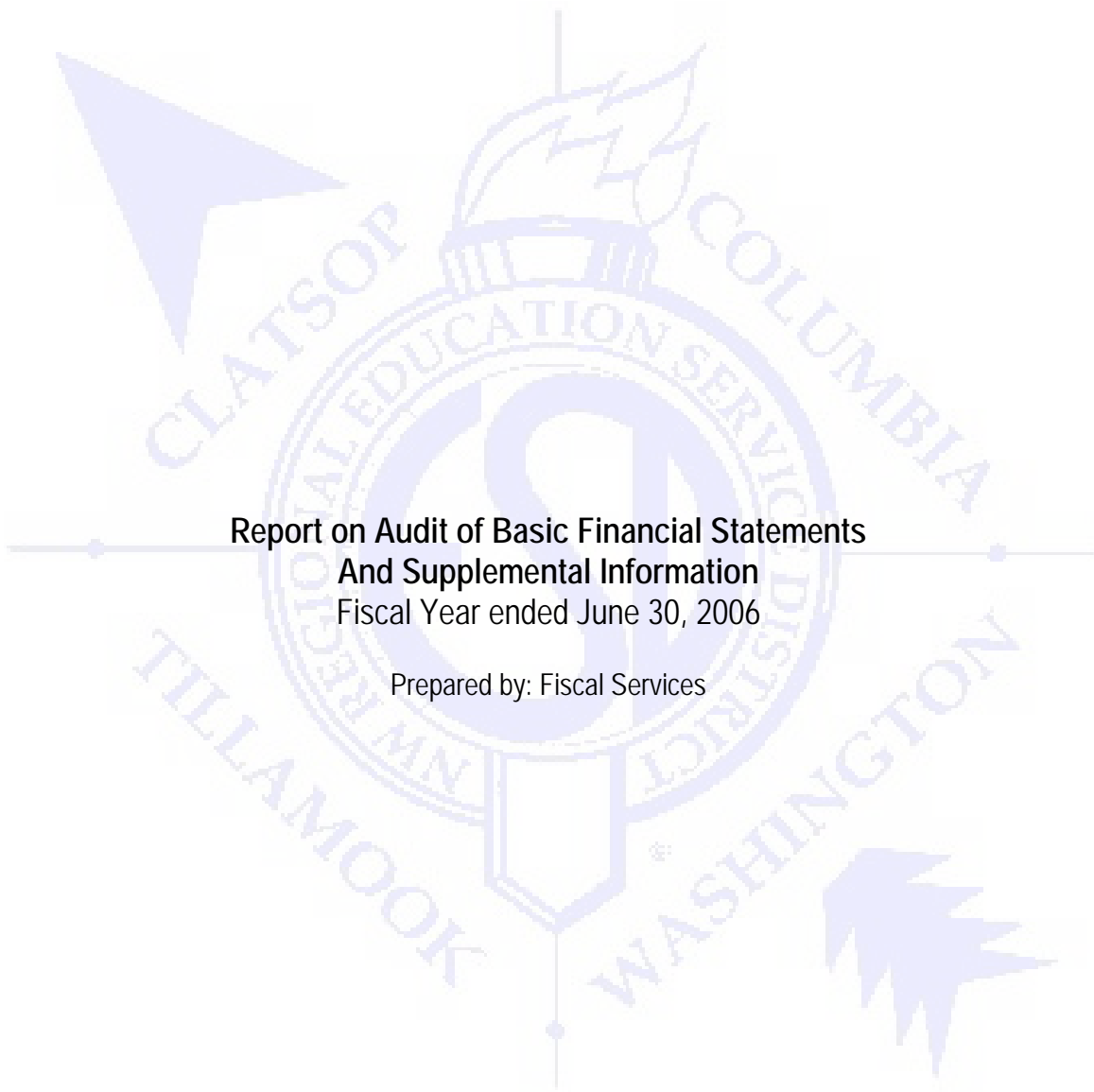


**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**  
Hillsboro, Oregon

*"Dedicated to Quality Education for All Students"*



**Report on Audit of Basic Financial Statements  
And Supplemental Information  
Fiscal Year ended June 30, 2006**

Prepared by: Fiscal Services

Jim Mabbott  
Superintendent

Tim Collier, CPA  
Chief Financial Officer

*Printed by Northwest Regional Education Service District  
Print Service Department*



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**TABLE OF CONTENTS**

	<u>Page</u>
<b>I - INTRODUCTORY SECTION</b>	
Northwest Regional Education Service District Organization	iii
<b>II - FINANCIAL SECTION</b>	
<b>Independent Auditor’s Report</b>	1
<b>Management’s Discussion Analysis</b>	3
<b>Basic Financial Statements</b>	
Government-wide Financial Statements	
• Statement of Net Assets	9
• Statement of Activities	10
Fund Financial Statements	
<u>Governmental Funds</u>	
• Balance Sheet	11
• Reconciliation of Governmental Funds Balance Sheet to Statement of Net Assets	12
• Statement of Revenues, Expenditures and Change in Fund Balances	13
• Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to Statement of Activities	14
<u>Enterprise Fund</u>	
• Statement of Net Assets	15
• Statement of Revenues, Expenses and Changes in Net Assets	16
• Statement of Cash Flows	17
<u>Agency Fund</u>	
• Statement of Fiduciary Net Assets	18
<u>General Fund</u>	
• Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	19
<u>Special Revenue Fund</u>	
• Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	20
Notes to Basic Financial Statements	21



<b>II - FINANCIAL SECTION (Continued)</b>	<u>Page</u>
Supplemental Information	
• Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Capital Projects Fund	32
• Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Enterprise Fund	33
• Schedule of Revenues, Other Financing Sources (Uses) and Changes in Fund Balance – Budget and Actual – Agency Funds	34
• Revenue Summary – All Funds	35
• Expenditure Summary:	
General Fund	37
Special Revenue Fund	38
Capital Projects Fund	39
Enterprise Fund	40
Agency Funds	41
• Schedule of Property Tax Transactions	42
• Supplemental Information Required by the State of Oregon Department of Education	43
 <b>III – AUDITORS’ COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS</b>	 44
 <b>IV – GRANT COMPLIANCE REVIEW</b>	
• Schedule of Expenditures of Federal Awards	47
• Report of Internal Control Structure over Financial Reporting	49
• Report of Compliance with Requirements Applicable to each Major Program	50
• Schedule of Prior and Current Year Audit Findings and Questioned Costs Relative to Federal Awards	52



## **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.

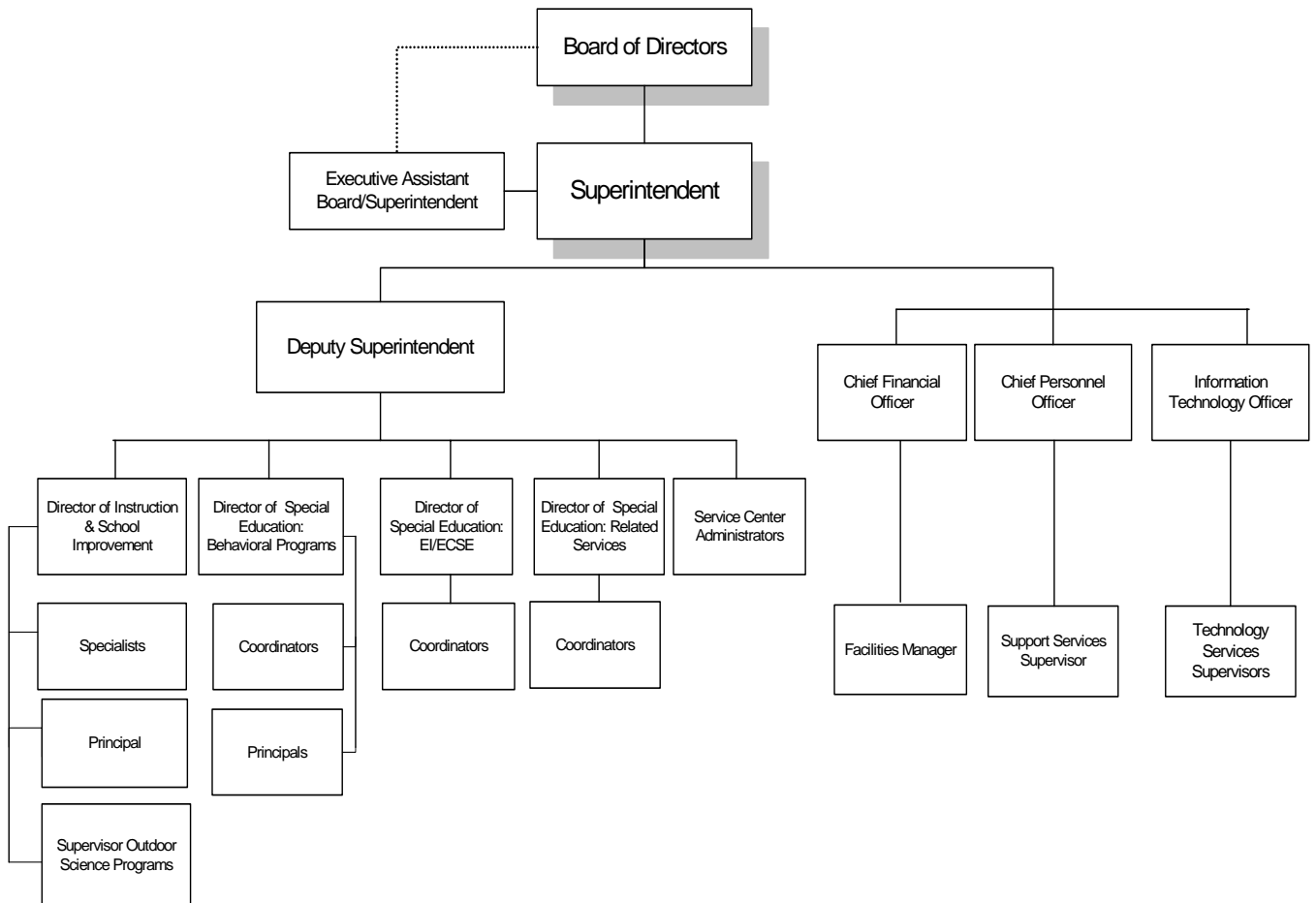
### **OUR STAFF**

- 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**



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

**CERTIFIED PUBLIC ACCOUNTANTS**

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

September 11, 2006

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, 2006, 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.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2006 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.

