

High School Graduation and College and Career Readiness Fund

Annual Financial Report

For Fiscal Year Ended June 30, 2019



Table of Contents

| | |
|--|---|
| Financial Section | 2 |
| Independent Auditors' Report..... | 2 |
| Basic Financial Statements | 4 |
| Balance Sheet – June 30, 2019 | 4 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances For the Fiscal Year Ended June 30, 2019 | 5 |
| Notes to the Financial Statements | 6 |
| Other Report | 9 |
| Report on Internal Control over Financial Reporting and on Compliance on Other Matters..... | 9 |

Bev Clarno
Secretary of State

Jeff Morgan
Interim Deputy Secretary of State



Kip R. Memmott, MA, CGAP, CRMA
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Independent Auditor's Report

The Honorable Kate Brown, Governor of Oregon
Oregon State Board of Education

Report on the Financial Statements

We have audited the accompanying financial statements of the High School Graduation and College and Career Readiness Fund of the Department of Education, State of Oregon, as of and for the year ended June 30, 2019, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the High School Graduation and College and Career Readiness Fund of the Department of Education, State of Oregon, as of June 30, 2019, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United State of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the High School Graduation and College and Career Readiness Fund and do not purport to, and do not, present fairly the financial position of the Department of Education or the State of Oregon as of June 30, 2019, or the changes in their financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2020, on our consideration of the Department of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department of Education's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department of Education's internal control over financial reporting and compliance.

Office of the Secretary of State, Audits Division

State of Oregon
May 6, 2020

Oregon Department of Education
High School Graduation and College and Career Readiness Fund
Balance Sheet
June 30, 2019

ASSETS

| | |
|---------------------------|-------------------|
| Cash and Cash Equivalents | \$ 40,754,860 |
| Total Assets | <u>40,754,860</u> |

LIABILITIES AND FUND BALANCE

Liabilities:

| | |
|-------------------------------|-------------------|
| Accounts and Interest Payable | 31,399,677 |
| Total Liabilities | <u>31,399,677</u> |

Fund Balance:

| | |
|----------------------|------------------|
| Restricted by: | |
| Enabling Legislation | 9,355,183 |
| Total Fund Balances | <u>9,355,183</u> |

| | |
|---|----------------------|
| Total Liabilities and Fund Balance | <u>\$ 40,754,860</u> |
|---|----------------------|

The notes to the financial statements are an integral part of this statement.

Oregon Department of Education
High School Graduation and College and Career Readiness Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2019

REVENUES

| | |
|-----------------------|----------|
| Other | \$ - |
| Total Revenues | <u>-</u> |

EXPENDITURES

Current:

| | |
|---|--------------------|
| Distribution to Local School Districts | 107,515,418 |
| Distribution to Non-Governments | 4,086,262 |
| Capital Outlay | <u>20,540</u> |
| Total Expenditures | <u>111,622,220</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (111,622,220) |

OTHER FINANCING SOURCES (USES)

| | |
|---|---------------------|
| Transfers from General Fund | <u>85,050,000</u> |
| Total Other Financing Sources (Uses) | <u>85,050,000</u> |
| Net Change in Fund Balances | <u>(26,572,220)</u> |

| | |
|-------------------------------|----------------------------|
| Fund Balances - Beginning | <u>35,927,403</u> |
| Fund Balances - Ending | <u><u>\$ 9,355,183</u></u> |

The notes to the financial statements are an integral part of this statement.

Notes to the Basic Financial Statements – Governmental Funds

June 30, 2019

Note 1 – Summary of Significant Accounting Policies

The accompanying financial statements of the Oregon Department of Education's High School Graduation and College and Career Readiness Fund (Fund) have been prepared in conformity with generally accepted accounting principles for governments as prescribed by Governmental Accounting Standards Board (GASB).

A. Reporting Entity

The High School Graduation and College and Career Readiness Fund was initiated by ballot Measure 98 entitled High School Success in November 2016 with the measure passing with 65% voter support. The Fund was established pursuant to House Bill 2246 (2017). The purpose of the Fund is to improve the graduation rates and college and career readiness of all high school students in Oregon.

The High School Graduation and College and Career Readiness Fund program is administered by the Oregon Department of Education (ODE). The Fund consists of several activities to establish or expand programs in three specific areas: Dropout Prevention, Career and Technical Education and College Level Education Opportunities. The intent is to improve student progress toward graduation beginning with grade 9, increase the graduation rates of high schools and improve high school graduates' readiness for college and career.

