

MULTNOMAH EDUCATION SERVICE DISTRICT

MULTNOMAH COUNTY, OREGON



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2009

Multnomah Education Service District
Multnomah County, Oregon
Comprehensive Annual Financial Report
For the Year Ended June 30, 2009

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INTRODUCTION





March 1, 2010

To the Board of Directors and
Residents of Multnomah County
Portland, Oregon

Oregon Municipal Law requires that an independent audit be made of all District funds within six months following the close of the fiscal year. Pursuant to this requirement, the Comprehensive Annual Financial Report of Multnomah Education Service District (Multnomah ESD) for the fiscal year ended June 30, 2009 is hereby submitted.

The District's Business Services department prepared this report, and management assumes the responsibility for the completeness, reliability, and accuracy of all the information presented. The District's management has established a comprehensive internal control framework that is designed both to protect the assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the District's financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). Because the cost of internal controls should not outweigh their benefits, the District's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

REPORT CONTENTS

The Comprehensive Annual Financial Report is presented in five sections. These sections and their components are as follows:

- The **Introductory Section** includes this Letter of Transmittal, list of the Board of Directors and the District's organizational chart.
- The **Financial Section** includes the Independent Auditors' Report, Management's Discussion and Analysis, Basic Financial Statements, Notes to Basic financial Statements and supplemental information.
- The **Statistical Section** includes government wide summary financial data, summary financial trends, revenue capacity, debt capacity, demographic and economic information and operation information.
- The **Grant Compliance Review** section includes Schedule of Expenditures of Federal Awards, 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, Report of Compliance with Requirements Applicable to

each major program and on Internal Control over Compliance in accordance with OMB Circular A-133, and the Schedule of Findings and Questioned Costs.

- The **Auditors' comments and Disclosures Required by Oregon State Regulations** section.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE ESD

The Multnomah ESD service area consists of eight school districts of varying sizes in Multnomah County, Oregon. Those districts are; Centennial School District, Corbett School District, David Douglas School District, Gresham-Barlow School District, Parkrose School District, Portland Public School District, Reynolds School District and Riverdale School District.

Multnomah County is Oregon's most populous county with over 710,000 residents within its 2,000 square mile boundaries. Multnomah County is a community of rich diversity, drawing immigrants from Central and South America, Europe, Asia, Indo-China, Pacific nations and Africa. The result of that diversity is that residents and institutions alike reflect a global perspective.

Education service districts originated in Oregon's first laws establishing a general system of common schools. Throughout the history of Oregon's regional services system, local governance and state statutes concerning the mission of ESDs has remained somewhat constant: "Education Service Districts assist school districts and the State of Oregon achieving Oregon's education goals by providing excellent and equitable educational opportunities for all Oregon public school students." Today, there are 20 ESDs serving 36 counties.

LOCAL SERVICE PLAN

The 2005 Legislature changed the fundamental structure of the prior ESD resolution plan with the passage of House bill 3184. Each ESD's component school districts are to pass the Local Service Plan following the same guidelines of the former resolution plan. It must be passed by two-thirds of the districts representing more than 50 percent of the student population. The Local Service Plan contains services provided by the ESD which serves their particular area.

Multnomah ESD provides the following services to its component school districts:

Special Education Services provides special education services to the component districts as well as to districts outside of Multnomah County. Staff includes teachers, educational assistants,

behavioral and instructional consultants, a positive behavior support consultant, evaluation specialists for early childhood and school age children, early intervention specialists, school psychologists, speech pathologists, licensed social workers, physical therapists, assistive technology consultants, occupational therapists, translators, intake specialists, and various levels of support staff, supervisors, and coordinators. Special Education partners with community organizations and the component districts to ensure that every child with a disability is provided the best educational opportunities available.

Health and Social Services provides and coordinates specialized health and social services that support the educational experience for students enrolled in our component districts as well as some Clackamas County districts. Staff includes nurses, teachers, health assistants, educational assistants, social services providers, support staff, Medicaid specialists, outreach workers, audiologists and immunization specialists. This department coordinates the services Multnomah ESD provides to students with parents and families, school district staff, community health care providers, health care systems, local and state health departments, hospital staff, and other community partners. The department works to ensure that all areas of health are supported for our students' physical, emotional and dental well being. Together a connection is formed between health and education.

Instructional Services provides a variety of value added services to teachers, administrators, educational assistants, students and parents in the component districts as well as to several districts in Clackamas County. Students in Multnomah ESD's educational programs receive comprehensive educational support, social services, career training, college assistance, environmental education, and specialized education services within one or more of the following programs and/or schools: Alpha, Alternative Pathways, Arata Creek, Donald E. Long, Helensview, Migrant Education, and Outdoor School. These programs emphasize compassion for others, nonviolent ways of settling disputes, resiliency to handle life's challenges, and preparation for college, work, parenthood and civic responsibility.

Instructional Services provides instruction for students enrolled in regional programs, instructional support for schools, and professional development for educators on a variety of topics. These programs offer a variety of enrichment and enhancement opportunities which complement instruction within the component districts.

Technology Services provides services both to the component districts through resolution and contracted services as well as internally to Multnomah ESD. The goal of Technology Services is to deliver administrative computer technology and support designed to increase the component district's efficiency and improve internal and external communications. The services fall into four categories: Student Information Services, Business Systems Support, Network Services, and Internal Agency Support.

Communication Services consists of three programs: Public Information, Printing and Graphic Services and the E² Foundation. Public information provides internal and external communications media and community relations, support for Multnomah ESD's publications and websites, and coordinates agency events throughout the year. Printing and Graphic Services

provides graphic design, high speed and color copying, bindery and document finishing and full color digital imaging for internal and external customers. The E² Foundation is Multnomah ESD's affiliated nonprofit corporation that raises money for Multnomah ESD's programs, creates community partnerships, builds awareness of Multnomah ESD programs and assists staff in grant writing and proposal development.

Administrative and Support Services provides services for component school districts, including but not limited to services designed to consolidate component school district business functions, liaison services between the Department of Education and component school districts, registration of children being taught by private teachers, parents or legal guardians pursuant to ORS 339.035, and substitute teacher registration and administration.

Other Support Services such as home school registration and courier services.

RELEVANT FISCAL POLICIES

The Multnomah ESD Board is authorized to prepare and adopt a budget for its own expenditures and for its operational, administrative and local service plan expenses. The Multnomah ESD budget serves as the financial plan of operation for Multnomah ESD and includes estimates of expenditures for a given period and purpose and the proposed means of financing the estimated expenditures.

The Multnomah ESD budget is prepared in full compliance with federal and state laws and regulations. The Superintendent is designated as budget officer and he/she or designee prepares the budget document.

The Board serves as Multnomah ESD's budget committee.

As budget officer the Superintendent performs, or cause to have performed that; there be a presentation of a budget calendar, preparation of the annual or biennial budget, presentation of the budget to the Board, serve as representation of the Board at the budget hearing conducted by the Tax Supervising and Conservation Commission, prepare and submit all resolutions for Board action as necessary to the approval and adoption of the budget, set the appropriations and making the levy, prepare and file all necessary legal notices and reports required by the Local Budget Law. The fiscal year will extend from July 1 to June 30 inclusive.

The Board will adopt a budget calendar for the budget period which identifies dates and deadlines required for the legal presentation and adoption of the budget.

Financial Reporting - The financial statements of Multnomah ESD are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). In addition to presenting the financial position, results of operations and changes in financial position of Multnomah ESD funds, the financial statement reconciles differences in reporting

activities between the budgetary basis as presented in the annual approved budget and the basis according to GAAP.

Cash Management – Through the year, cash not required for current operations is invested in the State of Oregon Local Government Investment Pool, U.S. Treasury securities and demand deposits.

Respectfully submitted,

Ron Hitchcock
Superintendent

Robert Sesnon
Director of Business Services

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ORGANIZATIONAL STRUCTURE

BOARD OF DIRECTORS

**SUPERINTENDENT
AND
ADMINISTRATION**

**OPERATIONS
ADMINISTRATION
PROGRAM SUPPORT**

**PROGRAMS
INSTRUCTION
STUDENT SUPPORT**

**BUSINESS
SERVICES**

**HEALTH AND SOCIAL
SERVICES**

**COMMUNICATION
SERVICES**

**INSTRUCTIONAL
SERVICES**

**HUMAN RESOURCE
SERVICES**

**SPECIAL EDUCATION
SERVICES**

**LEGAL
SERVICES**

**TECHNOLOGY
SERVICES**

MULTNOMAH EDUCATION SERVICE DISTRICT
11611 NE Ainsworth Circle
Portland, Oregon 97220

BOARD OF DIRECTORS

BOARD OF DIRECTORS AS OF JUNE 30, 2009

Position	Board Member	Represented Zone	Term Ends
One	Ken Kissir	East Multnomah County	6/30/2009
Two	Zak Johnson, Vice Chair	At Large	6/30/2009
Three	Harry Ainsworth	Central Portland	6/30/2009
Four	Jean Haliski	Mid-Multnomah County	6/30/2009
Five	Geri Washington	N/NE Portland	6/30/2011
Six	Kevin Spellman, Chair	At large	6/30/2009
Seven	Sean Schafer	SE/SW Portland	6/30/2011

ADMINISTRATION

Ron Hitchcock	Superintendent
Barbara Jorgensen	Chief Program Officer
Robert Sesnon	Director, Business Services
David Turner	General Counsel

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT (Continued)

Board of Directors
Multnomah Education Service District
Portland, Oregon
March 1, 2010
Page 2

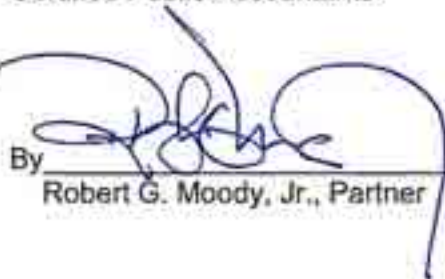
opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, as listed in the Table of Contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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 the District's basic financial statements. The other schedules, listed in the Table of Contents as Supplementary Information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The other schedules 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 accompanying Introductory and Statistical sections, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

TALBOT, KORVOLA & WARWICK, LLP
Certified Public Accountants

By  _____
Robert G. Moody, Jr., Partner

MANAGEMENT'S DISCUSSION AND ANALYSIS



Multnomah Education Service District
Multnomah County, Oregon
Management's Discussion and Analysis
For the Year Ended June 30, 2009

As management of Multnomah Education Service District, we offer readers of the District's financial statement this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2009.

FISCAL HIGHLIGHTS

During the 2008-09 fiscal year the District made several significant accounting changes in order to add clarity and transparency to its financial operations. For one, the District's General Fund has been renamed the Resolution Services Fund and is now a special revenue fund. A significant amount of the District's total revenues are derived from property taxes and State School Fund (which together constitute "local revenues"). In accordance with Oregon statutes, 90% of these proceeds are restricted for use by the District's eight component school districts while the remaining 10% may be used to fund supporting operations. The 90% is allocated to the component school districts based on their ADMw.

These revenues have historically been tracked in the General Fund. However, other revenue sources as well as some operating activities were also accounted for in this fund. The **Resolution Services** Fund now accounts solely for the local revenues and the cost of services related to these revenues. 10% of local revenues received are transferred to the Operating Fund in order to fund support operations. Any fund balance is reserved for the District's component school district's use.

The District Services Fund has been renamed the **Contracted Services** Fund and now accounts only for revenues from grants, state contracts, and revenues from the District's component school districts for additional services beyond those purchased through the Resolution Services Fund. The lesser of 10% or the maximum allowable by the specific grant or contract is charged as overhead expenditures and revenue to the Operating Fund. Expenditures in this fund are solely for services funded by the above-mentioned revenue sources.

The Support Services fund has been renamed the **Operating** Fund. Its main sources of funds are 10% of local revenues transfers from the Resolution Services Fund and a maximum 10% overhead charge from the Contracted Services Fund. Because this Fund is unrestricted in nature it has become the District's General Fund.

Lastly, a fiduciary fund, **Agency Pass-Through**, was created in order to more clearly account for proceeds for which the District acts purely as a custodian for its component school districts. All such monies are now recorded as a liability in this fund.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

Multnomah Education Service District
Multnomah County, Oregon
Management's Discussion and Analysis
For the Year Ended June 30, 2009

This report also contains supplementary information in addition to the basic financial statements themselves.

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:

Statement of Net Assets - presents information on all of the assets and liabilities of the District at year-end. Net assets are those remaining after the liabilities have been recognized. 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.

Statement of Activities - presents information showing how the net assets of the District change over the future years by tracking revenues, expenses and other transactions that increase or reduce net assets. Revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

In the **Government-wide Financial Statements**, the District's activities are shown in one category as governmental activities. The governmental activities include services related to education K-12. 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 11-12 of this report.

Fund Financial Statements are a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The District maintains the following major funds: Resolution Services, Contracted Services, Operating, Debt Service, and Facilities Acquisition and Improvement. Information on each of these funds is presented separately in the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances.

Notes to the Basic Financial Statements 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 21-37 of this report.

Government-Wide Financial Analysis

Statement of Net Assets. As noted earlier, net assets may serve as a useful indicator of a government's financial position over time.

Table 1 provides a comparative summary of the Multnomah Education Service District's net assets for the year ending June 30, 2008 and 2009 respectively.