In accordance with *Government Auditing Standards*, we have also issued our reports dated September 11, 2006, on our consideration of Northwest Regional Education Service District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's 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 opinions on the financial statements that collectively comprise Northwest Regional Educational Service District's basic financial statements. The Supplementary Information, including budgetary comparison schedules 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 Schedule of Expenditures of Federal Awards, as listed in the table of contents, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Supplementary Information and the Schedule of Expenditures of Federal Awards have 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 District Financial Accounting Summaries, as listed on pages 35 through 41 and 43, are presented as supplemental schedules for the Oregon Department of Education, and are not a required part of the basic financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management about this supplementary information. However, we did not audit the information and do not express an opinion on it.

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.



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**MANAGEMENT'S DISCUSSION AND ANALYSIS**



## MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2006

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, 2006.

### Financial Highlights

- In the government-wide statements, the assets of the District exceeded its liabilities at June 30, 2006 by \$12.7 million. Of this amount, \$.97million represents the District's investment in capital assets net of related debt and \$11.7 million is unreserved and available to meet the District's ongoing obligations to citizens and creditors.
- The District's total net assets increased by \$1.02 million. This is mainly attributable to county allocation balances held and spent in the current year for the individual counties, contracts in the middle of the biennium and a prior period adjustment.
- The District's governmental funds report combined ending fund balance of \$11.05 million, an increase of \$1.6 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 \$4.2 million, or about 12.1 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'S DISCUSSION AND ANALYSIS (Continued)**  
**YEAR ENDED JUNE 30, 2006**

*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. The minimum number of funds is maintained consistent with legal and managerial 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'S DISCUSSION AND ANALYSIS (Continued)  
YEAR ENDED JUNE 30, 2006**

***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 \$12.7 million at June 30, 2006.

Capital assets, which consist of the District's land, buildings, building improvements, construction in progress, vehicles, and equipment, represent about 38% percent of total assets. The remaining assets consist mainly of cash and grants and accounts receivable.

The District's largest liability (67 percent) is for the repayment of certificates of participation. Current liabilities, representing about 33 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.

**Statement of Net Assets**

	June 30, 2006		June 30, 2005	
	Governmental Activities	Business-type Activities	Governmental Activities	Business-type Activities
Current and other assets	\$ 15,911,450	\$ 196,779	\$ 13,023,860	\$ 419,171
Capital assets	9,811,257	-	9,983,098	-
Total Assets	25,722,707	196,779	23,006,958	419,171
Current liabilities	4,362,175	15,861	3,280,272	10,064
Long-term debt	8,833,877	-	8,454,329	-
Total Liabilities	13,196,052	15,861	11,734,601	10,064
Net assets:				
Invested in capital assets, net of related debt	977,380	-	1,528,769	-
Unrestricted	4,709,939	180,918	9,743,588	409,107
Restricted	6,839,336	-	-	-
Total Net Assets	\$ 12,526,655	\$ 180,918	\$ 11,272,357	\$ 409,107



**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**YEAR ENDED JUNE 30, 2006**

During the current fiscal year, the District's net assets increased by \$1.02 million. Reasons for the increase include the funds held in county allocations and use in the first year of a biennium.

**Governmental activities.** A comparative analysis discussing and analyzing significant differences follows below. During the current fiscal year, the District's net assets increased by \$1.02 million. The key elements of the change in the District's net assets for the year ended June 30, 2006 are as follows:

- Spending previously held county allocations for districts.

**Statement of Activities**  
 June 30, 2006

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total June 30, 2006</u>	<u>Total June 30, 2005</u>
<b>Revenues:</b>				
Program revenues:				
Charges for services	\$ 8,128,711	\$ 544,359	\$ 8,673,070	\$ 4,328,548
Operating grants and operations	17,901,667	-	17,901,667	13,725,621
General revenue:				
Property taxes	7,125,307	-	7,125,307	7,101,134
Timber revenue	409,994	-	409,994	301,627
State school fund - general support	24,817,632	-	24,817,632	18,614,032
Earnings on investments	645,702	-	645,702	419,770
Service credits transfers	12,073,209	-	12,073,209	-
Total Revenues	<u>\$ 71,102,222</u>	<u>\$ 544,359</u>	<u>\$ 71,646,581</u>	<u>\$ 44,490,732</u>
<b>Expenses:</b>				
Instruction	23,305,088	-	23,305,088	19,109,050
Support services	20,860,130	-	20,860,130	15,396,917
Enterprise and community services	192,577	-	192,577	99,460
Facility acquisition and construction	-	-	-	-
Transits to other agencies	2,389,979	-	2,389,979	9,912,698
Transfer to school districts	21,888,066	-	21,888,066	-
Interest on long-term debt	527,797	-	527,797	450,811
Loss on disposal of capital assets	24,287	-	24,287	8,772
Data processing services	-	772,548	772,548	324,498
Total Expenses	<u>69,187,924</u>	<u>772,548</u>	<u>69,960,472</u>	<u>45,302,206</u>
<b>Change in net assets</b>	<u>1,914,298</u>	<u>(228,189)</u>	<u>1,686,109</u>	<u>(811,474)</u>
<b>Net Assets, beginning of year</b>	11,272,357	409,107	11,681,464	12,492,938
<b>Restatement</b>	(660,000)	-	(660,000)	-
<b>Net Assets, as restated, beginning of year</b>	10,612,357	409,107	11,021,464	12,492,938
<b>Net Assets, end of year</b>	<u>\$ 12,526,655</u>	<u>\$ 180,918</u>	<u>\$ 12,707,573</u>	<u>\$ 11,681,464</u>



MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
 YEAR ENDED JUNE 30, 2006

**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, 2006, the District's governmental funds reported combined ending fund balances of \$11.05 million, increase of \$1.6 million in comparison with the prior year. About \$4.2 million (38 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, 2006, unreserved fund balance was \$4.2 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 12 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, 2006, the District had invested over \$9.5 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, 2006	June 30, 2005
Land	\$ 467,500	\$ 467,500
Buildings and improvements	8,035,445	8,238,530
Leaseholds improvements	26,538	30,399
Vehicles and equipments	1,281,774	1,246,668
	\$ 9,811,257	\$ 9,983,097

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, 2006**

**Long-term debt.** At the end of the current fiscal year, the District had total bonded debt outstanding of \$8.4 million, consisting of certificates of participation debt net of unamortized premium/discount.

During the current fiscal year, the District's total debt decreased by \$.1 million (1.2 percent). The decrease results from the payoff of principal on the District's outstanding Certificates of Participation and a restatement of prior year balances of .66 million.

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, 2006, the State School Fund – General Support provided 62 percent of the District's program resources.

The district does not currently see any mayor program reduction with this less of revenue. For the fiscal year ending 2006-07 the ESD is seeing essentially flat funding correspond to 2005-06.