B. Basis of Presentation

ODE programs and accounts are organized by funds, each of which is a separate accounting entity. The funds utilize a separate set of self-balancing accounts to record the assets, liabilities, fund balance, revenues and expenses of their program activities. ODE's High School Graduation and College and Career Readiness Fund program is classified as a governmental fund.

Governmental funds focus on how cash and other financial resources that can be readily converted to cash flow in and out and the balances remaining at year-end that are available to spend. Thus, the governmental fund statements provide a detailed short-term view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance ODE's programs.

C. Measurement Focus and Basis of Accounting

The basic financial statements for the Fund are presented as a governmental fund. As such, the Fund is accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered available when they are collectible within the current year or soon enough thereafter to pay liabilities existing at the end of the

year. For this purpose, ODE considers revenues as available, if they are collected within 90 days of the end of the current fiscal year. Expenditures generally are recognized when a liability is incurred, as under accrual accounting.

D. Budgetary Process

The Oregon Legislature approves ODE's budget on a biennial basis. The High School Graduation and College and Career Readiness Fund program expenditures are monitored against approved budgets, quarterly allotments and cash balances. Limitations lapse at the end of the biennium. The Emergency Board of the Legislature approves any necessary increases in budgets when the Legislature is not in session. The Fund has continuous spending authority under ORS 327.856.

E. Cash and Cash Equivalents

All monies of the Fund are deposited with the State Treasury, which is responsible for maintaining these deposits in accordance with Oregon law. The Fund considers all such deposits to be cash and cash equivalents. The Fund has no other cash deposits or investments.

F. Fund Equity

The difference between assets, liabilities and deferred inflows of resources is labeled "Fund Balance" on the governmental fund financial statements. Fund balance is reported as Restricted which are the result of constraints imposed by law through constitutional provisions or enabling legislation or by parties outside the State, such as creditors, grantors, contributors or laws or regulations of other governments. Enabling legislation authorizes the State to levy, assess, charge, or otherwise mandate payment from external resource providers and includes a legally enforceable requirement that those resources be used only for specific purposes stipulated by the legislation.

Note 2 – Cash and Cash Equivalents

On June 30, 2019, the book balance of cash and cash equivalents was \$40,754,860 and the bank balance was \$43,695,266. All cash in the Fund is deposited in demand accounts with the State Treasurer in the Oregon Short-Term Fund (OSTF), a cash and investment pool for use by all state agencies.

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the State Treasurer will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. ODE does not have a policy regarding custodial credit risk for deposits; however, the insurance and collateral requirements for deposits in the OSTF are established by banking regulations and Oregon law.

A separate financial report for the OSTF is prepared by the Treasurer. Copies of the report may be obtained by writing to the Oregon State Treasury, 350 Winter Street NE, Suite 100, Salem, Oregon 97301-3896, or from the [Treasury's website](#).

Note 3 – Commitments

As of June 30, 2019, the Fund has active grant agreements in the amount of \$169,906,940 obligated during the 2017-19 biennium and has disbursed a total of \$152,580,047 to districts and charter schools that serve students in grade 9 through grade 12. The amount of undisbursed grant commitments is \$17,326,892.

Note 4 – Interfund Transactions

Transfers are used to move unrestricted revenues collected by the General Fund for various programs accounted for in other funds according to State budget requirements. In the 2017 legislative session, Senate Bill 5516 was passed requiring \$170,000,000 to be transferred to the Fund during the 2017-19 biennium. The amount transferred to the Fund during fiscal year 2019 was \$85,050,000.

Note 5 – Subsequent Events

On March 8, 2020, Governor Kate Brown declared a state of emergency to address the spread of COVID-19 in Oregon. To slow the spread, the governor issued an Executive Order that lists specific categories of businesses that must be closed. The transfers that support the Fund are derived from tax inflows which are affected by these closures. At this time, the potential impact of the COVID-19 pandemic to the Fund are unknown.

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Secretary of State

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Director

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with *Government Auditing Standards*

The Honorable Kate Brown, Governor of Oregon
Oregon State Board of Education

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the High School Graduation and College and Career Readiness Fund of the Department of Education, State of Oregon, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the High School Graduation and College and Career Readiness Fund's basic financial statements, and have issued our report thereon dated May 6, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Office of the Secretary of State, Audits Division

State of Oregon
May 6, 2020