Multnomah Education Service District
 Multnomah County, Oregon
Management's Discussion and Analysis
 For the Year Ended June 30, 2009

Table 1
Net Assets

	<u>June 30, 2008</u>		<u>June 30, 2009</u>		<u>Increase (Decrease)</u>
Assets					
Cash and Cash Equivalents	\$ 24,565,188	\$	25,052,367	\$	487,179
Cash with County Treasurer	166,993		-		(166,993)
Property Tax Receivable	1,172,720		1,385,301		212,581
Accounts Receivable	4,332,536		7,928,531		3,595,995
Inventory	1,054,156		1,029,202		(24,954)
Prepaid Items	319,333		63,893		(255,440)
Prepaid Pension Cost, Net of Amortization	26,757,783		25,349,424		(1,408,359)
Bond Issuance Costs, Net of Amortization	151,889		186,535		34,646
Capital Assets, Net of Depreciation	<u>10,825,967</u>		<u>11,179,845</u>		<u>353,878</u>
Total Assets	<u>\$ 69,346,565</u>	<u>\$</u>	<u>72,175,098</u>	<u>\$</u>	<u>2,828,533</u>
Liabilities					
Accounts Payable	684,144		7,630,175		6,946,031
Accrued Payroll, Taxes and Withholdings	3,671,940		2,719,152		(952,788)
Accrued Compensated Absences Payables	159,481		173,731		14,250
Other Post Employment Benefits			166,067		166,067
Long-term Liabilities:					
Due Within One Year	440,000		589,386		149,386
Due in More than One Year	<u>36,785,000</u>		<u>36,462,815</u>		<u>(322,185)</u>
Total Liabilities	<u>\$ 41,740,565</u>	<u>\$</u>	<u>47,741,326</u>	<u>\$</u>	<u>6,000,761</u>
Net assets:					
Invested in Capital Assets, Net of Related Debt	\$ 6,740,967	\$	7,227,643	\$	486,676
Unrestricted (as restated and reclassified)	<u>20,865,033</u>		<u>17,206,127</u>		<u>(3,658,906)</u>
TOTAL NET ASSETS	<u>\$ 27,606,000*</u>	<u>\$</u>	<u>24,433,772</u>	<u>\$</u>	<u>(3,172,228)</u>

Multnomah Education Service District
Multnomah County, Oregon
Management's Discussion and Analysis
For the Year Ended June 30, 2009

Statement of Net Assets (Continued)

A large portion of the District's net assets reflects its investment in capital assets (e.g. buildings, vehicles and equipment). The District uses the capital assets to provide services to students and other District residents; consequently these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net Assets – 2009 compared to 2008

The District is able to report positive balances in its government-wide net assets. As seen in the preceding table, total net assets decreased by \$3.2 million in 2009, or 11.5%. About 29% of the District's \$24.4 million in net assets (or \$7.2 million) is invested in capital assets (e.g., land buildings, machinery, and equipment), less any outstanding related debt used to acquire those assets.

Unrestricted net assets have fallen \$4.0 million (18.9%) from \$21.2 million in 2008 to \$17.2 million in the current year. Several factors account for the overall decline, as explained in the fiscal highlights section of this Management Discussion and Analysis.

Multnomah Education Service District
Multnomah County, Oregon
Management's Discussion and Analysis
For the Year Ended June 30, 2009

Statement of Activities: Table 2 shows the District's net assets decreased by \$3,172,228 for fiscal year 2008-09.

Table 2
Changes in Net Assets

	2008	2009	Increase (Decrease)
Revenues:			
Program Revenues:			
Charges for Services	\$ 8,251,120	\$ 13,205,946	\$ 4,954,826
Operating Grants and Contributions	19,192,550	19,407,801	215,251
General Revenues:			
Property Taxes	22,940,470	23,561,749	621,279
State School Fund - General Support	10,692,471	8,298,709	(2,393,762)
Federal Stimulus	-	907,566	907,566
Earnings on Investments	1,407,155	576,777	(830,378)
Gain on disposition of Capital Assets	778	-	(778)
Miscellaneous	5,707,678	1,422,965	(4,284,713)
Total Revenues	\$ 68,192,222	\$ 67,381,513	\$ (810,709)
Expenses:			
Instruction	\$ 16,977,374	\$ 15,083,185	\$ (1,894,189)
Support Services	37,284,143	40,395,972	3,111,829
Enterprise and Community Services	2,315,736	2,651,994	336,258
Apportionment of Funds	9,492,872	10,218,146	725,274
Unallocated Depreciation		267,711	267,711
Interest on Long-Term Debt	1,956,306	1,936,735	(19,571)
Total Expenses	\$ 68,026,431	\$ 70,553,743	\$ 2,527,312
CHANGE IN NET ASSETS	\$ 165,791	\$ (3,172,228)	\$ (3,338,019)
NET ASSETS, beginning of year, restated & reclassified	31,885,658	27,606,000	(4,279,658)
NET ASSETS, end of year	\$ 27,606,000*	\$ 24,433,772	\$ (3,172,228)

*Net Assets restated

Multnomah Education Service District
 Multnomah County, Oregon
Management's Discussion and Analysis
 For the Year Ended June 30, 2009

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As fully explained in the Fiscal Highlights section above, the District made several significant accounting changes during the 2008-09 fiscal year. As displayed in the chart below, the names of three funds were changed to more clearly describe their nature and purpose.

Prior Fund and Type	Current Fund and Type
General Fund (General Fund)	Resolution Services Fund (Special Revenue)
District Services Fund (Special Revenue)	Contracted Services Fund and Agency Pass-Through Fund (Special Revenue and Fiduciary)
Support Services (Internal Service)	Operating Fund (General Fund)

In addition to these fund changes, accounting for internal charges was also changed. In prior years, overhead charges were shown as expenditures in the respective funds, with corresponding revenue amounts in the Support Services fund. These internal transactions served to artificially inflate both revenues and expenditures while also adding confusion.

Lastly, in prior years monies that the District received while acting as a custodial agent for its component districts was recorded as revenues and the distribution of these funds was subsequently recorded as expenditures. During 2008-09 the Contracted Services beginning fund balance was restated in order to remove these cumulative balances from fund balance and recorded them as liabilities in the new District Pass-Through Fund. All future receipts will be recorded as liabilities in this Fund and distributions will decrease these liabilities.

Operating (General) Fund Budgetary Highlights

Significant accounting changes were made to the Operating Fund during the 2008-09 fiscal year which resulted in realized revenues in total falling under budget by \$146,068. However, these same changes also resulted in an overall reduction in expenditures in the amount of \$684,567 compared with the budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The District's investment in capital assets includes buildings and improvements, site improvements, vehicles and equipment, and construction in progress. As of June 30, 2009 the District had invested \$11,179,845 in capital assets, net of depreciation. Additional information on the District's capital assets can be found on Note 4 to the financial statements.

Multnomah Education Service District
Multnomah County, Oregon
Management's Discussion and Analysis
For the Year Ended June 30, 2009

Long-Term Debt. At the end of the current fiscal year, the District had two bond issues with a total debt outstanding of \$36,785,000. The OSBA Limited Tax Pension Obligations, Series 2004 bonds had a remaining balance of \$33,100,000 at June 30, 2009. These bonds were sold to fund the District's Public Employees Retirement System unfunded actuarial liability. The source of funding to repay this debt is derived from charges to payroll which reduces the District's PERS contributions.

The second issue is the 2004 Refunding of 1997 full faith credit obligations. This is a general obligation bond issue and funds are transferred from the Operating fund to the Debt Service fund each year to pay the annual debt service. Proceeds from the original issue were used to construct Alpha High School.

Further information on the District's long-term debt can be found in Note 5 to the Financial Statements.

Additionally, the district entered into a lease agreement for financing the acquisition of a Digital Offset press. As of June 30, 2009 the District had total minimum future lease payments in the amount of \$267,201.

Further information on the District's capital lease can be found in Note 6 to the Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The current recession has served to reduce revenues resulting in the reduction and/or elimination of some program services. Responding to serious decreases in statewide tax revenues, in January 2010, Oregon voters passed Measures 66 and 67 which upheld tax increases previously set by the legislature for the 2009-11 biennium. Though these tax increases provide much needed funding, Oregon continues to face uncertainties created by the weakened economy. Employment rates have continued to drop throughout 2009, and are not expected to recover until the latter part of 2010.

In July 2011, the District's contribution to PERS will increase significantly due to an updated actuarial valuation that reflects the economic recession and resulting loss of investment income.

These major economic factors point to the District continuing to face budget challenges into the next fiscal year.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Multnomah Education Service District's finances. Questions concerning any of the information provided in the report or requests for additional financial information should be addressed to:

Director of Business Services
Multnomah Education Service District
11611 NE Ainsworth Circle
Portland, OR 97220

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BASIC FINANCIAL STATEMENTS



**Multnomah Education Service District
Multnomah County, Oregon
Statement of Net Assets
As of June 30, 2009**

	Governmental Activities
Assets	
Cash and Cash Equivalents	25,052,367
Property Taxes Receivable	1,385,301
Accounts Receivable	7,928,544
Inventory	1,029,202
Prepaid Items	63,893
Prepaid Pension Costs, Net of Amortization	25,349,424
Bond Issuance Costs, Net of Amortization	186,535
Capital Assets, Net of Depreciation	11,179,845
Total Assets	72,175,111
Liabilities	
Accounts Payable	7,630,175
Accrued Payroll & Withholdings	2,719,152
Accrued Compensated Absences	173,731
Other Post Employment Benefits	166,067
Non-Current Liabilities:	
Due Within One Year	589,386
Due in More Than One Year	36,462,815
Total Liabilities	47,741,326
Net Assets	
Invested in Capital Assets, Net of Related Debt	7,227,643
Unrestricted	17,206,127
Total Net Assets	24,433,772

Multnomah Education Service District
Multnomah County, Oregon
Statement of Activities
For the Year Ended June 30, 2009

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Instruction				
Regular Programs	902,357	413,426	1,810	(487,121)
Special Programs	14,180,828	4,178,489	6,209,296	(3,793,043)
Support Services				
Student Services	21,826,286	4,198,858	7,402,458	(10,224,970)
Instructional Staff Services	1,971,137	78,333	1,733,053	(159,751)
General Administration	900,449		2,896	(897,553)
School Administration	1,233,921	698,998	78,862	(456,061)
Business Services	8,459,963	2,590,415	116,985	(5,752,563)
Central Activities	6,004,216	618,240	36,443	(5,349,533)
Enterprise and Community Services				
Food Services	671,643	429,187	244,155	1,699
Community Services	1,869,863		2,199,376	329,513
Custody and Care of Children	110,488			(110,488)
Apportionment of Funds	10,218,146		1,382,467	(8,835,679)
Unallocated Depreciation	267,711			(267,711)
Interest on Long-Term Debt	1,936,735			(1,936,735)
Total Governmental Activities	70,553,743	13,205,946	19,407,801	(37,939,996)
General Revenues				
				23,561,749
				8,298,709
				907,566
				576,777
				1,422,965
				34,767,766
				(3,172,228)
				27,606,000
				24,433,772

Multnomah Education Service District
Multnomah County, Oregon
Balance Sheet- Governmental Funds
As of June 30, 2009

	Operating	Resolution Services	Contracted Services	Debt Service	Facilities Acquisition & Improvements	Total
Assets						
Cash and Cash Equivalents	14,386,326	4,118,484	5,583,678		963,879	25,052,367
Property Taxes Receivable	1,385,301					1,385,301
Accounts Receivable	3,676	96,687	7,788,340		39,841	7,928,544
Inventory	1,029,202					1,029,202
Prepaid Items	10,000		53,893			63,893
Total Assets	15,429,204	5,600,472	13,425,911		1,003,720	35,459,307
Liabilities						
Accounts Payable	1,533,922	3,983,399	2,102,782		10,072	7,630,175
Accrued Payroll & Withholdings	2,609,716	95,566	13,870			2,719,152
Deferred Tax Revenue		1,066,270				1,066,270
Total Liabilities	4,143,638	5,145,235	2,116,652		10,072	11,415,597
Fund Balances						
Reserved:						
Inventory	1,029,202					1,029,202
Prepaid Items	10,000		53,893			63,893
Unreserved, Undesignated Reported In:						
General Fu:						
Special Revenue Funds		455,237	11,255,367			10,246,364
Debt Service Funds				()		11,710,604
Capital Projects Funds					993,647	993,647
Total Fund Balances	11,285,566	455,237	11,309,260	()	993,647	24,043,711
Total Liabilities and Fund Balances	15,429,204	5,600,471	13,425,911	()	1,003,719	35,459,307

**Multnomah Education Service District
Multnomah County, Oregon
Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Assets
For the Year Ended June 30, 2009**

Total Fund Balances – Governmental Funds	\$	24,043,711
Capital assets are not financial resources and therefore are not reported in the governmental funds.		11,179,845
Prepaid pension expense, net of accumulated amortization		25,349,424
A portion of the District’s property taxes are collected after year-end but are not available soon enough to pay for the current years’ operations, and therefore are not reported as revenue in the governmental funds.		1,066,270
Long-term liabilities not payable in the current year are not reported as governmental fund liabilities.		
These liabilities consist of:		
GO Bonds Payable		(33,100,000)
OSBA Bonds Payable		(3,685,000)
Capital Lease Payable		(267,215)
Unamortized Bond Issuance Costs		186,535
Other Post Employment Benefits		(166,067)
Compensated Absences Payable		(173,731)
		<hr/>
Net Assets	\$	<hr/> <u>24,433,772</u>

**Multnomah Education Service District
Multnomah County, Oregon
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2009**