**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**

**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**STATEMENT OF NET ASSETS**

**JUNE 30, 2006**

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	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ 13,560,184	\$ 169,751	\$ 13,729,935
Cash held by County	58,024	-	58,024
Receivables	1,911,644	27,028	1,938,672
Bond issuance costs, net of accumulated amortization	381,598	-	381,598
Capital assets:			
Not being depreciated	467,500	-	467,500
Being depreciated, net of accumulated depreciation	<u>9,343,757</u>	<u>-</u>	<u>9,343,757</u>
<b>TOTAL ASSETS</b>	<u>25,722,707</u>	<u>196,779</u>	<u>25,919,486</u>
<b><u>LIABILITIES</u></b>			
Accounts payable	1,652,056	-	1,652,056
Accrued payroll and related liabilities	2,629,498	15,861	2,645,359
Accrued interest payable	43,983	-	43,983
Accrued compensated absences payable	36,638	-	36,638
Long-term debt:			
Due within one year	385,216	-	385,216
Due in more than one year	<u>8,448,661</u>	<u>-</u>	<u>8,448,661</u>
<b>TOTAL LIABILITIES</b>	<u>13,196,052</u>	<u>15,861</u>	<u>13,211,913</u>
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt	977,380	-	977,380
Unrestricted	4,709,939	180,918	4,890,857
Restricted for			
Special Revenues	6,718,773	-	6,718,773
Capital Projects	<u>120,563</u>	<u>-</u>	<u>120,563</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 12,526,655</u>	<u>\$ 180,918</u>	<u>\$ 12,707,573</u>

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*See notes to basic financial statements*

**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**STATEMENT OF ACTIVITIES**

**YEAR ENDED JUNE 30, 2006**

<b>Functions/Programs</b>	<b>Program Revenues</b>			<b>Net (Expense) Revenue and Change in Net Assets</b>		
	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Governmental Activities</b>	<b>Business- type Activities</b>	<b>Total</b>
<b>Governmental activities:</b>						
Instruction:						
Regular programs	\$ 1,760,529	759,645	\$ 195,550	\$ (805,334)	\$ -	\$ (805,334)
Special programs	21,544,559	1,142,369	17,246,639	(3,155,551)	-	(3,155,551)
Support services:						
Students services	10,426,036	4,113,287	44,131	(6,268,618)	-	(6,268,618)
Instructional staff services	1,658,802	244,610	248,841	(1,165,351)	-	(1,165,351)
General administration	1,837,114	-	-	(1,837,114)	-	(1,837,114)
School administration	286,873	7,500	-	(279,373)	-	(279,373)
Business services	2,126,062	1,812,248	-	(313,814)	-	(313,814)
Central activities	4,525,243	47,778	54,403	(4,423,062)	-	(4,423,062)
Enterprise and community services	192,577	1,264	112,103	(79,210)	-	(79,210)
Facility acquisition and construction	-	10	-	10	-	10
Transits to other agencies	2,389,979	-	-	(2,389,979)	-	(2,389,979)
Transfer to school districts	21,888,066	-	-	(21,888,066)	-	(21,888,066)
Interest on long-term debt	527,797	-	-	(527,797)	-	(527,797)
Loss on disposal capital assets	24,287	-	-	(24,287)	-	(24,287)
<b>Total governmental activities</b>	<b>\$ 69,187,924</b>	<b>\$ 8,128,711</b>	<b>\$ 17,901,667</b>	<b>(43,157,546)</b>	<b>-</b>	<b>(43,157,546)</b>
<b>Business-type activities:</b>						
Data processing services	772,548	544,359	-	-	(228,189)	(228,189)
<b>Total business-type activities</b>	<b>\$ 772,548</b>	<b>\$ 544,359</b>	<b>\$ -</b>	<b>-</b>	<b>(228,189)</b>	<b>(228,189)</b>
<b>GENERAL REVENUES:</b>						
Property taxes levied for general purposes				7,125,307	-	7,125,307
Timber revenue				409,994	-	409,994
State school fund - general support				24,817,632	-	24,817,632
Earning on investments				645,702	-	645,702
Service credits transfers				12,073,209	-	12,073,209
Total general revenues				45,071,844	-	45,071,844
<b>CHANGE IN NET ASSETS</b>				1,914,298	(228,189)	1,686,109
<b>NET ASSETS, July 1, 2005</b>				11,272,357	409,107	11,681,464
<b>PRIOR PERIOD ADJUSTMENT</b>				(660,000)	-	(660,000)
<b>NET ASSETS, June 30, 2006</b>				<b>\$ 12,526,655</b>	<b>\$ 180,918</b>	<b>\$ 12,707,573</b>

*See notes to basic financial statements*

**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**GOVERNMENTAL FUNDS**

**BALANCE SHEET**

**JUNE 30, 2006**

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	General Fund	Special Revenue Fund	Capital Projects Fund	Total
<b><u>ASSETS</u></b>				
Cash and investments	\$ 4,471,426	\$ 8,972,913	\$ 115,845	\$ 13,560,184
Cash held by County	58,024	-	-	58,024
Receivables:				
Taxes	240,967	-	-	240,967
Accounts	59,954	806,272	4,718	870,944
Grants	-	799,733	-	799,733
<b>TOTAL ASSETS</b>	<b>\$ 4,830,371</b>	<b>\$ 10,578,918</b>	<b>\$ 120,563</b>	<b>\$ 15,529,852</b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 118,953	\$ 1,533,103	\$ -	\$ 1,652,056
Payroll liabilities	302,456	2,327,042	-	2,629,498
Deferred revenue	197,822	-	-	197,822
<b>TOTAL LIABILITIES</b>	<b>619,231</b>	<b>3,860,145</b>	<b>-</b>	<b>4,479,376</b>
<b>FUND BALANCES:</b>				
Unreserved:				
General Fund	4,211,140	-	-	4,211,140
Special Revenue Fund	-	6,718,773	-	6,718,773
Capital Projects Fund	-	-	120,563	120,563
<b>TOTAL FUND BALANCES</b>	<b>4,211,140</b>	<b>6,718,773</b>	<b>120,563</b>	<b>11,050,476</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 4,830,371</b>	<b>\$ 10,578,918</b>	<b>\$ 120,563</b>	<b>\$ 15,529,852</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, 2006**

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**TOTAL FUND BALANCES** \$ 11,050,476

Capital assets are not financial resources and therefore are not reported in the governmental funds:

Cost	\$ 14,647,761	
Accumulated depreciation	<u>(4,836,504)</u>	9,811,257

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 .

197,822

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	(43,983)	
Compensated absences	(36,638)	
Bonds payable	(9,095,000)	
Bond issuance costs, net of amortization	381,598	
Bond discount/premiums, net of amortization	<u>261,123</u>	<u>(8,532,900)</u>

**TOTAL NET ASSETS** \$ 12,526,655

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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**

**FOR YEAR ENDED JUNE 30, 2006**

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	General Fund	Special Revenue Fund	Capital Projects Fund	Total
<b>REVENUES</b>				
Local sources:				
Property taxes	\$ 7,125,307	\$ -	\$ -	\$ 7,125,307
Charges for services	1,725,109	6,452,461	-	8,177,570
Earnings on investments	579,857	-	8,668	588,525
Other	-	-	23,432	23,432
Intermediate sources	-	-	-	-
State sources	25,227,626	11,324,349	-	36,551,975
Federal contracts	-	6,030,421	-	6,030,421
Federal sources	-	563,884	-	563,884
<b>Total revenues</b>	<b>34,657,899</b>	<b>24,371,115</b>	<b>32,100</b>	<b>59,061,114</b>
<b>EXPENDITURES</b>				
Current:				
Instruction	-	23,231,185	-	23,231,185
Support services	9,096,151	10,859,285	242,440	20,197,876
Enterprises and community services	-	192,577	-	192,577
Facilities acquisition and construction	-	-	117,605	117,605
Capital outlay	253,137	435,995	-	689,132
Debt service:				
Principal	267,194	-	-	267,194
Interest	527,797	-	-	527,797
<b>Total expenditures</b>	<b>10,144,279</b>	<b>34,719,042</b>	<b>360,045</b>	<b>45,223,366</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>24,513,620</b>	<b>(10,347,927)</b>	<b>(327,945)</b>	<b>13,837,748</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	208,345	15,023,567	117,000	15,348,912
Transfers out	(24,539,195)	(624,575)	-	(25,163,770)
Apportionment of funds	(20,597)	(2,369,382)	-	(2,389,979)
Total other financing sources (uses)	(24,351,447)	12,029,610	117,000	(12,204,837)
<b>NET CHANGE IN FUND BALANCES</b>	<b>162,173</b>	<b>1,681,683</b>	<b>(210,945)</b>	<b>1,632,911</b>
<b>FUND BALANCES, July 1, 2005</b>	<b>4,048,967</b>	<b>5,037,090</b>	<b>331,508</b>	<b>9,417,565</b>
<b>FUND BALANCES, June 30, 2006</b>	<b>\$ 4,211,140</b>	<b>\$ 6,718,773</b>	<b>\$ 120,563</b>	<b>\$ 11,050,476</b>

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*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**

**FOR THE YEAR ENDED JUNE 30, 2006**

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<b>NET CHANGES IN FUND BALANCES</b>		<b>\$ 1,632,911</b>
<p>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:</p>		
Capital outlay capitalized	\$ 512,932	
Depreciation	<u>(651,139)</u>	(138,207)
<p>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.</p>		
		(24,287)
<p>Long-term debt principal payment are recorded as expenditures in the governmental funds but reduce the liability in the Statement of Net Assets</p>		
		375,000
<p>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:</p>		
Amortization of discount	(14,784)	
Amortization of issuance costs	<u>(18,406)</u>	(33,190)
<p>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.</p>		
		(7,486)
<p>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</p>		
		(46,265)
<p>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.</p>		
		1,610
Transfer to other funds		154,212
<b>CHANGE IN NET ASSETS</b>		<b><u>\$ 1,914,298</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, 2006**

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**ASSETS**

Cash and cash equivalents	\$ 169,751
Receivables	<u>27,028</u>
<b>TOTAL ASSETS</b>	<b><u>196,779</u></b>

**LIABILITY**

Accrued payroll and payroll liabilities	<u>15,861</u>
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**NET ASSETS**

Unrestricted	<b><u><u>\$ 180,918</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, 2006**

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<b>REVENUE:</b>	
Charges for service	\$ 168,385
Transfers in	375,974
	<hr/>
<b>TOTAL REVENUES</b>	<b>544,359</b>
	<hr/>
<b>EXPENSES :</b>	
Salaries	236,970
Employee benefits	98,986
Purchases services	36,746
Supplies	383,064
Miscellaneous	16,782
	<hr/>
<b>TOTAL EXPENSES</b>	<b>772,548</b>
	<hr/>
<b>OPERATING AND NET LOSS</b>	<b>(228,189)</b>
<b>NET ASSETS, July 1, 2005</b>	<b>409,107</b>
	<hr/>
<b>NET ASSETS, June 30, 2006</b>	<b>\$ 180,918</b>
	<hr/> <hr/>

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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, 2006**

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**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash received for services	\$ 145,416
Cash received from interfund services provided	375,974
Cash paid to suppliers for goods and services	(436,592)
Cash paid to employees for services	<u>(330,159)</u>

**NET CASH PROVIDED BY OPERATING ACTIVITIES AND  
NET CHANGE IN CASH AND CASH EQUIVALENTS** (245,361)

**CASH AND CASH EQUIVALENTS, July 1, 2005** 415,112

**CASH AND CASH EQUIVALENTS, June 30, 2006** \$ 169,751

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

Operating loss	\$ (228,189)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Change in assets and liabilities:	
Accounts receivable	(22,969)
Payroll liabilities	<u>5,797</u>

**NET CASH FROM OPERATING ACTIVITIES** \$ (245,361)

**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**AGENCY FUNDS**

**STATEMENT OF FIDUCIARY NET ASSETS**

**JUNE 30, 2006**

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**ASSETS:**

Cash and cash equivalents	\$	5,904,392
Accounts receivable		<u>99,232</u>
	\$	<u><u>6,003,624</u></u>

**LIABILITY:**

Accounts payable	\$	484,747
Due to school districts		<u>5,518,877</u>
	\$	<u><u>6,003,624</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 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

**FOR YEAR ENDED JUNE 30, 2006**

	Budget		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<b>REVENUES</b>				
Local sources:				
Property taxes	\$ 6,820,000	\$ 6,820,000	\$ 7,125,307	\$ 305,307
Charges for services	1,931,000	1,931,000	1,725,109	(205,891)
Earnings on investments	400,000	400,000	579,857	179,857
State sources	22,180,000	23,680,000	25,227,626	1,547,626
<b>Total revenues</b>	<b>31,331,000</b>	<b>32,831,000</b>	<b>34,657,899</b>	<b>1,826,899</b>
<b>EXPENDITURES</b>				
Current:				
Support services	7,875,529	9,075,529	9,349,288	(273,759)
Debt service *	849,655	849,655	794,991	54,664
Contingency	500,000	-	-	-
<b>Total expenditures</b>	<b>9,225,184</b>	<b>9,925,184</b>	<b>10,144,279</b>	<b>219,095</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>22,105,816</b>	<b>22,905,816</b>	<b>24,513,620</b>	<b>1,607,804</b>
<b>OTHER FINANCING USES:</b>				
Transfers in	1,067,383	1,067,383	208,345	(859,038)
Transfers out *	(23,074,662)	(23,874,662)	(24,539,195)	(664,533)
Apportionment of funds *	(898,537)	(898,537)	(20,597)	877,940
<b>Total other financing uses</b>	<b>(22,905,816)</b>	<b>(23,705,816)</b>	<b>(24,351,447)</b>	<b>213,407</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(800,000)</b>	<b>(800,000)</b>	<b>162,173</b>	<b>962,173</b>
<b>FUND BALANCE, July 1, 2005</b>	<b>3,800,000</b>	<b>3,800,000</b>	<b>4,048,967</b>	<b>248,967</b>
<b>FUND BALANCE, June 30, 2006</b>	<b>\$ 3,000,000</b>	<b>\$ 3,000,000</b>	<b>\$ 4,211,140</b>	<b>\$ 1,211,140</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 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

**FOR YEAR ENDED JUNE 30, 2006**

	Budget		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<b>REVENUES</b>				
Local sources:				
Charges for services	\$ 913,631	\$ 903,631	\$ 6,452,461	\$ 5,548,830
Other	3,411,095	4,411,095	-	(4,411,095)
State sources	10,163,999	10,163,999	11,324,349	1,160,350
Federal sources	4,961,037	4,971,037	6,594,305	1,623,268
<b>Total revenues</b>	<b>19,449,762</b>	<b>20,449,762</b>	<b>24,371,115</b>	<b>3,921,353</b>
<b>EXPENDITURES</b>				
Current:				
Instruction	22,804,603	23,754,603	23,231,185	523,418
Support services	10,333,148	10,333,148	11,295,280	(962,132)
Enterprise and community services	126,344	176,344	192,577	(16,233)
<b>Total expenditures</b>	<b>33,264,095</b>	<b>34,264,095</b>	<b>34,719,042</b>	<b>(454,947)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(13,814,333)</b>	<b>(13,814,333)</b>	<b>(10,347,927)</b>	<b>3,466,406</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	12,657,668	12,657,668	15,023,567	2,365,899
Transfers out *	(440,000)	(440,000)	(624,575)	(184,575)
Apportionment of funds *	(2,053,426)	(2,053,426)	(2,369,382)	(315,956)
<b>Total other financing sources (uses)</b>	<b>10,164,242</b>	<b>10,164,242</b>	<b>12,029,610</b>	<b>1,865,368</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(3,650,091)</b>	<b>(3,650,091)</b>	<b>1,681,683</b>	<b>5,331,774</b>
<b>FUND BALANCE, July 1, 2005</b>	<b>3,650,091</b>	<b>3,650,091</b>	<b>5,037,090</b>	<b>1,386,999</b>
<b>FUND BALANCE, June 30, 2006</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 6,718,773</b>	<b>\$ 6,718,773</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, 2006**

**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, 2006**

**1. Summary of Significant Accounting Policies - (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, 2006**

**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, 2006**

**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, 2006**

**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, 2006**

Appropriation transfers were made during the year. Expenditures of the various funds were within authorized appropriations except for: the General Fund, support services was overexpended by \$273,759; Special Revenue Fund, support services was overexpended by \$962,132 and enterprise and community services was overexpended by \$16,233, Enterprise Fund, support services was overexpended by \$295,306. Appropriations lapse at the end of each fiscal year.

**2. Deposits and Investments**

Cash and Investments consisted of:

Demand Deposits	\$	408,456
Petty Cash		2,400
Investments Government Securities		7,446,923
State of Oregon Treasurer's Local Government Investment Pool		11,776,548
	\$	<u>19,634,327</u>

Cash and cash equivalents are reported as follows:

Governmental funds	\$	13,560,184
Proprietary funds		169,751
Fiduciary funds		5,904,392
	\$	<u>19,634,327</u>

**Deposits**

Deposits with financial institutions include bank demand deposits. The total bank balance per the bank statements is \$1,129,657, of which \$100,000 is covered by federal depository insurance and \$257,414 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, 2006, as listed above were invested in the state treasurer's investment pool and in Key Bank Capital Markets, Division of McDonald Investments Inc. The District's investments are U.S. Government back bonds with various annuities from 3 to 18 months.

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



**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)  
YEAR ENDED JUNE 30, 2006**

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, 2006.

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, 2006. 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, 2006, the District had 60% invested in the State Treasurer’s Investment Pool and 38% in U.S. Government Bonds. State statutes do not limit the percentage of investments in those instruments.

**3. Receivables**

Receivable are comprised as follows:

Property taxes	\$ 240,967
Grants	799,733
Trade and other	997,204
	<u>\$ 2,037,904</u>

Receivables are reported as follows:

Governmental funds	\$ 1,911,644
Proprietary funds	27,028
Fiduciary funds	99,232
	<u>\$ 2,037,904</u>



NOTES TO BASIC FINANCIAL STATEMENTS (Continued)  
YEAR ENDED JUNE 30, 2006

4. Capital Assets

Capital assets activity for the year was as follows:

	Balance June 30, 2005	Increase	Decrease	Balance June 30, 2006
Capital assets not being depreciated:				
Land	\$ 467,500	\$ -	\$ -	\$ 467,500
Capital assets being depreciated:				
Buildings and Improvements	9,965,918	-	-	9,965,918
Leasehold improvements	74,155	-	-	74,155
Vehicles and equipment	4,316,601	512,932	(689,345)	4,140,188
Total capital assets being depreciated	<u>14,356,675</u>	<u>512,932</u>	<u>(689,345)</u>	<u>14,180,261</u>
Less accumulated depreciation for:				
Buildings and Improvements	(1,727,388)	(203,085)	-	(1,930,473)
Leasehold improvements	(43,757)	(3,860)	-	(47,617)
Vehicles and equipment	(3,069,933)	(444,194)	655,713	(2,858,414)
Total accumulated depreciation	<u>(4,841,078)</u>	<u>(651,139)</u>	<u>655,713</u>	<u>(4,836,504)</u>
Total capital assets being depreciated, net	<u>9,515,597</u>	<u>(138,207)</u>	<u>(33,632)</u>	<u>9,343,757</u>
Total capital assets, net	<u>\$ 9,983,097</u>	<u>\$ (138,207)</u>	<u>\$ (33,632)</u>	<u>\$ 9,811,257</u>

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

Instruction:	
Regular programs	\$ 15,367
Special programs	58,537
Support services:	
Student Services	47,403
Instructional staff services	15,888
General administration	29,627
Business services	41,933
Central activities	442,384
	<u>\$ 651,139</u>

5. 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.