	Operating	Resolution Services	Contracted Services	Debt Service	Facilities Acquisition & Improvements	Total
Revenues						
Property Taxes		23,219,411				23,219,411
State School Fund		8,298,709				8,298,709
Local Sources		98,630	12,617,479			12,716,109
State Sources		423,278	12,096,822		71,387	12,591,487
School Improvement Fund			965,201			965,201
Federal Sources		907,566	6,052,064			6,959,630
Investment Earnings		349,631	227,146			576,777
Sales of Goods & Services	24,859	3,075	478,344			506,278
Other Revenues	16,938	31,257	1,333,262	1,558,621		2,940,078
Charges For Services	5,036,880		3,483,776			8,520,656
Total Revenues	5,078,677	33,331,557	37,254,094	1,558,621	71,387	77,294,336
Expenditures						
Instruction		5,676,944	10,723,655			16,400,599
Support Services	4,190,180	19,837,844	23,675,274		402,522	48,105,820
Enterprise and Community Services		114,628	2,697,689			2,812,317
Debt Service				2,376,735		2,376,735
Total Expenditures	4,190,180	25,629,416	37,096,618	2,376,735	402,522	69,695,471
Excess of Revenues Over (Under) Expenditures	888,497	7,702,141	157,485	(818,113)	(331,134)	7,598,876
Other Financing Sources (Uses)						
Apportionment of Funds		(8,835,679)	(1,382,467)			(10,218,146)
Transfers In	10,026,910			215,215		10,242,125
Transfers Out		(8,227,222)	(2,014,903)			(10,242,125)
Proceeds from Obligations Under Capital Leases	307,952					307,952
Total Other Financing Sources (Uses)	10,334,862	(17,062,901)	(3,397,370)	215,215		(9,910,194)
Change in Fund Balance Beginning Fund Balances (as Restated and Reclassified)	62,206	9,815,995	14,549,144	602,899	(331,134)	26,355,028
Ending Fund Balances	11,285,566	455,237	11,309,260		993,647	24,043,711

**Multnomah Education Service District
Multnomah County, Oregon
Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
to the Statement of Activities
For the Year Ended June 30, 2009**

Total Net Changes in Fund Balances – Governmental Funds \$ (2,311,317)

Amounts reported for governmental activities in the Statement of Activities are different because :

Governmental funds report capital asset additions as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. 353,877

In the Statement of Net Assets repayment of principal is an expenditure in the governmental funds but reduces the liability in the Statement of Net Assets 480,751

Governmental funds report the effect of issuance costs, premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities

Capital Lease (307,952)

Amortization of Bond Discount and Amortization of Issuance Costs 34,646

Amortization of Prepaid Pension Expense (1,408,359)

Revenues that do not meet the measurable and available criteria are not recognized in the current year in the governmental funds. In the Statement of Activities revenues are recognized as revenue when earned.

Property Taxes 166,443

Other post employment benefits expenses are reported in the Statement of Activities but they are not reported as expenditures in the governmental funds. (166,067)

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 an expenditure when incurred. (14,250)

Change in Net Assets of Governmental Activities \$ (3,172,228)

Multnomah Education Service District
Multnomah County, Oregon
Statement of Revenues, Expenditures and Changes in Fund Balance
Actual and Budget
For the Year Ended June 30, 2009

Operating Fund

	Original Budget	Final Budget	Actual	Variance to Final Budget Positive (Negative)
Revenues				
Sales of Goods & Services			24,859	24,859
Other Revenues	413,784	413,784	16,938	(396,846)
Overhead Revenues	4,810,961	4,810,961	5,036,880	225,919
Total Revenues	5,224,745	5,224,745	5,078,677	(146,068)
Expenditures				
Support Services	4,842,245	4,842,245	4,190,180	652,067
Contingencies	32,500	32,500		32,500
Total Expenditures	4,874,745	4,874,745	4,190,180	684,567
Excess of Revenues Over (Under) Expenditures	350,000	350,000	888,497	538,497
Other Financing Sources (Uses)				
Transfers In		9,842,567	10,026,910	184,343
Capital Leases			307,952	307,952
Total Other Financing Sources (Uses)		9,842,567	10,334,862	492,295
Net Change in Fund Balance	350,000	10,192,567	11,223,360	1,030,793
Beginning Fund Balances			62,206*	62,206
Ending Fund Balances	350,000	10,192,567	11,285,566*	1,092,999

* As restated and reclassified.

**Multnomah Education Service District
Multnomah County, Oregon
Statement of Revenues, Expenditures and Changes in Fund Balance
Actual and Budget
For the Year Ended June 30, 2009**

Resolution Services Fund

	Original Budget	Final Budget	Actual	Variance to Final Budget Positive (Negative)
Revenues				
Property Taxes	26,451,018	26,451,018	23,219,411	(3,231,607)
State School Fund	8,248,982	8,248,982	8,298,709	49,727
Local Sources			98,630	98,630
State Sources			423,278	423,278
School Improvement Fund	1,100,000	1,100,000		(1,100,000)
Federal Sources			907,566	907,566
Investment Earnings	1,500,000	1,500,000	349,631	(1,150,369)
Sales of Goods & Services			3,075	3,075
Other Revenues	3,250,155	3,250,155	31,257	(3,218,898)
Total Revenues	40,550,155	40,550,155	33,331,557	(7,218,598)
Expenditures				
Instruction	5,374,232	5,374,232	5,676,944	(302,710)
Support Services	23,191,709	23,191,709	19,837,844	3,353,870
Enterprise and Community Services	214,931	214,931	114,628	100,303
Contingencies	800,000	800,000		800,000
Total Expenditures	29,580,872	29,580,872	25,629,416	3,951,463
Excess of Revenues Over (Under) Expenditures	10,969,283	10,969,283	7,702,141	(3,267,141)
Other Financing Sources (Uses)				
Apportionment of Funds	(9,492,872)	(9,492,872)	(8,835,679)	657,193
Transfers Out	(1,375,155)	(9,790,937)	(8,227,222)	1,563,715
Total Other Financing Sources (Uses)	(10,868,027)	(19,283,809)	(17,062,901)	2,220,908
Net Change in Fund Balance	101,256	(8,314,526)	(9,360,758)	(1,046,232)
Beginning Fund Balances	8,800,000	8,800,000	9,815,995	1,015,995
Ending Fund Balances	8,901,256	485,474	455,237	(30,237)

* As restated and reclassified.

Multnomah Education Service District
Multnomah County, Oregon
Statement of Revenues, Expenditures and Changes in Fund Balance
Actual and Budget
For the Year Ended June 30, 2009
Contracted Services Fund

	Original Budget	Final Budget	Actual	Variance to Final Budget Positive (Negative)
Revenues				
Local Sources	11,907,690	11,907,690	12,617,479	709,788
State Sources	14,187,823	14,187,823	12,096,822	(2,091,001)
School Improvement Fund			965,201	965,201
Federal Sources	6,299,499	6,299,499	6,052,064	(247,435)
Investment Earnings	100,000	100,000	227,146	127,146
Sales of Goods & Services	208,325	208,325	478,344	270,019
SB1149 Proceeds	1,500,000	1,500,000		(1,500,000)
Other Revenues	2,515,872	2,515,872	1,333,262	(1,182,610)
Overhead Revenues	4,275,852	4,275,852	3,483,776	(792,076)
Total Revenues	40,995,061	40,995,061	37,254,094	(3,740,968)
Expenditures				
Instruction	15,583,326	15,453,001	10,723,655	4,729,348
Support Services	31,559,183	30,176,715	23,675,274	6,501,447
Enterprise and Community Services	2,864,310	2,994,635	2,697,689	296,947
Contingencies	1,034,062	1,034,062		1,034,062
Total Expenditures	51,040,881	49,658,413	37,096,618	12,561,804
Excess of Revenues Over (Under) Expenditures	(10,045,820)	(8,663,352)	157,485	8,820,837
Other Financing Sources (Uses)				
Apportionment of Funds		(1,382,467)	(1,382,467)	
Transfers In		588,119		(588,119)
Transfers Out		(2,014,903)	(2,014,903)	
Total Other Financing Sources (Uses)		(2,809,251)	(3,397,370)	(588,119)
Net Change in Fund Balance	(10,045,820)	(11,472,603)	(3,239,884)	8,232,718
Beginning Fund Balances	13,852,653	13,852,653	14,549,144*	696,491
Ending Fund Balances	3,806,833	2,380,050	11,309,260*	8,929,210

* As restated and reclassified.

**Multnomah Education Service District
 Multnomah County, Oregon
 Statement of Fiduciary Net Assets
 Fiduciary Funds
 As of June 30, 2009**

	Agency Pass-Through Fund
Assets	
Cash and Cash Equivalents	5,151,653
Total Assets	5,151,653
Liabilities	
Held in Trust	5,151,653
Total Liabilities	5,151,653
Net Assets	
Unrestricted	
Total Net Assets	

NOTES TO BASIC FINANCIAL STATEMENTS



Notes to the Basic Financial Statements
For the Year Ended June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Multnomah Education Service District (the District) is a municipal corporation governed by an elected seven member Board of Directors. Administration officials are approved by the Board. The daily functioning of the District is under the supervision of the Superintendent. 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 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 or included in these basic financial statements.

Basis of Presentation

A. Government-wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the District as a whole. Fiduciary funds are not included in the Government-wide Financial Statements.

The Statement of Net Assets and the Statement of Activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. For the most part, the effect of interfund activity has been removed from these statements except that interfund services provided and used are not eliminated in the process of consolidation.

Program revenues included in the Statement of Activities derive directly from the program itself or from parties outside the District's taxpayers or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the District's general revenues. Program revenues include 1) charges to customers who purchase or use goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues. Certain functional expenses contain an element of indirect cost.

The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

Notes to the Basic Financial Statements
For the Year Ended June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Financial Statements

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange 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. Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

Governmental funds are used to account for the District's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the liability is incurred, except for unmatured interest on long-term debt which is recognized when due, claims and judgments which are recognized as expenditure.

Revenues susceptible to accrual are interest, state, county and local shared revenue and federal and state grants. Expenditure-driven grants are recognized as revenue when qualifying expenditures have been incurred and all other grant requirements have been met.

The District reports the following major governmental funds:

Operating Fund - accounts for support services provided to other funds primarily for data processing, facilities, administration, and transportation services. The principal revenue sources come from the 10% transfer from the Resolution Services Fund and indirect charges from the Contracted Services fund.

Notes to the Basic Financial Statements
For the Year Ended June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Resolution Services Fund - provides for those programs and services authorized by component districts through the resolution process. The sources of revenues for this fund come exclusively from local property taxes and the State School Fund. In accordance with Oregon Revised Statute 334.177, a maximum of 10% of these revenues are transferred to the Operating Fund and used to pay for the general operating costs of the District. The remaining 90% is apportioned to the component school districts according to average daily membership weighted (ADMw).

Contracted Services Fund - accounts for activities carried on for the benefit of participating local school districts, as well as food dispensing programs. The fund is self-supporting through grants and other reimbursements, mainly from the state and participating school districts.

Debt Service Fund – accounts for the principal and interest payments related to two bond issues. The first is the District’s general obligation bonds that were sold to pay off the District’s PERS unfunded actuarial liability. The principal resource is charges to payroll. A second general obligation bond issue was issued to fund the construction of Alpha High School. The principal resource is an interfund transfer from the Resolution Service Fund.

Facilities Acquisition & Improvements Fund – accounts for facility acquisitions and improvements as well as major maintenance projects. In addition, it also accounts for the accumulation of resources for future acquisition of major software, equipment and furniture.

D. Fiduciary Fund

Assets held in trustee capacity for others and not used to support the District’s own programs qualify as fiduciary. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District’s own programs. In 2008-09 the District established the Agency Pass-Through fund to more clearly account for SB1149 dollars which are available for its component districts to pay for energy projects.

E. Cash and Cash Equivalents

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

F. Property Taxes

Uncollected real and personal property taxes are reflected on the Statement of Net Assets and the Balance Sheet as receivables. 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.

Notes to the Basic Financial Statements
For the Year Ended June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property Taxes (Continued)

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

G. Grants

Unreimbursed expenditures due from grantor agencies are reflected in the government-wide financial statements as receivables and revenues. Grant revenues are recorded at the time eligible expenditures are incurred. Cash received from grantor agencies in excess of related grant expenditures is recorded as deferred revenue on the Balance Sheet and Statement of Net Assets.

H. Inventories

The value of inventories is determined using the first-in, first-out method. Inventory items are charged to expenditure/expense at the time the items are used (consumption method).

I. Capital Assets

Capital assets, which include land, buildings, equipment and construction in progress, are defined as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value on the date donated. The costs of normal maintenance and repairs that do not add to the value of the assets 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 years
Equipment	5 to 20 years
Vehicles	5 to 10 years
Site improvements	15 years

J. Compensated Absences

It is the District's policy to permit employees to accumulate earned 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 with the District.

Notes to the Basic Financial Statements
For the Year Ended June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as prepaid items and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

L. Prepaid Pension Costs

As a result of the issuance of the Limited Tax Pension Obligation Bonds the District has reported a Prepaid PERS Asset in the Statement of Net Assets. The prepaid asset is equal to the initial \$33,140,000 payment made to PERS from the bond proceeds, less accumulated amortization at June 30, 2009 of \$7,790,521. Annual amortization has been calculated on the straight line basis.

M. Other Post-Employment Benefits Obligations

The District implemented Government Accounting Standards Board (GASB) Statement No. 45, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions (OPEB) for the fiscal year ended June 30, 2009.

The District's net OPEB is recognized as a liability, as determined by the District's actuary, in the government-wide financial statements. OPEB expense is calculated and recognized based on the annual required contribution determined by the District's actuary.

N. Net Assets

Net assets are classified in the following two categories:

Invested in capital assets, net of related debt – consists of all capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Unrestricted net assets – consists of all other net assets that are not included in the other category previously mentioned.