NOTES TO BASIC FINANCIAL STATEMENTS (Continued)  
YEAR ENDED JUNE 30, 2006

6. Long-Term Debt

	Outstanding July 1, 2005	Prior Period Adjustment	Payments and/or Adjustments	Outstanding June 30, 2006
Certificates of Participation: original issue, \$9,668,779; interest 3.0 - 6.35%	\$ 8,810,000	\$ 660,000	\$ (375,000)	\$ 9,095,000
	Current		Noncurrent	Total
Maturities - face value	\$ 235,000	\$ 165,000	\$ 8,695,000	\$ 9,095,000
Less unamortized bond discount	(14,784)	-	(246,339)	(261,123)
	\$ 220,216	\$ 165,000	\$ 8,448,661	\$ 8,833,877
Year Ending June 30,	Certificates of Participation	Prior Period Adjustment	Interest	Total
2007	235,000	165,000	623,974	1,023,974
2008	245,000	165,000	607,914	1,017,914
2009	255,000	175,000	590,221	1,020,221
2010	435,000	-	360,823	795,823
2011	470,000	-	344,059	814,059
2012-2017	2,955,000	-	1,607,796	4,562,796
2018-2022	2,575,000	-	710,853	3,285,853
2023-2025	1,420,000	-	114,360	1,534,360
	8,590,000	\$ 505,000	\$ 4,960,000	\$ 14,055,000
Total Certificate of Participation	9,095,000			
Unamortized discount	(261,123)			
	\$ 8,833,877			

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.

Certificates of Participation	7/1/2005	Increase	Decrease	Payments	6/30/2006
Series 1995 Columbia Service Center	\$ 335,000	\$ -	\$ -	\$ (15,000)	\$ 320,000
Series 1999 Washington Service Center	660,000	-	-	(155,000)	505,000
Series 2001 Pacific Academy	1,215,000	-	-	(95,000)	1,120,000
Series 2005 Washington	3,085,000	-	-	(110,000)	2,975,000
Series 2005 B - Washington	4,175,000	-	-	-	4,175,000
<b>Total Long-Term Debt</b>	<b>\$ 9,470,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (375,000)</b>	<b>\$ 9,095,000</b>



**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)  
YEAR ENDED JUNE 30, 2006**

**7. 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	\$ 208,345	\$ 15,023,567	\$ 117,000	\$ 375,974	\$ 21,888,066	\$ 37,612,952
Transfers Out	\$ (24,539,195)	\$ (624,575)	\$ -	\$ -	\$ (12,449,182)	\$ (37,612,952)
	\$ (24,330,850)	\$ 14,398,992	\$ 117,000	\$ 375,974	\$ 9,438,884	\$ -

**General Fund**

Transfers In - Recovery of expenses.

Transfers Out - Support to programs and service credits allocation to the agency funds school districts accounts.

**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 - Support from General Fund.

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 service credits allocation.

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

**8. 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
2007	425,518
2008	364,535
2009	358,807
2010	32,588
	<u>\$ 1,181,448</u>

The total rental expense under these or similar leases was approximately \$503,352 for the year ended June 30, 2006.



**NOTES TO BASIC FINANCIAL STATEMENTS (Continued)**  
**YEAR ENDED JUNE 30, 2006**

**9. 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, 2006, 2005, and 2004 was approximately \$2,963,396, \$2,461,479, and \$1,868,000 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.

**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.

**11. Prior Period Adjustment**

A prior period adjustment was made to the beginning net assets of the ESD to account for \$660,000 worth of bonds payable that were not recorded as long-term debt for the year ended June 30, 2005. The beginning fund balance in the Statement of Activities has been adjusted accordingly.



**SUPPLEMENTAL INFORMATION**

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**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, 2006**

	<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	\$ 15,000	\$ 15,000	\$ 8,668	\$ (6,332)
Recouping current expenses	-	-	23,432	23,432
<b>Total revenues</b>	<b>15,000</b>	<b>15,000</b>	<b>32,100</b>	<b>17,100</b>
<b>EXPENDITURES:</b>				
Support services *	450,849	450,849	242,440	208,409
Other uses	295,000	295,000	117,605	177,395
<b>Total expenditures</b>	<b>745,849</b>	<b>745,849</b>	<b>360,045</b>	<b>385,804</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(730,849)</b>	<b>(730,849)</b>	<b>(327,945)</b>	<b>402,904</b>
<b>OTHER FINANCING SOURCE</b>				
Transfers in	350,849	350,849	117,000	(233,849)
<b>NET CHANGE IN FUND BALANCE</b>	<b>(380,000)</b>	<b>(380,000)</b>	<b>(210,945)</b>	<b>169,055</b>
<b>FUND BALANCE, July 1, 2005</b>	<b>380,000</b>	<b>380,000</b>	<b>331,508</b>	<b>(48,492)</b>
<b>FUND BALANCE, June 30, 2006</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 120,563</b>	<b>\$ 120,563</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, 2006**

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	<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
Local sources:				
Services provided to local districts	\$ 20,404	\$ 20,404	\$ 103,472	\$ 83,068
Recouping current expenses	-	-	42,424	42,424
Supplies provided to other agencies	-	-	22,489	22,489
<b>Total revenues</b>	<u>20,404</u>	<u>20,404</u>	<u>168,385</u>	<u>147,981</u>
<b>EXPENDITURES:</b>				
Support services				
Technology services	<u>477,242</u>	<u>477,242</u>	<u>772,548</u>	<u>(295,306)</u>
<b>Total expenditures</b>	<u>477,242</u>	<u>477,242</u>	<u>772,548</u>	<u>(295,306)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(456,838)</u>	<u>(456,838)</u>	<u>(604,163)</u>	<u>(147,325)</u>
<b>OTHER FINANCING SOURCE</b>				
Transfers in	<u>206,838</u>	<u>206,838</u>	<u>375,974</u>	<u>169,136</u>
<b>Total other financing sources (uses)</b>	<u>206,838</u>	<u>206,838</u>	<u>375,974</u>	<u>169,136</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>(250,000)</u>	<u>(250,000)</u>	<u>(228,189)</u>	<u>21,811</u>
<b>FUND BALANCE, July 1, 2005</b>	<u>250,000</u>	<u>250,000</u>	<u>409,107</u>	<u>159,107</u>
<b>FUND BALANCE, June 30, 2006</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 180,918</u>	<u>\$ 180,918</u>

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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, 2006**

	<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	\$ 35,000	\$ 35,000	\$ 147,198	\$ 112,198
Revenue in lieu of taxes	2,500,000	2,500,000	\$ 2,324,000	(176,000)
Other state revenues	1,300,000	1,300,000	1,269,740	(30,260)
<b>Total revenues</b>	<b>3,835,000</b>	<b>3,835,000</b>	<b>3,740,938</b>	<b>(94,062)</b>
<b>EXPENDITURES:</b>				
Support services - business	200,000	200,000	-	(200,000)
<b>Total expenditures</b>	<b>200,000</b>	<b>200,000</b>	<b>-</b>	<b>(200,000)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>3,635,000</b>	<b>3,635,000</b>	<b>3,740,938</b>	<b>105,938</b>
<b>OTHER FINANCING SOURCE</b>				
Transfers in	20,175,000	20,175,000	21,888,066	1,713,066
Transfers out	(10,943,076)	(10,943,076)	(12,449,182)	(1,506,106)
Apportionment of funds	(14,866,924)	(14,866,924)	(11,061,740)	3,805,184
<b>Total other financing sources (uses)</b>	<b>(5,635,000)</b>	<b>(5,635,000)</b>	<b>(1,622,856)</b>	<b>4,012,144</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(2,000,000)</b>	<b>(2,000,000)</b>	<b>2,118,082</b>	<b>4,118,082</b>
<b>FUND BALANCE, July 1, 2005</b>	<b>2,000,000</b>	<b>2,000,000</b>	<b>3,400,795</b>	<b>1,400,795</b>
<b>FUND BALANCE, June 30, 2006</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,518,877</b>	<b>\$ 5,518,877</b>

**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**REVENUE SUMMARY - ALL FUNDS  
YEAR ENDED JUNE 30, 2006**

	Fund 100	Fund 200	Fund 400	Fund 500	Fund 700
<b>Revenue from Local Sources</b>					
1111 Taxes - current year's levy	\$ 6,880,967	\$ -	\$ -	\$ -	\$ -
1112 Taxes - prior year's levies	190,749	-	-	-	-
1114 Tax offsets	45,371	-	-	-	-
1190 Penalties and interest on taxes	8,220	-	-	-	-
1311 Tuition from other districts within the state	-	44,307	-	-	-
1312 Tuition from regional districts	-	609,089	-	-	-
1314 Tuition from IN/ST Out/Regional	-	341,447	-	-	-
1315 LIRP Evaluations	-	22,742	-	-	-
1410 Transportation fees	-	24,872	-	-	-
1510 Earnings on investments	579,857	65,845	8,668	-	147,198
1620 Nonreimbursable daily meals	-	4,729	-	-	-
1629 Visitor's meals	-	120	-	-	-
1811 GED fees	-	41,745	-	-	-
1910 Rentals	-	-	-	-	-
1920 Contributions and donations from private sources	-	28,729	-	-	-
1922 Grants from private sources	-	79,144	-	-	-
1941 Services provided other district within the state	68,774	1,084,114	-	103,472	-
1945 In house billings	71,509	3,737,815	-	-	-
1960 Recovery of prior year expenditures	4,597	-	-	-	-
1961 Recouping current expenses	1,585	18,161	18,714	42,424	-
1980 Fees charges to grants	1,400,654	-	-	-	-
1990 Miscellaneous	164,564	177,355	-	-	-
1992 Distirct support	-	-	-	-	-
1993 Services to other agencies	13,426	64,919	4,718	22,489	-
1994 NWRES D third-party billing	-	101,171	-	-	-
1995 District third-party billing	-	3,801	-	-	-
1998 HTR Catering Services	-	2,356	-	-	-
<b>Total Revenue from Local Sources</b>	<b>\$ 9,430,273</b>	<b>\$ 6,452,461</b>	<b>\$ 32,100</b>	<b>\$ 168,385</b>	<b>\$ 147,198</b>
<b>Revenue from Intermediate Sources</b>					
2105 Natural gas, oil and mineral receipts	-	-	-	-	-
2800 Revenue in lieu of taxes	-	-	-	-	2,324,000
<b>Total Revenue from Intermediate Sources</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,324,000</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	\$ 24,817,632	\$ -	\$ -	\$ -	\$ -
3104 State timber revenue	409,994	-	-	-	-
3202 Special Ed Reimbursement		2,560,407			
3223 Early Intervention	-	7,203,855	-	-	-
3225 Private Agency Funds		445,258			
3250 Oregon Youth Conservation Corp.	-	18,432	-	-	-
3260 State support assessment	-	-	-	-	-
3270 Committee on children and families	-	-	-	-	-
3299 Other restricted grants-in-aid	-	1,061,426	-	-	-
3990 Other state sources	-	32,971	-	-	1,269,740
3999 Other	-	2,000	-	-	-
<b>Total Revenue from State Sources</b>	<b>\$ 25,227,626</b>	<b>\$ 11,324,349</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,269,740</b>

**Revenue from Federal Sources**

	Fund 100	Fund 200	Fund 400	Fund 500	Fund 700
4311 Indian Education	-	66,137	-	-	-
4325 US Fish & Wildlife	-	3,000	-	-	-
4504 National School Breakfast Program	-	12,433	-	-	-
4505 National School Lunch Program	-	23,988	-	-	-
4508 IDEA	-	5,840,813	-	-	-
4510 Title II Math and Science	-	147,848	-	-	-
4511 NCLB Strategist Trainings	-	1,705			
4514 Title III NCLB Grant	-	61,454	-	-	-
4515 Title IC Migrant Project	-	30,204	-	-	-
4517 Youth Transition	-	84,857	-	-	-
4521 Serve Oregon - L&S America	-	31,403	-	-	-
4525 State Improvement Esd Assess Supp	-	37,834	-	-	-
4540 Oregon Deaf/Blind Project	-	3,816	-	-	-
4580 Vocational Education Technology Prep	-	15,000	-	-	-
4581 Vocational Education Basic Grant	-	93,853	-	-	-
4582 Commission for the Blind	-	105,518	-	-	-
4584 Innovations in Education	-	30,136	-	-	-
4910 Food donation	-	4,306	-	-	-
<b>Total Revenue from Federal Sources</b>	<b>\$ -</b>	<b>\$ 6,594,305</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**Revenue from Other Sources**

	Fund 100	Fund 200	Fund 400	Fund 500	Fund 700
5200 Interfund Transfers	208,345	15,023,567	117,000	375,974	21,888,066
5300 Apportionment of Funds					
5400 Resources - Beginning Fund Balance	4,048,967	5,037,090	331,508	409,107	3,400,795
<b>Total Revenue from Other Sources</b>	<b>\$ 4,257,312</b>	<b>\$ 20,060,657</b>	<b>\$ 448,508</b>	<b>\$ 785,081</b>	<b>\$ 25,288,861</b>
<b>Total</b>	<b>\$ 38,915,211</b>	<b>\$ 44,431,772</b>	<b>\$ 480,608</b>	<b>\$ 953,466</b>	<b>\$ 29,029,799</b>

**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**GENERAL FUND**

**EXPENDITURE SUMMARY  
YEAR ENDED JUNE 30, 2006**

**Fund: 100 General Funds**

**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>
2112 Attendance services	165,736	28,690	8,179	6,268	-	223	-
2119 Other attendance and social work	10,475	5,244	5,731	1,039	-	407	-
2139 Other health services	-	-	-	-	-	-	-
2140 Psychological services	-	-	-	-	-	-	-
2153 Audiology services	20,866	7,278	853	-	-	708	-
2190 Service direction, student support services	687,760	275,253	29,923	40,663	-	34,415	-
2191 Special education administration	-	-	(12)	-	-	4,516	-
2212 School improvement administration	135,728	55,099	35,999	9,327	-	11,261	-
2213 Curriculum development	157,113	60,785	21,351	5,437	-	2,569	-
2214 Assessment and performance	-	600	142,927	2,204	-	-	-
2219 Other improvement of instruction services	74,770	31,305	4,967	637	-	1,755	-
2223 Multimedia services	52,438	32,040	662	38,790	-	1,817	-
2224 Educational television services	56,229	24,722	-	-	-	813	-
2240 Instructional staff and development	90,551	42,943	8,246	3,634	-	1,627	-
2310 Board of education services	-	-	113,419	4,354	-	271,003	-
2321 Office of the superintendent services	205,505	76,086	31,798	19,457	-	2,123	-
2322 Deputy superintendents office	164,668	61,622	8,865	889	-	2,638	-
2323 Regional superintendent council	-	-	3,035	-	-	-	-
2329 Other executive administration services	454,821	215,130	71,689	24,801	-	75,820	-
2510 Direction of business support services	353,129	166,092	21,254	9,787	-	121,265	-
2540 Operation and maintenance of plant services	178,310	95,707	131,728	32,560	-	15,805	-
2573 Warehousing and distributing services	85,343	46,470	6,466	7,599	-	2,115	-
2574 Printing, publishing and duplicating services	58,160	33,165	123,491	21,265	-	2,076	-
2575 Warehouse services	12,507	8,497	-	-	-	407	-
2579 Other internal services	51,183	31,070	208	191	-	1,424	-
2633 Public information services	41,435	20,475	11,988	3,608	-	1,068	-
2640 Staff services	262,247	95,290	42,204	28,427	-	10,964	-
2660 Technology services	-	-	153,689	943,270	245,595	-	-
2661 Service area direction	119,409	46,211	18,419	764	-	2,350	-
2662 Systems analysis services	402,506	159,830	233,396	62,271	7,542	-	21,562
2663 Programming services	177,329	67,524	38,323	9,945	-	1,627	-
2664 Operation services	140,619	61,091	15,460	32,316	-	2,847	-
2690 Other support central	-	-	129	-	-	-	-
<b>Total Support Services Expenditures</b>	<b>\$ 4,158,837</b>	<b>\$ 1,748,219</b>	<b>\$ 1,284,387</b>	<b>\$ 1,309,503</b>	<b>\$ 253,137</b>	<b>\$ 573,643</b>	<b>\$ 21,562</b>
<b>Other Uses Expenditures</b>	<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>
5100 Debt Service	-	-	-	-	-	794,991	-
5200 Transfers of Funds	-	-	-	-	-	-	24,539,195
5300 Apportionment of Funds	-	-	-	-	-	-	20,597
<b>Total Other Uses Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 794,991</b>	<b>\$ 24,559,792</b>
<b>Totals</b>	<b>\$ 4,158,837</b>	<b>\$ 1,748,219</b>	<b>\$ 1,284,387</b>	<b>\$ 1,309,503</b>	<b>\$ 253,137</b>	<b>\$ 1,368,634</b>	<b>\$ 24,581,354</b>