Notes to the Basic Financial Statements
For the Year Ended June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Estimates

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

A budget is prepared and legally adopted for each governmental fund type on the modified accrual basis of accounting in the main program categories required by the Oregon Local budget Law.

The District begins its budgeting process by appointing Budget Committee members in early fall. Budget recommendations are developed by management throughout the spring, with the Budget Committee meeting and approving the budget document in late spring. Public notices of the budget hearing are generally published in May or June, and the hearing is held in June. The budget is adopted, appropriations are made and the tax levy is declared no later than June 30. Expenditure budgets are appropriated at the major function level (instruction, support services, community services, debt service, contingency, and transfers) for each fund. Appropriations may not legally be over-expended, except in the case of grant receipts which could not be reasonably estimated at the time the budget was adopted.

Unexpected additional resources may be added to the budget through the use of a supplemental budget and appropriation resolution. Supplemental budgets less than 10% of the fund's original budget may be adopted by the Board of Directors at a regular 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. Original and supplemental budgets may be modified by the use of appropriation transfers between the levels of control (major function levels). Such transfers require approval by the Board.

Budget amounts shown in the basic financial statements include the original budget amounts and any appropriation transfers approved by the Board. Appropriations lapse at the end of each fiscal year.

Notes to the Basic Financial Statements
For the Year Ended June 30, 2009

NOTE 3 – CASH AND CASH EQUIVALENTS

State statutes govern the District's cash management policies because the District does not have an official investment policy. Statutes authorize the District to invest in banker's acceptances, time certificates of deposit, repurchase agreements, obligations of the United States and its agencies and instrumentalities, and the Oregon State Treasurer's Local Government Investment Pool.

Cash and Cash Equivalents at June 30, 2009, (recorded at fair value) consisted of:

Cash on Hand	\$	300
Demand Deposits		1,088,120
Local Government Investment Pool		<u>29,115,600</u>
Subtotal	\$	<u>30,204,020</u>
Less Fiduciary Fund		<u>5,151,653</u>
Total	\$	<u><u>25,052,367</u></u>

Investments

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

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, 2009.

Notes to the Basic Financial Statements
For the Year Ended June 30, 2009

NOTE 3 – CASH AND CASH EQUIVALENTS (Continued)

Custodial Credit Risk

Deposits with financial institutions are comprised of bank demand deposits. The combined total bank balance at June 30, 2009 was \$2,337,199. Of these deposits, \$250,000 was covered by federal depository insurance. As required by Oregon Revised Statutes, deposits in excess of federal depository insurance (\$2,087,199) were held at a qualified depository for public funds. All qualified depositories for public funds are included in the multiple financial institution collateral pool that is maintained by and in the name of the Office of the State Treasurer.

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 greater than 18 months.

Credit Risk

Oregon Revised Statutes authorize the District to invest in obligations of the U.S. Treasury, agencies and instrumentalities of the United States, commercial paper, banker's acceptances guaranteed by a qualified financial institution, repurchase agreements, interest bearing bonds of any city, county, port or school district in Oregon (subject to specific standards), and the State of Oregon Local Government Investment Pool (LGIP), among others. The District has not adopted an investment policy and all investment activity has been limited to the LGIP.

Notes to the Basic Financial Statements
For the Year Ended June 30, 2009

NOTE 4 – CAPITAL ASSETS

The changes in capital assets for the year ended June 30, 2009 are as follows:

<u>Description</u>	<u>Balance June 30, 2008 (As Reclassified)</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance June 30, 2009</u>
Capital Assets, not being depreciated:				
Land	\$ 1,935,748	\$ -	\$ -	\$ 1,935,748
Construction in Progress	-	46,769	-	46,769
	<u>1,935,748</u>	<u>46,769</u>	<u>-</u>	<u>1,982,517</u>
Capital Assets, being depreciated:				
Building & Improvements	10,867,256	474,860	-	11,342,116
Site Improvements	217,436	52,284	-	269,720
Equipment & Furniture	1,489,332	363,690	14,108	1,838,914
Vehicles	342,378	6,840	-	349,218
	<u>12,916,402</u>	<u>897,674</u>	<u>14,108</u>	<u>13,799,968</u>
Less Accumulated Depreciation:				
Building & Improvements	2,787,027	334,192	-	3,121,219
Site Improvements	121,005	15,004	-	136,009
Equipment & Furniture	941,655	201,665	14,108	1,129,212
Vehicles	176,496	39,705	-	216,200
	<u>4,026,182</u>	<u>590,566</u>	<u>14,108</u>	<u>4,602,640</u>
Total Capital Assets being Depreciated, net	<u>8,890,220</u>	<u>307,108</u>	<u>-</u>	<u>9,197,328</u>
Capital Assets, net	<u>\$ 10,825,968</u>	<u>\$ 353,877</u>	<u>\$ -</u>	<u>\$ 11,179,845</u>

Notes to the Basic Financial Statements
For the Year Ended June 30, 2009

NOTE 4 – CAPITAL ASSETS (Continued)

Depreciation expense for the year ended June 30, 2009 was allocated to the functions as follows:

<u>Function</u>	<u>Amount</u>
Regular Programs	\$ 3,502
Special Programs	23,541
Student Services	15,315
Instructional Staff Services	396
General Administration	579
Business Services	225,772
Central Services	52,248
Community Services	1,501
Unallocated Depreciation	267,711
	<u>\$ 590,566</u>

NOTE 5 – LONG-TERM DEBT

Following are the changes in long-term debt, for the year ended June 30, 2009:

	<u>OSBA Pension Bonds</u>	<u>2004 GO Bonds</u>	<u>Capital Lease</u>	<u>Total</u>	<u>Interest</u>
Original Amount	\$ 33,140,000	\$ 4,570,000	\$ 307,952	\$ 38,017,952	
Bal. at 6/30/08	\$ 33,140,000	\$ 4,085,000	-	\$ 37,225,000	
Additions	-	-	307,952	307,952	
Payments & Deletions	(40,000)	(400,000)	(40,751)	(480,751)	
Bal at 6/30/09	<u>\$ 33,100,000</u>	<u>\$ 3,685,000</u>	<u>\$ 267,201</u>	<u>\$ 37,052,201</u>	

Amounts Payable in Fiscal Years:

2009-10	\$ 140,000	\$ 410,000	\$ 39,386	\$ 589,386	\$ 1,935,956
2010-11	255,000	420,000	41,570	716,570	1,914,670
2011-12	375,000	440,000	43,876	858,876	1,886,445
2012-13	510,000	455,000	46,309	1,011,309	1,849,206
2013-14	655,000	470,000	48,878	1,173,878	1,806,370
2014-2019	5,935,000	1,490,000	47,182	7,472,182	8,088,158
2019-2024	12,000,000	-	-	12,000,000	5,798,489
2024-2028	13,230,000	-	-	13,230,000	1,720,866
TOTAL	<u>\$ 33,100,000</u>	<u>\$ 3,685,000</u>	<u>\$ 267,201</u>	<u>\$ 37,052,201</u>	<u>\$ 25,000,160</u>

Notes to the Basic Financial Statements
For the Year Ended June 30, 2009

NOTE 5 – LONG-TERM DEBT (Continued)

At the end of the current fiscal year, the District had two bond issues with a total debt outstanding of \$36,785,000. The OSBA Limited Tax Pension Obligations, Series 2004 bonds had a remaining balance of \$33,100,000 at June 30, 2009. These bonds were sold to fund the District's Public Employees Retirement System unfunded actuarial liability. The source of funding to repay this debt is derived from charges to payroll.

The second issue is the 2004 Refunding of 1997 full faith credit obligations. This is a general obligation bond issue and funds are transferred from the Resolution Services Fund to the Debt Service Fund each year to pay the annual debt service. Proceeds from the original issue were used to construct Alpha High School.

NOTE 6 – CAPITAL LEASES

The District has entered into a lease agreement as lessee for financing the acquisition of a Digital Offset Press. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payment as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2009, were as follows:

	Year Ending June 30,	
	2010	\$ 52,874
	2011	52,874
	2012	52,874
	2013	52,874
	2014	52,874
	2015	<u>48,468</u>
Total Minimum lease payments		312,840
Less: amount representing interest		<u>(45,639)</u>
Total Minimum Future Lease Payments		<u><u>\$ 267,201</u></u>
Machinery and Equipment		\$ 307,952
Less depreciation		<u>(61,590)</u>
Total Equipment acquired Under lease agreement		<u><u>\$ 246,362</u></u>

Notes to the Basic Financial Statements
For the Year Ended June 30, 2009

NOTE 7 – OPERATING LEASES

The District leases building space at various locations. Total payments in 2008-09 were \$678,335. Future minimum rental commitments at June 30, 2009 are as follows:

Year Ending June 30,			
2010	\$	597,327	
2011		587,904	
2012		579,257	
2013		584,777	
2014		296,888	
2015 - 2018		988,326	
Total Minimum Future Rental Payments	\$	<u><u>3,634,479</u></u>	

Some leases are cancellable if funding is not available.

NOTE 8 - TRANSFERS

Interfund transfers are used to fund operations in the various accounts. The composition of interfund transfers as of June 30, 2009 is as follows:

	Transfers Out		
Transfers In	Resolution Services	Contracted Services	Total Transfers In
Operating Fund	\$ 8,012,007	\$ 2,014,903	\$ 10,026,910
Debt Service	215,215	-	215,215
Total Transfers Out	<u>\$ 8,227,222</u>	<u>\$ 2,014,903</u>	<u>\$ 10,242,125</u>

- \$215,215 was transferred from the Resolution Services Fund to the Debt Service fund to cover debt service principal and interest payments.
- \$8,012,007 was transferred from the Resolution Services Fund's beginning fund balance to the Operating Fund's beginning fund balance in order to provide clarity and transparency to the District's operations as explained in the Management's Discussion and Analysis.
- \$2,014,903 was transferred from the Contracted Services Fund's beginning fund balance to the Operating Fund's beginning fund balance in order to provide clarity and transparency to the District's operations.

Notes to the Basic Financial Statements
For the Year Ended June 30, 2009

NOTE 9 – RISK MANAGEMENT

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

NOTE 10 – STATEWIDE LOCAL GOVERNMENT RETIREMENT SYSTEM

Plan Description

The District contributes to the Oregon Public Employees Retirement System (PERS) and to the Oregon Public Service Retirement Plan (OPSRP). PERS is a cost sharing multi-employer defined benefit public employee retirement system. OPSRP is a hybrid retirement plan with two components: the pension program (defined benefit; established and maintained as a tax-qualified governmental defined benefit plan) and the individual account program (defined contribution; established and maintained as a tax-qualified governmental defined contribution plan). A defined benefit plan is benefit-based and uses predictable criteria such as a pension determined by salary multiplied by length of service multiplied by a factor. A defined contribution plan has no guarantee. OPSRP is administered by PERS. PERS acts as a common investment and administrative agent for political subdivisions in the State of Oregon.

The 2003 Oregon Legislature established OPSRP. Public employees hired on or after August 29, 2003, become part of OPSRP, unless membership was previously established in PERS. The 1995 Oregon Legislature established a different level of benefits for employees who began their six month waiting period on or before January 1, 1996 called Tier Two.

Benefits generally vest after five years of continuous service. Retirement is allowed at age fifty-eight with unreduced benefits, but retirement is generally available after age fifty-five with reduced benefits. Retirement benefits based on salary and length of service are calculated using a formula and are payable in a lump sum or monthly using several payment options. PERS also provides death and disability benefits. These benefit provisions and other requirements are established by state statute.

The State of Oregon PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Oregon Public Employees Retirement System, P.O. Box 23700, Tigard, Oregon 97281-3700 or by calling 1-888-320-7377.

Funding Policy

The rate of employer contributions to PERS is determined periodically by PERS based on actuarial valuations performed at least every two years. Members of PERS and OPSRP are required to contribute 6 percent of their salary covered under the plan. The District is required by ORS 238.225

Notes to the Basic Financial Statements
For the Year Ended June 30, 2009

NOTE 10 – STATEWIDE LOCAL GOVERNMENT RETIREMENT SYSTEM (Continued)

to contribute at an actuarially determined rate. The District's rate is 8.01 percent for PERS, 10.28 percent for OPSRP – general employees. The contribution requirements for plan members and the Districts are established by ORS Chapter 238 and may be amended by an act of the Oregon Legislature.

The District's contribution to the plan for the years ending June 30, 2009, 2008, and 2007 were approximately \$2,476,000, \$1,788,000, and \$1,794,000, respectively, and were equal to the required contributions for each year.

The District pays the employee portion in accordance with bargaining agreements.

For the year ended June 30, 2009, the District's annual debt service for the limited tax pension bonds included \$40,000 of principal, and \$1,785,780 of interest. Total debt service payments for the years 2007, 2008 and 2009 were \$1,785,780, \$1,785,780, and \$1,825,780, respectively.

Limited Tax Pension Bonds

In February 2004 Multnomah ESD participated as one of twenty Oregon school districts and education service districts in issuing limited tax pension bonds. The proceeds were used to finance a portion of the estimated unfunded actuarial liability of each participating school district with the Oregon Public Employees Retirement System ("Oregon PERS") The Oregon School Boards Association ("OSBA") sponsored this pooled limited tax pension bond program. The OSBA does not have a financial obligation in connection with the bonds issued under the program. Except for the payment of its pension bond payments and additional charges when due, each participating school district has no obligation or liability to any other participating school district's pension bonds or liabilities to Oregon PERS. The District recorded the proceeds of the debt to Oregon PERS as prepaid pension costs and amortizes it as a pension expense over the life of the bonds. Payments of yearly principal and interest are recorded as financial statement expenditures in instruction and in support services. The District anticipates the total costs of financing the District's actuarial obligation in this manner will result in a significant savings to the District when compared to paying for such costs as additional contribution rates to Oregon PERS.