**Total 100 General Funds**

**\$ 34,704,071**

**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**SPECIAL REVENUE FUND**

**EXPENDITURE SUMMARY  
YEAR ENDED JUNE 30, 2006**

**Fund: 200 Special Revenue Funds**

**Instruction Expenditures**

	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
1121 Middle / Junior high programs	\$ 282,125	\$ 82,335	\$ 203,926	\$ 106,214	\$ 13,182	\$ 910	\$ -
1131 High school programs	427,539	190,960	342,479	76,299	8,000	11,194	-
1220							
Restrictive programs for students with disabilities	292,885	161,335	5,905	1,934	-	-	-
1221 Students with disabilities - restrictive	904,182	440,988	708,625	43,802	-	94,346	-
1250 Students with disabilities - less restrictive	4,629,406	2,235,482	1,342,616	192,977	46,243	495,508	-
1260 Early intervention	3,139,950	1,524,079	3,636,673	136,243	-	784,699	-
1281 Public alternative programs	129,737	71,237	4,141	7,855	4,000	1,575	-
1289 Other alternative programs	1,049	475	169	-	-	-	-
1294 Youth corrections	133,678	60,739	39,258	4,028	-	21,587	-
1299 Other programs	74,339	29,886	7,006	12,788	60,463	4,134	-
<b>Total Instruction Expenditures</b>	<b>\$ 10,014,890</b>	<b>\$ 4,797,516</b>	<b>\$ 6,290,798</b>	<b>\$ 582,140</b>	<b>\$ 131,888</b>	<b>\$ 1,413,953</b>	<b>\$ -</b>

**Support Services Expenditures**

	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
2115 Student safety	-	-	-	-	-	-	-
2117 ID/Recruitment migrant	12,359	6,256	9,391	35	-	1,459	-
2129 Other guidance service	-	-	-	-	-	6,436	-
2139 Other health service	1,275,021	547,679	94,797	21,896	-	-	-
2140 Psychological services	1,429,340	584,771	56,818	38,450	-	160	-
2152 Speech pathology services	2,461,291	940,375	92,685	22,270	-	7,210	-
2153 Audiology services	-	-	-	353	56,855	-	-
2190 Service direction, student support services	951,329	398,824	14,628	2,036	-	3,210	-
2191 Special education administration	5,996	1,677	476	333	-	-	-
2219 Other improvement of instruction services	18,824	5,960	53,304	7,214	-	30,962	-
2230 Assessment and testing	70,249	37,497	43,687	13,252	-	219	-
2240 Instructional staff development	93,449	10,702	116,927	17,253	-	14,830	-
2329 Other executive administrative services	-	-	-	-	-	-	-
2410 Office of principal services	120,064	51,115	-	-	-	535	-
2490 Other support services - school administration	7,333	1,915	104,686	720	-	504	-
2523 Receiving and disbursing funds services	-	-	2,396	481	-	205	-
2529 Other fiscal services	61,984	33,204	14,457	1,934	-	57,036	-
2540 Operation Maintenance Plant Services	-	-	-	-	222,152	-	-
2559 Columbia transportation	-	-	-	-	-	-	-
2579 Other internal services	33,224	39,786	-	-	-	-	-
2629 Other planning, research, development and evaluation	-	-	-	-	-	-	-
2640 Staff services	-	124,622	-	-	-	-	-
2660 Technology services	225,823	97,888	124,748	127,551	-	12,190	-
2999 Other support services	68,505	26,611	135,567	17,694	-	1,605	-
<b>Total Support Services Expenditures</b>	<b>\$ 6,834,791</b>	<b>\$ 2,908,882</b>	<b>\$ 864,567</b>	<b>\$ 271,472</b>	<b>\$ 279,007</b>	<b>\$ 136,561</b>	<b>\$ -</b>

**Enterprise and Community Services**

	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
3300	-	-	24,227	2,704	-	49	-
3390 Other community services	58,518	32,432	10,001	2,797	25,100	36,749	-
<b>Total Enterprise and Community Services</b>	<b>\$ 58,518</b>	<b>\$ 32,432</b>	<b>\$ 34,228</b>	<b>\$ 5,501</b>	<b>\$ 25,100</b>	<b>\$ 36,798</b>	<b>\$ -</b>

**Other Uses Expenditures**

	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
5100 Debt Service	-	-	-	-	-	-	-
5200 Transfers of Funds	-	-	-	-	-	-	-
5200 Transfers of Funds	-	-	-	-	-	-	624,575
5300 Apportionment of Funds	-	-	-	-	-	-	2,369,382
<b>Total Other Uses Expenditures</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,993,957</b>
<b>Totals</b>	<b>\$ 16,908,199</b>	<b>\$ 7,738,830</b>	<b>\$ 7,189,593</b>	<b>\$ 859,113</b>	<b>\$ 435,995</b>	<b>\$ 1,587,312</b>	<b>\$ 2,993,957</b>

Total 200 Special Revenue Funds

**\$ 37,712,999**

**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**CAPITAL PROJECTS FUND**

**EXPENDITURE SUMMARY  
YEAR ENDED JUNE 30, 2006**

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<b>Fund: 400 Capital Projects Funds</b>							
<b>Support Services Expenditures</b>							
2540 Operation Maintenance Plant 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>
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2660 Technology Services	\$ -	\$ -	\$ 725	\$ 209,292	\$ 32,423	\$ -	\$ -
<b>Total Support Services Expenditures</b>	\$ -	\$ -	\$ 725	\$ 209,292	\$ 32,423	\$ -	\$ -
<b>Facilities Acquisition and Construction</b>							
4150 Building acquisition, construction and improvement	<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>
	-	-	99,717	17,768	-	120	-
<b>Total Facilities and Construction Expenditures</b>	\$ -	\$ -	\$ 99,717	\$ 17,768	\$ -	\$ 120	\$ -
<b>Totals</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 100,442</b>	<b>\$ 227,060</b>	<b>\$ 32,423</b>	<b>\$ 120</b>	<b>\$ -</b>
<b>Total 400 Capital Projects Funds</b>	<b><u>\$ 360,045</u></b>						

**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**ENTERPRISE FUND**

**EXPENDITURE SUMMARY  
YEAR ENDED JUNE 30, 2006**

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**Fund: 500 Enterprise Funds**

**Support Services Expenditures**

2660 Technology services

2999 Other support services

**Total Support Services Expenditures**

Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
236,970	98,986	36,746	383,064	-	16,782	-
-	-	-	-	-	-	-
\$ 236,970	\$ 98,986	\$ 36,746	\$ 383,064	\$ -	\$ 16,782	\$ -

**Other Uses Expenditures**

5200 Transfers of Funds

**Total Other Uses Expenditures**

Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	Object 700
-	-	-	-	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

**Totals**

<b>\$ 236,970</b>	<b>\$ 98,986</b>	<b>\$ 36,746</b>	<b>\$ 383,064</b>	<b>\$ -</b>	<b>\$ 16,782</b>	<b>\$ -</b>
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**Total 500 Enterprise Funds**

**\$ 772,548**

**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**AGENCY FUND**

**EXPENDITURE SUMMARY  
YEAR ENDED JUNE 30, 2006**

---

<b>Fund: 700 Agency Funds</b>							
<b>Other Uses Expenditures</b>							
5200 Transfer of Funds							12,449,182
5300 Apportionment of Funds							11,061,740
<b>Total Other Uses Expenditures</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$23,510,922
<b>Totals</b>							
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	<b>\$23,510,922</b>
<b>Total 700 Agency Funds</b>	<b><u>\$ 23,510,922</u></b>						

**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**SCHEDULE OF PROPERTY TAX TRANSACTIONS**

**YEAR ENDED JUNE 30, 2006**

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	Tax Year	Uncollected July 1, 2005	Levy	Discounts Allowed	Interest	Adjustments	Collections	Uncollected June 30, 2006
Current:	2005-2006	\$ -	\$ 7,132,100	\$ (179,776)	\$ 3,592	\$ (30,360)	\$ (6,800,793)	\$ 124,763
Prior:	2004-2005	191,698	-	228	8,866	(5,060)	(126,627)	69,105
	2003-2004	55,214	-	22	6,157	(2,517)	(32,954)	25,922
	2002-2003	26,734	-	20	6,124	(1,939)	(20,399)	10,540
	2001-2002	11,171	-	15	3,479	(1,003)	(9,683)	3,979
	2000-2001	2,057	-	14	979	(2,953)	(1,086)	(989)
	1999-2000 and prior	7,647	-	-	-	-	-	7,647
Total Prior		294,521	-	299	25,605	(13,472)	(190,749)	116,204
Total Taxes		\$ 294,521	\$ 7,132,100	\$ (179,477)	\$ 29,197	\$ (43,832)	\$ (6,991,542)	\$ 240,967

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Reconciliation to Revenue:

Collections	\$ 6,991,542
June 30, 2005 accrual	(50,434)
June 30, 2006 accrual	43,145
Tax offsets and other	141,054
Property tax revenue	<u>\$ 7,125,307</u>

**Northwest Regional Education Service District**  
Hillsboro, Oregon

**SUPPLEMENTAL INFORMATION REQUIRED BY THE STATE OF OREGON  
DEPARTMENT OF EDUCATION  
YEAR ENDED JUNE 30, 2006**

School District Business Managers and Auditors:

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

Parts A is needed for computing Oregon's full allocation for ESEA, Title I & other Federal Funds for Education.

A. Energy Bill for Heating - **All Funds:**

Please enter your expenditures for electricity & heating fuel for these Functions & Objects.