The series 2004 bonds maturing in the years 2014 through 2028 are subject to optional prepayment, in whole or in part, on any date after June 30, 2009. The series 2004 bonds maturing on June 30, 2028 are subject to mandatory prepayment beginning June 30, 2023.

Notes to the Basic Financial Statements
For the Year Ended June 30, 2009

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS

Plan Description

The District does not have a formal post employment benefits plan for the employees; however the District is required by Oregon Revised Statutes 243.303 to provide retirees with group health and dental insurance from the date of retirement to age 65 at the same rate provided to current employees. GASB 45 is applicable to the District due only to the implicit rate subsidy. This “plan” is not a stand-alone plan and therefore does not issue its own financial statements.

Funding Policy

The District collects insurance premiums from all retirees each month and deposits them into a restricted insurance premium account. The District then pays health insurance premiums for all retirees at tiered rates to the insurance company. The required contributions to the plan include the employer’s pay-as-you-go amount, an amount paid by retirees, and an additional amount calculated to prefund future benefits as determined by the actuary.

For the fiscal year ended June 30, 2009, the District retirees paid 100 percent of their insurance premium costs.

Annual OPEB Cost and Net OPEB Obligation

The District’s annual other post employment benefit cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of 30 years. The District’s most recent actuarial valuation date was June 30, 2009, and the following table shows the components of the District’s annual OPEB cost for the year, amounts actually contributed to the plan, and changes in the District’s OPEB obligation to the plan.

Annual Required Contribution (ARC)	\$ 318,722
Net OPEB Obligation (NOO) at Beginning of Year	-
Discount Rate	4.00%
Interest on NOO	-
Amortization Factor	28.00
Adjustment to ARC	-
Annual OPEB Cost	\$ 318,722
Contributions Made	152,655
Increase in NOO	166,067
Expected NOO at End of Year	\$ 166,067

Notes to the Basic Financial Statements
For the Year Ended June 30, 2009

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS (Continued)

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the past fiscal year ended is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percent of Annual OPEB Cost Contribution	Net OPEB Contribution
6/30/2009	\$ 318,722	48%	\$ 166,067

Funding Status and Funding Progress

The funded status of the plan as of June 30, 2009, representing the date of the most recent actuarial valuation, was as follows:

Actuarial Accrued Liability (AAL)	\$ 2,830,915
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	\$ 2,830,915

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

In the most recent actuarial valuation as of June 30, 2009, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10.0 percent initially, and then declining over the next twenty-nine years until 5 percent is reached. The projected annual rate of wage inflation is 3.5 percent compounded annually and the UAAL is being amortized over an initial period of thirty years.

Notes to the Basic Financial Statements
For the Year Ended June 30, 2009

NOTE 11 – OTHER POST EMPLOYMENT BENEFITS (continued)

Retirement Health Insurance Account

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

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

Participating school districts are contractually required to contribute to RHIA at a rate assessed each year by OPERS, and the District currently contributes 0.37% of annual covered payroll. The OPERS board of Trustees sets the employer contribution rates based on the annual required contribution of the employers (ARC), and amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on a ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The District's contributions to RHIA for the year ended June 30, 2009 are included in the PERS annual pension amount.

Notes to the Basic Financial Statements
For the Year Ended June 30, 2009

NOTE 12 – PROPERTY TAX LIMITATIONS

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

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

NOTE 13 – COMPLIANCE AND COMPATABILITY

For the year ended June 30, 2009 expenditures exceeded appropriations in the following budgetary control categories:

Fund / Function	Appropriation	Expenditure	Excess
Resolution Services Fund			
Instructional Services	\$ 5,374,232	\$ 5,676,944	\$ (302,712)

NOTE 14 – COMMITMENTS AND CONTINGENCIES

At June 30, 2009 the District was committed on outstanding construction, engineering, consulting, service and equipment purchase contracts totaling approximately \$364,000 in governmental activities.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by these agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the district. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time, although district management expects such amounts, if any, to be immaterial.

Notes to the Basic Financial Statements
For the Year Ended June 30, 2009

NOTE 15 – RESTATEMENT AND RECLASSIFICATION

The District has reclassified and restated its funds and their purpose to better reflect its operations, as follows:

Fund	Fund Balance/Net Assets			As Reclassified and Restated July 1, 2008
	As Previously Reported July 1, 2008	Reclassification	Restatement *	
General	\$ 9,815,995	\$ (9,815,995)	\$ -	\$ -
District Services	18,994,595	(18,994,595)	-	-
Debt Services	602,899	-	-	602,899
Capital Projects	1,324,782	(1,324,782)	-	-
Internal Service	138,003	(62,203)	(75,797)	-
Operating Resolution Services	-	62,206	-	62,206
Contracted Services	-	9,815,995	-	9,815,995
Facilities Acquisition & Improvements	-	14,549,144	-	14,549,144
Fiduciary Fund	-	1,324,782	-	1,324,782
	-	4,445,451	-	4,445,451
	<u>\$ 30,876,274</u>	<u>\$ -</u>	<u>\$ (75,797)</u>	<u>\$ 30,800,477</u>
Entity-wide	<u>\$ 37,051,449</u>	<u>\$ (4,445,451)</u>	<u>\$ -</u>	<u>\$ 27,605,998</u>

* Amount represents capital assets recognized on the entity-wide financial statements.

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SUPPLEMENTAL INFORMATION



Multnomah Education Service District
Multnomah County, Oregon
Schedule of Revenues, Expenditures and Changes in Fund Balance
Actual and Budget
For the Year Ended June 30, 2009

Debt Service Fund

	Original Budget	Final Budget	Actual	Variance to Final Budget Positive (Negative)
Revenues				
Other Revenues	1,649,845	1,649,845	1,558,621	(91,224)
Total Revenues	1,649,845	1,649,845	1,558,621	(91,224)
Expenditures				
Debt Service	2,500,000	2,500,000	2,376,735	123,265
Total Expenditures	2,500,000	2,500,000	2,376,735	123,265
Excess of Revenues Over (Under) Expenditures	(850,155)	(850,155)	(818,113)	32,041
Other Financing Sources (Uses)				
Transfers In	550,155	550,155	215,215	(334,940)
Total Other Financing Sources (Uses)	550,155	550,155	215,215	(334,940)
Net Change in Fund Balance	(300,000)	(300,000)	(602,899)	(302,899)
Beginning Fund Balances	300,000	300,000	602,899	302,899
Ending Fund Balances			()	()

**Multnomah Education Service District
Multnomah County, Oregon
Schedule of Revenues, Expenditures and Changes in Fund Balance
Actual and Budget
For the Year Ended June 30, 2009**

Facilities Acquisition & Improvement Fund

	Original Budget	Final Budget	Actual	Variance to Final Budget Positive (Negative)
Revenues				
State Sources			71,387	71,387
Total Revenues			71,387	71,387
Expenditures				
Support Services	1,178,196	1,178,196	402,522	775,674
Contingencies	197,000	197,000		197,000
Total Expenditures	1,375,196	1,375,196	402,522	972,674
Excess of Revenues Over (Under) Expenditures	(1,375,196)	(1,375,196)	(331,134)	1,044,061
Other Financing Sources (Uses)				
Transfers In	825,000	825,000		(825,000)
Total Other Financing Sources (Uses)	825,000	825,000		(825,000)
Net Change in Fund Balance	(550,196)	(550,196)	(331,134)	219,061
Beginning Fund Balances	1,098,369	1,098,369	1,324,781	226,412
Ending Fund Balances	548,173	548,173	993,647	445,474

Multnomah Education Service District

Schedule of Property Tax Transactions

Fiscal Year Ended June 30, 2009

<u>Tax Year</u>	<u>Original Levy or Uncollected July 1, 2008</u>	<u>Add (Deduct) Discounts</u>	<u>Adjustments To Rolls</u>	<u>Add Interest</u>	<u>Other Adjustments</u>	<u>Add (Deduct) Cash Collections by County Treasurer</u>	<u>Balance Uncollected or Unsegregated June 30, 2009</u>
Current:							
2008-09	\$ 24,385,920	\$ (595,125)	\$ (95,752)	\$ 30,611	\$ -	\$ 22,851,945	\$ 873,709
Prior Years:							
2007-08	722,027	1,535	(53,280)	25,418	(34,221)	364,845	296,635
2006-07	237,754	175	(36,523)	14,171	(22,204)	69,923	123,451
2005-06	113,881	124	(25,724)	13,339	(16,366)	38,132	47,122
2004-05	53,419	64	(20,740)	8,884	(14,107)	17,330	10,191
2003-04 & Prior	45,639	3	(335)	2,897	(7,015)	6,996	34,193
Total Prior	<u>1,172,720</u>	<u>1,901</u>	<u>(136,602)</u>	<u>64,710</u>	<u>(93,913)</u>	<u>497,225</u>	<u>511,591</u>
Total	<u><u>25,558,640</u></u>	<u><u>(593,224)</u></u>	<u><u>(232,354)</u></u>	<u><u>95,320</u></u>	<u><u>(93,913)</u></u>	<u><u>23,349,169</u></u>	<u><u>1,385,301</u></u>

SUPPLEMENTAL INFORMATION, 2008-2009

This page is a required part of the annual audited financial statements.

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	\$ 375,107
Function 2550	None

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

\$ 50,313

Exclude thee functions:

- | | | | |
|-------------------|--------------------------|------|----------------------|
| 1113, 1122 & 1132 | Co-curricular Activities | 4150 | Construction |
| 1140 | Pre-Kindergarten | 2550 | Pupil Transportation |
| 1300 | Continuing Education | 3100 | Food Service |
| 1400 | Summer School | 3300 | Community Services |

STATISTICAL SECTION



STATISTICAL SECTION

For Year Ending June 30, 2009

This section of the District's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and supplementary information says about the District.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the District's most significant local revenue source, the property tax.

Debt Capacity

These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt, and the District's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment with which the District's financial activities take place

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.

Multnomah Education Service District
Multnomah County, Oregon
Statement of Net Assets
Last Seven Years

	2003	2004	2005	2006	2007	2008	2009
Assets							
Cash and Cash Equivalents	\$ 16,601,314	\$ 21,920,481	\$ 26,440,485	\$ 26,590,257	\$ 29,707,115	\$ 29,010,637	\$ 25,052,367
Cash with County Treasurer	-	-	170,844	158,410	159,276	166,993	-
Property Tax Receivable	1,138,415	1,071,167	1,008,347	969,462	953,107	1,172,720	1,385,301
Accounts Receivable	5,543,708	11,167,740	6,482,316	10,146,720	6,466,338	4,332,536	7,928,544
Inventory	799,458	1,340,224	1,562,752	820,344	1,129,707	1,054,156	1,029,202
Prepaid Items	193,015	3,000	200,313	183,577	230,784	319,333	63,893
Prepaid Pension Cost, Net of Amortization		32,391,100	30,982,696	29,574,391	28,166,087	26,757,783	25,349,424
Bond Issuance Costs, Net of Amortization		182,267	174,673	168,851	159,484	151,889	186,535
Capital Assets, Net of Depreciation	11,874,126	11,397,968	11,077,221	10,809,387	10,505,582	10,825,967	11,179,845
Total Assets	\$ 36,150,036	\$ 79,473,947	\$ 78,099,647	\$ 79,421,399	\$ 77,477,480	\$ 73,792,014	\$ 72,175,098
Liabilities							
Book Overdraft	\$ 4,644,564	\$ 1,968,238	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts Payable	8,373,204	15,742,277	12,760,004	11,259,728	7,509,638	684,144	7,630,175
Accrued Payroll, Taxes and Withholdings	2,337,409	3,962,455	5,177,631	1,871,926	2,156,724	3,671,940	2,719,152
Deferred Revenue	88,181	963,100	-	97,193	79,280	-	-
Accrued Compensated Absences Payables	163,268	168,416	164,756	170,464	158,572	159,481	173,731
Implicit Rate Subsidy	-	-	-	-	-	-	166,067
Accrued Interest Payable	23,383	22,286	14,814	-	-	-	-
Long-term Debt:							
Due Within One Year	280,000	295,000	350,000	370,000	390,000	440,000	589,386
Due in More than One Year	5,215,000	37,887,061	37,985,000	37,615,000	37,225,000	36,785,000	36,462,815
Total Liabilities	\$ 21,125,009	\$ 61,008,833	\$ 56,452,205	\$ 51,384,311	\$ 47,519,214	\$ 41,740,565	\$ 47,741,326
Net assets:							
Capital Assets, Net of Related Debt	\$ 6,379,126	\$ 6,182,968	\$ 5,882,221	\$ 5,964,387	\$ 6,030,582	\$ 6,740,967	\$ 7,227,643
Unrestricted	8,645,901	12,282,146	15,765,221	22,072,701	23,927,684	20,865,033	17,206,127
TOTAL NET ASSETS	\$ 15,025,027	\$ 18,465,114	\$ 21,647,442	\$ 28,037,088	\$ 29,958,266	\$ 27,606,000*	\$ 24,433,772

*Net Assets restated

Multnomah Education Service District
Multnomah County, Oregon
Changes in Net Assets
Last Seven Years

	2003	2004	2005	2006	2007	2008	2009
Revenues:							
Program Revenues:							
Charges for Services	\$ 7,426,141	\$ 8,778,442	\$ 12,464,061	\$ 14,241,676	\$ 13,340,380	\$ 8,251,120	\$ 13,205,946
Operating Grants and Contributions	9,150,182	14,825,457	14,722,381	15,909,272	17,964,347	19,192,550	19,407,801
General Revenues:							
Property Taxes	18,981,922	19,351,746	19,874,295	20,915,840	21,683,597	22,940,470	23,561,749
State School Fund - General Support	15,859,660	16,801,230	15,032,933	9,288,345	8,862,678	10,692,471	8,298,709
Earnings on Investments	242,756	258,838	-	-	-	1,407,155	576,777
Federal Stimulus	-	-	-	-	-	-	907,566
Loss on disposition of Capital Assets	(2,499,761)	-	-	-	-	778	-
Miscellaneous	2,044,459	2,468,957	3,398,645	5,085,536	7,988,961	5,707,678	1,422,965
Total Revenues	\$ 51,205,359	\$ 62,484,670	\$ 65,492,315	\$ 65,440,669	\$ 69,839,963	\$ 68,192,222	\$ 67,381,513
Expenses:							
Instruction	\$ 24,798,955	\$ 26,182,031	\$ 17,107,374	\$ 15,167,098	\$ 16,471,265	\$ 16,977,374	\$ 15,083,185
Support Services	28,677,004	31,607,962	34,279,738	34,862,274	38,722,555	37,284,143	40,395,972
Enterprise and Community Services	517,158	664,030	704,042	46,870	1,419,024	2,315,736	2,651,994
Apportionment of Funds	-	-	8,090,257	7,256,141	9,340,305	9,492,872	10,218,146
Unallocated Depreciation	292,102	590,540	-	-	-	-	267,711
Interest on Long-Term Debt	-	-	2,128,576	1,718,641	1,965,638	1,956,306	1,936,735
Total Expenses	\$ 54,285,219	\$ 59,044,563	\$ 62,309,987	\$ 59,051,024	\$ 67,918,787	\$ 68,026,431	\$ 70,553,743
CHANGE IN NET ASSETS	\$ (3,079,860)	\$ 3,440,107	\$ 3,182,328	\$ 6,389,645	\$ 1,921,176	\$ 165,791	\$ (3,172,230)
NET ASSETS, beginning of year	18,104,887	15,025,027	18,465,134	21,647,462	29,964,482*	31,885,658	27,606,000
NET ASSETS, end of year	\$ 15,025,027	\$ 18,465,134	\$ 21,647,462	\$ 28,037,107	\$ 31,885,658	\$ 27,606,000*	\$ 24,433,772

*Net Assets restated

Multnomah Education Service District
Multnomah County, Oregon
Governmental Funds Revenues, Expenditures and Changes in Fund Balances
Last Ten Fiscal Years

	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Revenues										
Property Taxes	16,687,924	17,417,001	18,448,969	18,917,034	19,417,296	19,935,475	20,942,497	21,737,147	22,879,494	23,219,411
State School Fund	24,165,329	23,551,221	21,350,358	15,863,219	16,803,880	15,036,281	9,288,344	8,865,992	10,695,867	8,298,709
Local Sources	7,397,122	7,538,222	7,910,546	8,067,540	9,941,742	12,594,739	15,312,345	14,823,388	10,769,526	12,716,109
State Sources	1,587,436	1,488,291	1,788,565	5,405,302	8,472,655	10,960,049	11,014,059	12,142,608	14,072,950	12,591,487
School Improvement Fund										965,201
Federal Sources	1,526,856	1,672,135	2,271,560	1,611,949	4,737,910	3,517,646	4,895,213	5,818,425	5,116,203	6,959,630
Investment Earnings	803,343	792,668	338,663	242,756	258,838	585,213	1,166,597	1,821,211	1,407,154	576,777
Debt Proceeds					32,963,381					
Sales of Goods & Services	2,669,527	1,013,754	902,145	2,283,604	2,153,496	2,089,159	2,393,970	786,743	3,436,068	506,278
SB1149 Proceeds								4,188,737	1,558,547	
Other Revenues	4,719,355	5,265,114	4,802,746	3,400,161	2,645,424	2,236,246	7,301,614	2,301,973	2,033,310	2,940,078
Other Sources	2,874									
Overhead Revenues	264,030	314,760	317,974	309,903	635,641	713,225	832,854	1,853,178	381,504	8,520,656
Total Revenues	59,823,796	59,053,166	58,131,526	56,101,468	98,030,263	67,668,033	73,147,493	74,339,402	72,350,623	77,294,336
Expenditures										
Instruction	12,568,439	13,178,661	13,270,869	14,189,189	16,358,050	16,321,874	16,328,176	16,899,030	16,882,596	16,400,599
Support Services	32,870,803	32,210,800	31,628,197	31,031,286	33,500,449	35,415,135	38,921,914	41,040,460	40,572,157	48,105,820
Enterprise and Community Services	179,607	209,424	275,394	517,158	628,003	674,541	778,322	1,415,832	2,294,594	2,812,317
Facilities Acquisition/Construction	2,696,291								25,237	
Other Uses	341,120	341,121	196,493	165,005						
Debt Service	560,758	560,653	559,750	563,148	33,988,754	1,975,515	2,077,633	2,338,163	2,338,711	2,376,735
Contingencies						68,657				
Total Expenditures	49,217,018	46,500,659	45,930,703	46,465,786	84,475,256	54,455,722	58,106,045	61,693,485	62,113,295	69,695,471
Excess of Revenues Over (Under)	10,606,821	12,552,531	12,200,825	9,635,701	13,555,032	13,212,311	15,041,478	12,645,938	10,237,359	7,598,876
Other Financing Sources (Uses)										
Not Applicable										
Apportionment of Funds	(11,967,127)	(11,800,381)	(11,315,863)	(10,335,577)	(9,453,566)	(8,090,267)	(7,256,141)	(9,340,305)	(9,492,872)	(10,218,146)
Transfers In	847,123	528,441	396,463	405,879	780,592	808,000	1,358,648	1,370,000	1,370,000	10,242,125
Transfers Out	(1,067,123)	(755,041)	(553,600)	(405,879)	(780,592)	(808,000)	(1,359,285)	(1,371,500)	(1,371,500)	(10,242,125)
Capital Leases										307,952
Total Other Financing Sources (Uses)	(12,187,127)	(12,026,981)	(11,473,000)	(10,335,577)	(9,453,566)	(8,090,267)	(7,256,778)	(9,340,305)	(9,494,372)	(9,910,194)
Change in Fund Balance	(1,580,305)	525,550	727,824	(699,875)	4,101,466	5,122,044	7,784,700	3,305,633	742,987	(2,311,317)
Beginning Fund Balances	8,775,596	7,195,291	7,721,314*	8,449,136*	7,747,340*	11,848,804*	16,970,859*	24,755,559	30,129,223*	26,355,028*
Ending Fund Balances	7,195,291	7,720,841	8,449,139	7,749,261	11,848,807	16,970,849	24,755,559	28,061,192	30,872,211	24,043,711

*Beginning Fund Balances Restated and Reclassified

Multnomah Education Service District

Assessed Values of Taxable Property Within District Boundaries
Last Seven Fiscal Years

Assessed Values (Not including exempt properties)

Multnomah County

Fiscal Year		Total Taxable	Total Direct	Amount tax rate	Less: (Reduction)	Total Taxes Imposed
Ending		Assessed Value	Tax Rate	will raise	and Adjustments	(Net Levy)
June 30						
2003	\$			\$		\$
2004		45,232,939,657	0.4576	19,732,394	316,249	19,416,145
2005		46,999,557,767	0.4576	20,416,899	340,840	20,076,059
2006		48,858,881,559	0.4576	21,071,817	135,534	21,025,449
2007		51,092,185,905	0.4576	21,925,095	261,101	21,663,944
2008		53,953,324,311	0.4576	23,040,515	243,871	22,796,644
2009		56,582,052,734	0.4576	24,011,401	220,734	23,790,667

Clackamas County

Fiscal Year		Total Taxable	Total Direct	Amount tax rate	Less: (Reduction)	Total Taxes Imposed
Ending		Assessed Value	Tax Rate	will raise	and Adjustments	(Net Levy)
June 30						
2003	\$			\$		\$
2004		787,130,815	0.4576	360,191	(2,010)	358,181
2005		820,194,947	0.4576	375,321	(2,109)	373,212
2006		859,002,627	0.4576	393,080	(2,170)	390,910
2007		898,516,907	0.4576	411,162	(2,193)	408,969
2008		934,184,792	0.4576	427,483	(2,581)	425,219
2009		974,008,543	0.4576	445,706	(2,828)	443,125

Washington County

Fiscal Year		Total Taxable	Total Direct	Amount tax rate	Less: (Reduction)	Total Taxes Imposed
Ending		Assessed Value	Tax Rate	will raise	and Adjustments	(Net Levy)
June 30						
2003	\$			\$		\$
2004		212,704,992	0.4576	97,334	(1,712)	95,662
2005		224,111,074	0.4576	102,553	(1,862)	100,691
2006		232,351,636	0.4576	106,324	(1,733)	104,591
2007		241,260,765	0.4576	110,401	(2,114)	108,827
2008		250,558,442	0.4576	114,656	(2,219)	112,357
2009		259,544,266	0.4576	118,767	(2,516)	116,251

Source: Multnomah, Clackamas, and Washington Counties Assessment and Taxation Offices

Note: Over a period of time data will reflect seven years

Multnomah Education Service District

Assessed Values of Taxable Property Within District Boundaries

Last Seven Fiscal Years

Assessed Values (Not including exempt properties)

Multnomah, Clackamas and Washington Counties Combined

Fiscal Year Ending June 30	Total Taxable Assessed Value	Total Direct Tax Rate	Amount tax rate will raise	Less: (Reduction) and Adjustments	Total Taxes Imposed (Net Levy)
2003	\$		\$	\$	\$
2004	46,232,775,464	0.4576	20,189,919	312,527	19,869,988
2005	48,043,863,788	0.4576	20,894,773	336,869	20,549,962
2006	49,950,235,822	0.4576	21,571,221	131,631	21,520,950
2007	52,231,963,577	0.4576	22,446,658	256,794	22,181,740
2008	55,138,067,545	0.4576	23,582,654	239,071	23,334,220
2009	57,815,605,543	0.4576	24,575,874	215,390	24,350,043

Note: Over a period of time data will reflect seven years

Note: Total Taxes Imposed is based upon County 4a tables. Net Levy may differ slightly from other sources.

Multnomah Education Service District

Market Values of Taxable Property Within District Boundaries

Last Seven Fiscal Years

Market Value

Fiscal Year	Real Property	Manufactured	Personal Property	Public Utility	Total Market Value
2003	\$	\$	\$	\$	\$
2004	77,509,197,794	87,826,030	2,509,197,794	2,511,742,183	83,014,566,567
2005	82,073,673,622	92,453,820	2,466,652,848	2,623,479,409	82,617,963,801
2006	91,476,555,193	90,362,080	2,484,837,875	2,415,751,917	87,256,259,699
2007	100,931,131,790	96,951,740	2,531,680,653	2,573,364,545	96,467,507,065
2008	114,908,679,360	96,824,890	2,716,041,082	2,594,478,819	106,133,128,728
2009	123,577,059,190	95,482,550	2,802,689,761	2,623,393,382	120,316,024,151

Note: Represents Multnomah County only of the District's Market Value

Note: Over a period of time data will reflect seven years

Source: Multnomah County Department of Assessment and Taxation

Multnomah Education Service District

Principal Property Tax Payers For Multnomah County
Fiscal Years 2009 and 2000

Taxpayer	2009		2000	
	Taxable Assessed Value	Rank	Taxable Assessed Value	Rank
P.G.E.	\$ 356,309,550	1	\$ 281,671,051	3
Comcast Corporation	318,952,100	2		
PacifiCorp (PP&L)	304,218,000	3	229,177,500	4
Qwest Corp.	238,409,770	4		
Weston Investment Co.	231,686,630	5		
Verizon Communications	189,926,200	6		
Boeing Co.	186,428,130	7	179,798,970	6
EVRAZ Inc. NA	179,207,130	8		
NW Natural	171,093,600	9		
LC Portland LLC	160,982,610	10		
US West			428,788,654	1
Fujitsu			352,187,320	2
Delta Airlines			146,382,000	8
Fred Meyer			133,025,509	9
One Eleven Tower			116,260,920	10
United Airlines			194,913,326	5
Alaska Airlines			153,597,000	7
	<u>\$ 2,337,213,720</u>		<u>\$ 2,215,802,250</u>	

Source: Multnomah County Department of Assessment and Taxation

Multnomah Education Service District

Property Tax Levies and Collections By County

Last Ten Fiscal Years

Fiscal Year Ending June 30,	Net Taxes Levied for the Fiscal Year	Balance Due at end of Fiscal Year of the Levy		Balance Due as of June 30, 2009	
		Amount	Percentage of Levy	Amount	Percentage Collected
Multnomah County					
2000	\$ 16,662,322	\$ 572,566	3.44%	\$ 1,508	99.74%
2001	17,608,310	642,379	3.65%	2,118	99.67%
2002	18,512,544	655,726	3.54%	3,468	99.47%
2003	18,949,684	650,554	3.43%	4,475	99.31%
2004	19,464,912	599,331	3.08%	7,035	98.83%
2005	20,120,523	582,329	2.89%	9,946	98.29%
2006	21,025,449	588,764	2.80%	46,383	92.12%
2007	21,703,981	588,236	2.71%	121,077	79.42%
2008	22,859,897	670,534	2.93%	290,229	56.72%
2009	23,825,482	851,090	3.57%	851,090	0.00%
Clackamas County					
2000	\$ 303,115	\$ 12,259	4.04%	\$ 42	99.66%
2001	317,191	13,020	4.10%	68	99.48%
2002	330,561	12,995	3.93%	97	99.26%
2003	688,539	12,155	1.77%	155	98.72%
2004	359,331	11,075	3.08%	142	98.72%
2005	373,658	9,967	2.67%	205	97.94%
2006	394,275	9,516	2.41%	646	93.21%
2007	409,330	11,151	2.72%	2,035	81.75%
2008	425,219	14,634	3.44%	5,577	61.89%
2009	444,187	19,067	4.29%	19,067	0.00%

Note: Represents Multnomah and Clackamas Counties

Source: Multnomah, Clackamas and Washington County's Departments of Assessment and Taxation

Multnomah Education Service District

Property Tax Levies and Collections By County

Last Ten Fiscal Years

Fiscal Year Ending 30-Jun	Net Taxes Levied for the Fiscal Year	Balance Due at end of Fiscal Year of the Levy		Balance Due as of June 30, 2009	
		Amount	Percentage of Levy	Amount	Percentage Collected
Washington County					
2000	\$ 82,367	\$ *	*	\$ *	*
2001	87,978	*	*	*	*
2002	90,556	*	*	*	*
2003	95,622	*	*	*	*
2004	95,622	*	*	21	*
2005	100,691	*	*	40	*
2006	104,856	*	*	93	*
2007	108,287	2,249	2.08%	339	100.00%
2008	112,437	2,732	2.43%	922	100.00%
2009	116,251	3,553	3.06%	3,553	100.00%

Note: Represents Washington County

* Data unavailable at this time - Over a period of time the data will show the last ten fiscal years.