	Objects 325 & 326
Function 2540	\$ 0.00
Function 2550	\$ 0.00

B. Replacement of Equipment – **General Fund:**

Include all General Fund expenditures in object 542, except for the following exclusions:

Exclude these functions:

1113, 1122 & 1132      Co-curricular Activities  
1140                      Pre-Kindergarten  
1300                      Continuing Education  
1400                      Summer School

Exclude these functions:

4150      Construction  
2550      Pupil Transportation  
3100      Food Service  
3300      Community Services

\$ 0.00

Fund	Audit Pg #	Amount
		\$ 0.00
		\$ 0.00



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

CERTIFIED PUBLIC ACCOUNTANTS

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

September 11, 2006

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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, 2006, and have issued our report thereon dated September 11, 2006.

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, 2006, 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.

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 September 11, 2006.

These factors were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the 2006 Basic financial statements, and this report does not affect our report on the Basic financial statements dated September 11, 2006.

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 except for: the General Fund, support services was overexpended by \$273,759; Special Revenue Fund, support services was overexpended by \$962,132 and enterprise and community services was overexpended by \$16,233, Enterprise Fund, support services was overexpended by \$295,306.

2005-2006 and 2006-2007 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, 2006, 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 during 2005-2006.

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's bonded debt outstanding was within the provisions of ORS 552.645.

OUTSTANDING WARRANTS

The District did not have any outstanding endorsed warrants at June 30, 2006.

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. Our reports concerning grant compliance and a schedule of federal assistance are contained in this report in the grant compliance review section.

STATE HIGHWAY

The District had no programs funded from State Highway Funds during the year ended June 30, 2006.

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

**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**Schedule of Federal Awards  
Year Ended June 30, 2006**

<b>Federal Grantor</b>	<b>Program Title</b>	<b>Grant Period</b>	<b>CFDA Number</b>	<b>Grant Amount</b>	<b>2005-06 Revenues</b>	<b>2005-06 Expenditures</b>
<b>Pass through Grantor</b>						
<b><u>U.S. Department of Education - Special Revenue Fund:</u></b>						
Passed through Oregon State Department of Education:						
Title IIB Eisenhower Grant:						
		2004-2005	84.366B	\$ 126,191	\$ 21,032	\$ 21,032
		2005-2006	84.366B	\$ 177,000	\$ 126,817	\$ 126,817
		Total		<b>\$ 303,191</b>	<b>\$ 147,849</b>	<b>\$ 147,849</b>
						(1)
Title III						
		2004-2005	84.365	\$ 51,789	\$ 26,487	\$ 26,487
		2005-2006	84.365	\$ 74,586	\$ 35,733	\$ 35,733
		Total		<b>\$ 126,375</b>	<b>\$ 62,220</b>	<b>\$ 62,220</b>
						(1)
Title IA/D						
		2005-2006	84.010	\$ 3,000	\$ 1,704	\$ 1,704
		Total		<b>\$ 3,000</b>	<b>\$ 1,704</b>	<b>\$ 1,704</b>
Regional Capacity Grants-Professional Development						
		2005-2006	84.048A	\$ 6,671	\$ 3,840	\$ 3,840
Carl Perkins II:						
		2005-2006	84.243A	\$ 15,000	\$ 15,000	\$ 15,000
						(1)
Tech Prep Education						
		2004-2005	84.243A	\$ 82,502	\$ 47,595	\$ 47,595
		2005-2006	84.243A	\$ 75,030	\$ 46,258	\$ 46,258
		Total		<b>\$ 157,532</b>	<b>\$ 93,853</b>	<b>\$ 93,853</b>
						(1)
Regional PTE Grant						
		2004-2005	84.243A	\$ 35,000	\$ 26,296	\$ 26,296
						(1)
Title IC, Migrant Education:						
		2004-2005	84.011	\$ 26,000	\$ 1,200	\$ 1,200
		2005-2006	84.011	\$ 57,623	\$ 29,005	\$ 29,005
		Total		<b>\$ 83,623</b>	<b>\$ 30,205</b>	<b>\$ 30,205</b>
Oregon Deaf and Blind Project						
		2005-2006	84.326C	\$ 3,816	\$ 3,816	\$ 3,816
State Improvement ESD Assessment Support						
		2005-2006	94.004	\$ 40,650	\$ 37,834	\$ 37,834
Learn and Serve America						
		2004-2005	94.004	\$ 23,500	\$ 15,824	\$ 15,824
		2005-2006	94.004	\$ 17,000	\$ 15,579	\$ 15,579
		Total		<b>\$ 40,500</b>	<b>\$ 31,403</b>	<b>\$ 31,403</b>
<b><u>Total U.S. Department of Education</u></b>				<b>\$ 815,358</b>	<b>\$ 454,020</b>	<b>\$ 454,020</b>
<b><u>Direct Federal Grants</u></b>						
Title VII Indian Education						
		2005-2006	84.060	\$ 86,408	\$ 66,137	\$ 66,137
		Total		<b>\$ 86,408</b>	<b>\$ 66,137</b>	<b>\$ 66,137</b>
<b><u>Total Special Revenue Funds</u></b>				<b>\$ 901,766</b>	<b>\$ 520,157</b>	<b>\$ 520,157</b>

**NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT**

Hillsboro, Oregon

**Schedule of Federal Awards  
Year Ended June 30, 2006**

<b>Federal Grantor</b>	<b>Program Title</b>	<b>Grant Period</b>	<b>CFDA Number</b>	<b>Grant Amount</b>	<b>2005-06 Revenues</b>	<b>2005-06 Expenditures</b>
<b>Pass through Grantor</b>						
<b><u>Direct Federal Grants - General Fund:</u></b>						
	US Fish and wildlife	2005-2006		\$ 3,000	\$ 3,000	\$ 3,000
<b><u>U.S. Department of Agriculture - Special Revenue Fund:</u></b>						
Passed through Oregon State Department of Education:						
	National School Lunch	2005-2006	10.555	\$ 23,988	\$ 23,988	\$ 23,988
	National School Breakfast	2005-2006	10.553	\$ 12,433	\$ 12,433	\$ 12,433
	Commodities	2005-2006	10.550	\$ 4,306	\$ 4,306	\$ 4,306
		Total		<b>\$ 40,727</b>	<b>\$ 40,727</b>	<b>\$ 40,727</b>
<b>Total Federal Financial Assistance</b>				<b>\$ 945,493</b>	<b>\$ 563,884</b>	<b>\$ 563,884</b>

(1) Major Program



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

**CERTIFIED PUBLIC ACCOUNTANTS**

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

September 11, 2006

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

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

We have audited the financial statements of Northwest Regional Education Service District, Washington County, Oregon, as of and for the year ended June 30, 2006, and have issued our report thereon dated September 11, 2006. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

In planning and performing our audit, we considered Northwest Regional Education Service District's, Washington County, Oregon, internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the 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 over financial reporting and its operations that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management and 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.

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



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

**CERTIFIED PUBLIC ACCOUNTANTS**

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

September 11, 2006

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE WITH OMB CIRCULAR A-133

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

We have audited the compliance of Northwest Regional Education Service District, Washington County, Oregon, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Northwest Regional Education Service District, Washington County, Oregon's, major federal programs are identified in the accompanying schedule of expenditures of federal awards. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Northwest Regional Education Service District's management. Our responsibility is to express an opinion on Northwest Regional Education Service District's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Northwest Regional Education Service District, Washington County, Oregon's, compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Northwest Regional Education Service District, Washington County, Oregon's compliance with those requirements.

In our opinion, Northwest Regional Education Service District, Washington County, Oregon, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

The management of Northwest Regional Education Service District, Washington County, Oregon, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Northwest Regional Education Service District, Washington County, Oregon's, internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management and 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.

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

NORTHWEST REGIONAL EDUCATION SERVICE DISTRICT  
WASHINGTON COUNTY, OREGON

SCHEDULE OF PRIOR AND CURRENT YEAR AUDIT FINDINGS  
AND QUESTIONED COSTS RELATIVE TO FEDERAL AWARDS

For the Year Ended June 30, 2006

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CURRENT YEAR AUDIT FINDINGS AND QUESTIONED COSTS:

None

PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS:

None

CURRENT YEAR AUDITORS' REPORT ON THE BASIC FINANCIAL STATEMENTS:

Unqualified Opinion

CURRENT YEAR NONCOMPLIANCE, AUDIT FINDINGS AND QUESTIONED COSTS:

None

CURRENT YEAR AUDITORS' REPORT ON COMPLIANCE FOR MAJOR PROGRAMS:

Unqualified Opinion

MAJOR PROGRAMS FOR THE YEAR ENDED JUNE 30, 2006:

Title II B Eisenhower Grant – CFDA # 84.366B

Title III – CFDA # 84.365

Carl Perkins II – CFDA # 84.243A

DOLLAR THRESHOLD FOR DISTINGUISHING BETWEEN TYPE A AND B PROGRAMS:

\$300,000

LOW-RISK AUDIT QUALIFICATION:

The District does not qualify as a low-risk auditee under section .530 of the OMB Circular A-133.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1. BASIS OF PRESENTATION

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