Source: Washington County's Department of Assessment and Taxation

Multnomah Education Service District
Portland, Oregon

Debt Capacity
Last Ten Fiscal Years

Fiscal Year Ending June 30	Long Term Obligations	Total Taxable Assessed Value	Percentage of Actual Assessment Value	Percentage of Personal Income	Personal Income All Counties
2000	\$ 6,020,000	\$ *	*		
2001	5,765,000	*	*	11.59%	49,734,351
2002	5,495,000	*	*	10.89%	50,480,765
2003	5,215,000	*	*	14.41%	36,202,507
2004	4,920,000	46,232,775,464	0.01%	9.15%	53,773,213
2005	4,520,000	48,043,863,788	0.01%	8.02%	56,389,127
2006	4,475,000	49,950,235,822	0.01%	7.33%	61,036,723
2007	4,085,000	52,231,963,577	0.01%	6.30%	64,822,117
2008	3,685,000	55,138,067,545	0.01%	*	*
2009	3,275,000	57,815,605,543	0.01%	*	*

Note: * Data unavailable.

Over a period of time the data will show the last ten fiscal years.

Source: Bureau of Economic Analysis

Multnomah Education Service District
Direct and Overlapping Governmental Activities Debt

June 30, 2009

Overlapping Issuer	Net Property-tax Backed Debt	Percent Overlapping	Overlapping Debt
Clackamas County	\$ 1,481,664	3.15%	\$ 46,684
Clackamas County RFPD 1	23,430	0.47%	110
Lake Oswego School District	10,255	0.01%	1
Clackamas Community College	1,531	0.00%	-
City of Happy Valley	51,742	1.05%	545
City of Lake Oswego	1,107,417	4.74%	52,454
City of Milwaukie	8,526	0.97%	83
Multnomah County	56,123,606	99.21%	55,680,735
Metro	92,492,193	49.29%	45,585,055
Tri-Met	17,867,855	49.11%	8,775,708
Portland Public School District	15,090,000	100.00%	15,090,000
Parkrose School District	8,470,000	100.00%	8,470,000
Reynolds School District	50,325,000	100.00%	50,325,000
Centennial School District	34,841,400	100.00%	34,841,400
Corbett School District	3,495,000	100.00%	3,495,000
David Douglas School District	72,400,000	100.00%	72,400,000
Riverdale School District	30,590,157	100.00%	30,590,157
Gresham-Barlow School District	52,090,000	100.00%	52,090,000
Orient 6 Bond	174,637	100.00%	174,637
Mount Hood Community College	4,923,010	87.21%	4,293,357
Portland Community College	107,541,155	45.89%	49,350,744
City of Fairview	1,625,000	100.00%	1,625,000
City of Portland	96,999,067	99.56%	96,570,040
City of Troutdale	9,450,000	100.00%	9,450,000
Washington County	18,688	0.63%	118
Tualatin Hills Parks & Rec. District	892,048	1.24%	11,101
Tualatin Valley Fire & Rescue District	609,957	2.10%	12,829
Sunrise Water Authority	70,225	13.50%	9,484
Estacada Library District	668	0.04%	-
East Multnomah Soil & Water Conservation	1,318,057	99.85%	1,316,117
Subtotal, Overlapping Debt			540,256,358
Direct District Net Property-tax backed Debt			3,685,000
Total Direct and Overlapping Debt			\$ 543,941,358

Source: Office of the State Treasurer Debt Mgmt. Division

Multnomah Education Service District

Demographic and Economic Statistics

Last Ten Calendar Years

<u>Year</u>	<u>Population</u>	<u>Personal Income</u> (thousands)		<u>Per Capita Income</u>	<u>Portland Metropolitan</u> <u>Unemployment Rate</u> ¹	
Multnomah County						
2000	661,766	\$	21,384,426	\$	32,311	4.5%
2001	669,766		22,589,707		33,705	6.1%
2002	676,775		23,078,170		34,049	7.8%
2003	679,187		23,388,512		34,362	8.3%
2004	672,660		24,052,307		35,656	7.0%
2005	675,175		24,794,403		36,602	5.9%
2006	701,545		26,483,785		38,529	5.0%
2007	668,923		28,385,388		27,246	4.9%
2008	714,567		*		*	5.3%
2009	714,567 +		*		*	11.2%
Clackamas County						
2000	339,512	\$	12,416,346	\$	36,571	
2001	344,837		12,300,729		35,671	
2002	351,661		12,430,074		35,347	
2003	355,791		12,813,995		36,016	
2004	360,831		13,559,941		37,691	
2005	365,612		14,316,392		39,157	
2006	370,591		15,555,029		41,974	
2007	375,107		16,491,610		43,965	
2008	*		*		*	
2009	*		*		*	
Washington County						
2000	448,509	\$	14,880,607	\$	33,178	
2001	462,481		14,843,915		32,096	
2002	471,724		14,972,521		31,740	
2003	478,630		15,418,518		32,214	
2004	486,036		16,120,965		33,168	
2005	498,151		17,327,778		34,784	
2006	510,927		18,766,887		36,731	
2007	519,794		19,945,179		38,371	
2008	*		*		*	
2009	*		*		*	

* Data collected and available in increments of a three year period. Data will be available in 2010.

Plus (+) sign signifies the population is at a minimum of total listed with no current data available

Source: US Department of Commerce-Bureau of Economic Analysis

¹ Portland Metropolitan Unemployment Rates include Multnomah, Clackamas & Washington Counties

Multnomah Education Service District

Principal Employers For Multnomah County

Current Year and Nine Years Ago

2009			
Employer	Employees	Rank	Percentage of Total Portland Metro Area
Intel Corporation	15,141	1	1.51%
Providence Health System	13,825	2	1.38%
OR Health ans Science Univ.	12,700	3	1.27%
Fred Meyer Stores	9,630	4	0.96%
Kaiser Foundation Health Plan	8,759	5	0.88%
Legacy Health System	8,251	6	0.82%
Nike Incorporated	7,000	7	0.70%
City of Portland	6,900	8	0.69%
Multnomah County	6,659	9	0.67%
Wells Fargo	5,010	10	0.50%
	<u>93,875</u>		<u>9.39%</u>
Total Portland Metro Area	<u>1,000,131</u>		

2000			
Employer	Employees	Rank	Percentage of Total Portland Metro Area
U.S. Government	17,800	1	1.65%
Intel Corporation	11,000	2	1.02%
Providence Health System	10,594	3	0.98%
Fred Meyer Stores	10,030	4	0.93%
State of Oregon	9,900	5	0.92%
Oregon Health Sciences University	9,000	6	0.84%
Legacy Health System	6,731	7	0.62%
U.S. Bancorp	6,242	8	0.58%
Portland Public School District 1	6,200	9	0.58%
Kaiser Foundation Health Plan	6,009	10	0.56%
	<u>93,506</u>		<u>8.68%</u>
Total Portland Metro Area	<u>1,077,532</u>		

Source: Oregon Employment Department

Note: Portland Metro Area includes Clackamas, Multnomah, Washington, and Yamhil counties

Multnomah Education Service District

Licensed, Classified and Administrative Employees
Last Ten Fiscal Years

Year	Licensed	Classified	Administration	Total
2000	215	293	44	552
2001	251	397	42	690
2002	225	382	46	653
2003	284	428	45	757
2004	293	414	44	751
2005	291	394	45	730
2006	288	371	46	705
2007	296	378	49	723
2008	331	348	49	728
2009	277	356	50	683

Source: Multnomah ESD Human Resources Department

Multnomah Education Service District

School District Participation in MESD Programs and Services
Last Ten Fiscal Years

<u>Fiscal Year</u> <u>Ending</u>	<u>Special</u> <u>Education</u> <u>Services</u>	<u>Instructional</u> <u>Services</u>	<u>Health & Social</u> <u>Services</u>	<u>Technology &</u> <u>Other Support</u> <u>Services</u>	<u>Total</u>
2000	\$ 23,191,366	\$ 12,041,975	\$ 6,015,950	\$ 13,303,749	\$ 54,553,040
2001	22,932,775	13,179,035	6,492,569	13,415,904	56,020,283
2002	22,536,326	13,011,917	6,975,974	12,511,542	55,035,759
2003	22,267,023	12,491,917	7,555,708	10,869,021	53,183,669
2004	23,021,394	15,749,981	8,258,049	9,802,802	56,832,226
2005	23,144,477	15,595,054	9,370,481	8,918,076	57,028,088
2006	22,310,205	16,562,050	10,586,623	9,804,764	59,263,642
2007	23,758,140	18,008,214	11,407,389	9,833,749	63,007,492
2008	22,487,205	17,806,515	12,651,665	8,598,954	61,544,339
2009	24,288,662	19,342,020	13,166,561	18,033,482	74,830,725

Source: Multnomah ESD Financial Records

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SINGLE AUDIT SECTION





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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**

March 1, 2010

Board of Directors
Multnomah Education Service District
Portland, Oregon

We have audited the financial statements of Multnomah Education Service District (the District) as of and for the year ended June 30, 2009, and have issued our report thereon dated March 1, 2010. 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.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential, will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 09-01, 09-02, 09-03, 09-04, and 09-05 to be significant deficiencies in internal control over financial reporting.

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 (Continued)

Page 2

Internal Control Over Financial Reporting (Continued)

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 09-04 and 09-05 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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*.

We noted certain matters that we reported to management of the District in a separate letter dated March 1, 2010.

This report is intended solely for the information and use of the Board of Directors, 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.



Certified Public Accountants



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

March 1, 2010

Board of Directors
Multnomah Education Service District
Portland, Oregon

Compliance

We have audited the compliance of Multnomah Education Service District (the District) 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, 2009. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District'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 the District's compliance with those requirements.

In our opinion, the District 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, 2009.

Internal Control Over Compliance

Management of the District 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 the District'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 but, not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (Continued)**

Page 2

Internal Control Over Compliance (Continued)

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 09-06 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by any entity's internal control. We did not consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

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

This report is intended solely for the information and use of the Board of Directors, 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.



Certified Public Accountants

MULTNOMAH EDUCATION SERVICE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ending June 30, 2009

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass- through Number	Grant Period	Grant Amount	Expenditures
US Department of Agriculture					
Passed through Oregon Department of Education:					
Child Nutrition Cluster:					
School Breakfast Program	10.553	N/A	07/01/08 - 06/30/09	\$ 61,678	\$ 61,678
National School Lunch Program	10.555	N/A	07/01/08 - 06/30/09	145,151	145,151
Total Child Nutrition Cluster				\$ 206,829	\$ 206,829
Total Pass-through Oregon Department of Education				\$ 206,829	\$ 206,829
Total US Department of Agriculture				\$ 206,829	\$ 206,829
US Department of Health and Human Services					
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances					
	93.104	N/A	10/01/05 - 09/30/11	\$ 9,000,000	\$ 2,118,010
Total US Dept of Health and Human Services				\$ 9,000,000	\$ 2,118,010
US Department of Education					
TRIO Cluster:					
TRIO - Talent Search	84.044	N/A	09/01/07 - 08/31/12	\$ 1,133,000	\$ 230,779
Total TRIO Cluster				\$ 1,133,000	\$ 230,779
Fund for the Improvement of Education	84.215	N/A	10/01/05 - 09/30/08	\$ 1,999,949	\$ 32,442
Passed through Oregon Department of Education					
State Stabilization Fund Cluster:					
American Recovery and Reinvestment Act (ARRA)					
State Fiscal Stabilization Fund (SFSF) - Education State Grants Recovery Act					
	84.394	17379	02/17/09 - 09/30/11	\$ 907,566	\$ 907,566
Total State Stabilization Fund Cluster				\$ 907,566	\$ 907,566
Special Education Cluster (IDEA)					
Special Education - Grants to States	84.027	8001	07/01/07 - 06/30/09	2,368,121	1,397,485
	84.027	8049	07/01/07 - 06/30/09	42,669	42,669
	84.027	13448	08/15/08 - 06/30/09	3,311	3,306
	84.027	13550	08/15/08 - 06/30/09	1,299	1,299
	84.027	13551	08/15/08 - 06/30/09	3,987	3,959
	84.027	13552	08/15/08 - 06/30/09	1,305	1,305
	84.027	13848	10/01/08 - 06/30/09	4,504	4,504
	84.027	14651	01/01/09 - 09/30/09	2,500	35
	84.027	8006	07/01/07 - 06/30/09	30,549	28,835
Total CFDA 84.027				\$ 2,458,245	\$ 1,483,397
Special Education - Preschool Grants	84.173	8001	07/01/07 - 06/30/09	\$ 1,349,342	\$ 714,992
Total Special Education Cluster (IDEA)				\$ 3,807,587	\$ 2,198,389
Migrant Education - State Grant Program	84.011	11951	07/01/07 - 09/30/08	33,000	1,115
	84.011	11214	07/01/07 - 09/30/08	232,323	45,274
	84.011	12398	05/01/08 - 08/31/08	35,799	33,828
	84.011	14385	07/01/08 - 09/30/09	15,837	15,288
	84.011	12927	07/01/08 - 09/30/09	135,901	128,097
	84.011	14769	05/01/09 - 08/31/09	23,000	2,044
	84.011	15392	04/01/09 - 06/30/09	1,500	1,318
Total CFDA 84.011				\$ 477,360	\$ 226,964
Early Intervention Services (IDEA) Cluster					
Special Education - Grants for Infants and Families	84.181	8001	07/01/07 - 06/30/09	\$ 1,803,789	\$ 1,137,487
	84.181	13319	08/01/08 - 06/30/09	1,500	1,500
Total CFDA 84.181				\$ 1,805,289	\$ 1,138,987
Early Intervention Services (IDEA) Cluster				\$ 1,805,289	\$ 1,138,987
Title I Program for Neglected and Delinquent Children	84.013	8049	07/01/08 - 06/30/09	41,737	17,637
Tech-Prep Education	84.243	9558	07/01/07 - 09/30/08	74,559	23,541
Career and Technical Education - Basic Grants to States	84.048	12371	07/01/08 - 09/30/09	87,864	53,829
	84.048	14803	02/01/09 - 09/30/09	5,000	5,000
Total CFDA 84.048				\$ 92,864	\$ 58,829
Improving Teacher Quality State Grants	84.367	12202	04/01/08 - 06/30/09	55,000	47,874
Total Pass-through Oregon Department of Education				\$ 10,394,911	\$ 4,883,008
Total US Department of Education				\$ 10,394,911	\$ 4,883,008
TOTAL FEDERAL FINANCIAL ASSISTANCE				\$ 19,601,740	\$ 7,207,847

Notes:

1. This schedule is presented on the modified accrual basis of accounting.

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MULTNOMAH EDUCATION SERVICE DISTRICT

Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2009

SECTION I - SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified not considered to be material weakness(es)?	Yes
Noncompliance material to financial statements noted?	None reported

Federal Awards:

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified not considered to be material weakness(es)?	Yes
Type of auditor's report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of <i>Circular A-133</i> ?	Yes

Identification of major programs:

CFDA NUMBER(S)	NAME OF FEDERAL PROGRAM OR CLUSTER
84.044	TRIO Cluster
84.394	State Fiscal Stabilization Fund Cluster
84.027, 84.173	Special Education Cluster (IDEA)
84.181	Early Intervention Services (IDEA) Cluster

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

Auditee qualified as low-risk auditee?	No
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MULTNOMAH EDUCATION SERVICE DISTRICT
Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2009

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 09-01:

Criteria:	Journal entries should be reviewed by supervisory personnel after recording in the accounting system.
Condition:	We noted that journal entries are not reviewed by supervisory personnel after being entered into the accounting system by the preparer.
Context:	The opportunity exists that the journal entries may be incorrect.
Effect:	Financial statements may be misstated.
Cause:	The District did not identify this as a potential risk.
Recommendation:	We recommend that journal entries entered into the accounting system be reviewed by supervisory personnel.
Corrective Action Plan:	A journal entry approval workflow model has been implemented that requires electronic approval from both the Senior Accountant and Business Services Director. Upon final approval, the journal entry is then automatically distributed. These steps will assure that journal entries are not modified after approval but before distribution.

Finding 09-02:

Criteria:	Restricted access in the accounting system enforces that adequate segregation of duties is maintained.
Condition:	We noted that the Director of Business Services and individuals in the Technology Services Department have unrestricted access to the accounting system.
Context:	The opportunity exists that transactions in the financial reporting system could be made, erroneously or fraudulently, without timely review.
Effect:	Financial statements may be misstated.
Cause:	The District has determined that there is not a potential risk for financial misstatements.

MULTNOMAH EDUCATION SERVICE DISTRICT
Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2009

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

Finding 09-02 (continued):

Recommendation: We recommend that access in the accounting system is restricted to only the functions for which the individuals involved are responsible for.

Corrective Action Plan: Staff concurs that this presents a potential internal control weakness. However, staff feels that this access is essential in order to provide unencumbered assistance to other District staff. In all cases, there is adequate segregation of duties. For example, bank statements are reconciled monthly by a staff person who does not have access to create accounts payable transactions. In addition, District-wide staff, reviews financial statements regularly.

Staff is in the process of implementing several log reports to readily show who performed such critical duties as defining vendors and employees, and printing accounts payable and payroll checks. In addition, staff is contemplating adding additional security measures to limit access to check printing processes.

Finding 09-03:

Criteria: Bank reconciliations should be prepared and reviewed on a timely basis.

Condition: We noted that bank reconciliations were prepared but not reviewed, by anyone other than the preparer, for April, May and June 2009.

Context: The opportunity exists that errors in the financial reporting system that are normally identified through the review of the bank reconciliation may not be identified or corrected.

Effect: Financial statements may be misstated.

Cause: Bank reconciliation review was not delegated to an appropriate employee when the Manager of Business Services departed from the Business Services Department in April 2009.

Recommendation: We recommend that management perform and document the review of all bank reconciliations in a timely manner.

MULTNOMAH EDUCATION SERVICE DISTRICT
Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2009

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

Finding 09-03 (Continued):

Corrective Action Plan: The Business Services Director will review bank reconciliations on a monthly basis.

Finding 09-04:

Criteria: Formally documented policies and procedures for accounting functions provide authoritative guidance and provide clarity of responsibilities to employees.

Condition: We noted that the District has not formally documented all policies and procedures for accounting functions.

Context: Without clarity, employees could erroneously process transactions.

Effect: The opportunity exists that financial statements could be misstated or payments made to invalid vendors or District employees.

Cause: The District is undergoing many changes in the Business Services Department and many procedures have been evolving such that formal documentation could quickly become outdated.

Recommendation: We recommend that the District formally document accounting policies and procedures in the Business Services Department.

Corrective Action Plan: Several key processes, such as procurement and cash receipts, have been documented. Virtually all business processes are undergoing review and change in order to strengthen internal controls and eliminate unnecessary steps. As these processes are changed, staff will fully document the new procedures.

Finding 09-05:

Criteria: Section 310 (b) (1) of Circular A-133 requires that, "The auditee shall also prepare a Schedule of Expenditures of Federal Awards (SEFA) for the period covered by the auditee's financial statements. At a minimum, the schedule shall list individual federal programs by federal agency."

Condition: The District neglected to include all expenditures for federal programs on the SEFA.

MULTNOMAH EDUCATION SERVICE DISTRICT

Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2009

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

Finding 09-05 (Continued):

Context:	The District identified awarded grant funds received in the fiscal year as federal expenditures. There was carry forward revenue from a previous period in which expenditures were made from which were not identified on the SEFA. Federal expenditures of \$404,448 were omitted from the SEFA initially.
Effect:	Incorrect presentation of SEFA could result in a reduction in federal funding received in the future.
Cause:	In addition to misunderstanding the requirements for SEFA preparation, appropriate management review appeared to not have occurred in its preparation.
Recommendation:	The District should establish policies and training to individuals responsible for the preparation of the SEFA. The District should also implement adequate management review procedures.
Corrective Action Plan:	The SEFA report is currently prepared using a spreadsheet. Staff will review the SEFA preparation and will, if reasonable to do so, prepare a report format to generate this report directly from the District's financial system.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 09-06:

Federal Program:	84.044 TRIO Cluster – Talent Search
Federal Agency:	Department of Education
Award Year:	2008-09
Pass Through Entity:	N/A
Criteria:	Review of documentation to assure expenditures are incurred prior to claims for reimbursements to assure that the District's funds are expended prior to request for reimbursement.
Condition:	An independent review of documentation to support claims for reimbursement was not performed.

MULTNOMAH EDUCATION SERVICE DISTRICT

Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2009

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Finding 09-06 (Continued):

Questioned costs:	None noted as there was no noted instance of noncompliance.
Context:	Requests for reimbursements are made on a monthly or quarterly basis based on expenditures incurred.
Effect:	While no noncompliance issues were noted, the potential exists that noncompliance could occur and go undetected due to lack of review.
Cause:	The District did not assign personnel to review reimbursement requests after the departure of the Manager of Business Services.
Recommendation:	The District should determine which employees will perform the functions of the departing employee within two weeks of the departure.
Corrective Action Plan:	Business Services staff will review expenditures to assure that they were incurred prior to the claim for reimbursement.

AUDIT COMMENTS & DISCLOSURES



**AUDIT COMMENTS AND DISCLOSURES
REQUIRED BY STATE REGULATIONS**

Oregon Administrative Rules 162-10-050 through 162-10-320 incorporated in the *Minimum Standards for Audits of Oregon Municipal Corporations*, prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy, enumerate the financial statements, schedules, and comments and disclosures required in audit reports. The required statements and schedules are set forth in the preceding sections of this report. Required comments and disclosures related to the audit of such statements and schedules are set forth in the following pages.



AUDIT COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS

March 1, 2010

Board of Directors
Multnomah Education Service District
Portland, Oregon

400 SW Main Street, Suite 400
Portland, Oregon 97204-1017

Phone: 503.274.2649
Fax: 503.274.2653

www.k12or.gov

We have audited the financial statements of the governmental activities and each major fund of Multnomah Education Service District, Portland, Oregon (the District), as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 1, 2010. 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.

ACCOUNTING RECORDS

The District's accounting records were reasonably maintained and adequate to support our audit of the basic financial statements.

INTERNAL CONTROL

Our reports relating to compliance and internal control over financial reporting are contained in the Compliance Section of this Annual Financial Report.

COLLATERAL

The District has complied with Oregon Revised Statutes (ORS) 295 in relation to deposit accounts.

INVESTMENTS

Public funds appear to be invested in compliance with ORS 294.

INDEBTEDNESS

The general obligation bonded debt of the District is in compliance with the limitation imposed by ORS 328.245. We noted no defaults in principal, interest, sinking fund, or redemption provisions with respect to any of the District's bonded debt, and no breach of the bond agreements at June 30, 2009.

**AUDIT COMMENTS AND DISCLOSURES
REQUIRED BY STATE REGULATIONS (Continued)**

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BUDGET

The District appears to have complied in all material respects with Local Budget Law (ORS 294.305 to 294.520) in the preparation, adoption and execution of its budget and tax levy for the year ended June 30, 2009, and the preparation and adoption of its budget for the year ending June 30, 2010, except as noted for the following items:

The District over expended its appropriations as follows:

Operating Fund – Instruction, \$90,306
Resolution Services Fund – Instruction, \$302,712

A description of the budgeting process is included in the Notes to Basic Financial Statements.

INSURANCE AND FIDELITY BONDS

We have reviewed the District's legally required insurance and fidelity bond coverage at June 30, 2009. We ascertained that such policies appeared to be in force and in compliance with legal requirements relating to insurance and fidelity bond coverage. We are not competent by training to comment on the adequacy of the insurance policies covering District property at June 30, 2009.

PUBLIC CONTRACTS AND PURCHASING

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

PROGRAMS FUNDED FROM OUTSIDE SOURCES

We reviewed the District's compliance with appropriate laws, rules, and regulations that could have material impact on the basic financial statements for programs funded wholly or partially by other governmental agencies. The District is in compliance with the guidelines in all material respects.

In a separate report dated March 1, 2010, we have reported on the Schedule of Expenditures of Federal Awards. We have also reported on internal control over financial reporting and on compliance and other matters based on an audit of the basic financial statements performed in accordance with *Government Auditing Standards*, and on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133.

**AUDIT COMMENTS AND DISCLOSURES
REQUIRED BY STATE REGULATIONS (Continued)**

Page 3

FINANCIAL REPORTING REQUIREMENTS

We have reviewed financial reports and other data relating to programs funded wholly or partially by other governmental agencies. This data, filed with other governmental agencies, is in agreement with and supported by the accounting records.

OTHER

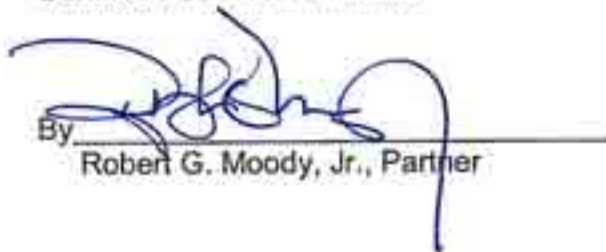
Compliance with the following is not applicable to the District:

- Highway Funds
- State School Funds

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This report is intended solely for the information and use of the Board of Directors, management, the Oregon Secretary of State Audits Division, 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.

TALBOT, KORVOLA & WARWICK, LLP
Certified Public Accountants

By 
Robert G. Moody, Jr., Partner