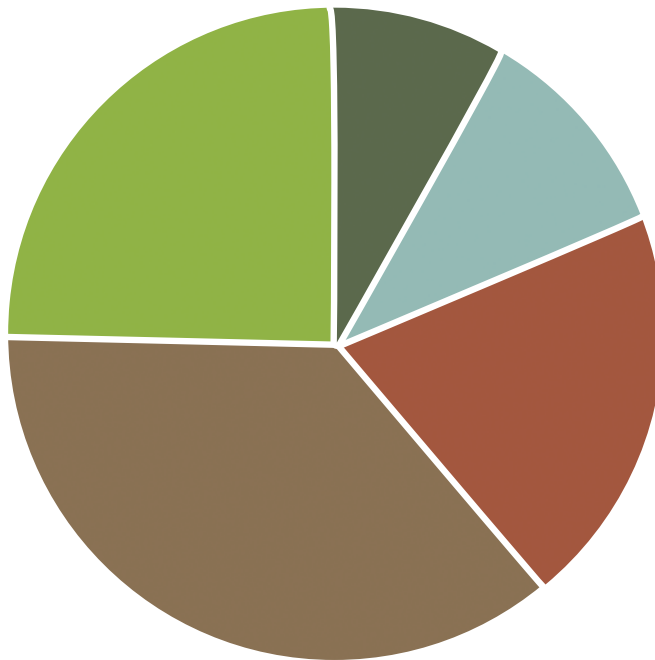


Multnomah Education Service District

Multnomah County, Oregon



Comprehensive Annual Financial Report

For the Year Ended June 30, 2010

Multnomah Education Service District

Multnomah County, Oregon

Comprehensive Annual Financial Report
For the Year Ended June 30, 2010

Multnomah Education Service District
Multnomah County, Oregon
Comprehensive Annual Financial Report
For the Year Ended June 30, 2010

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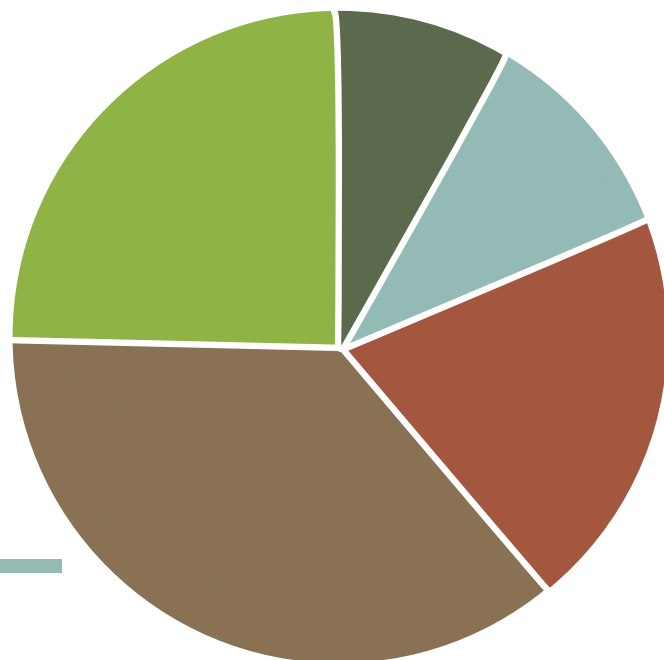
Multnomah Education Service District
Multnomah County, Oregon
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Introduction





December 31, 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, 2010 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 **Single Audit** 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.

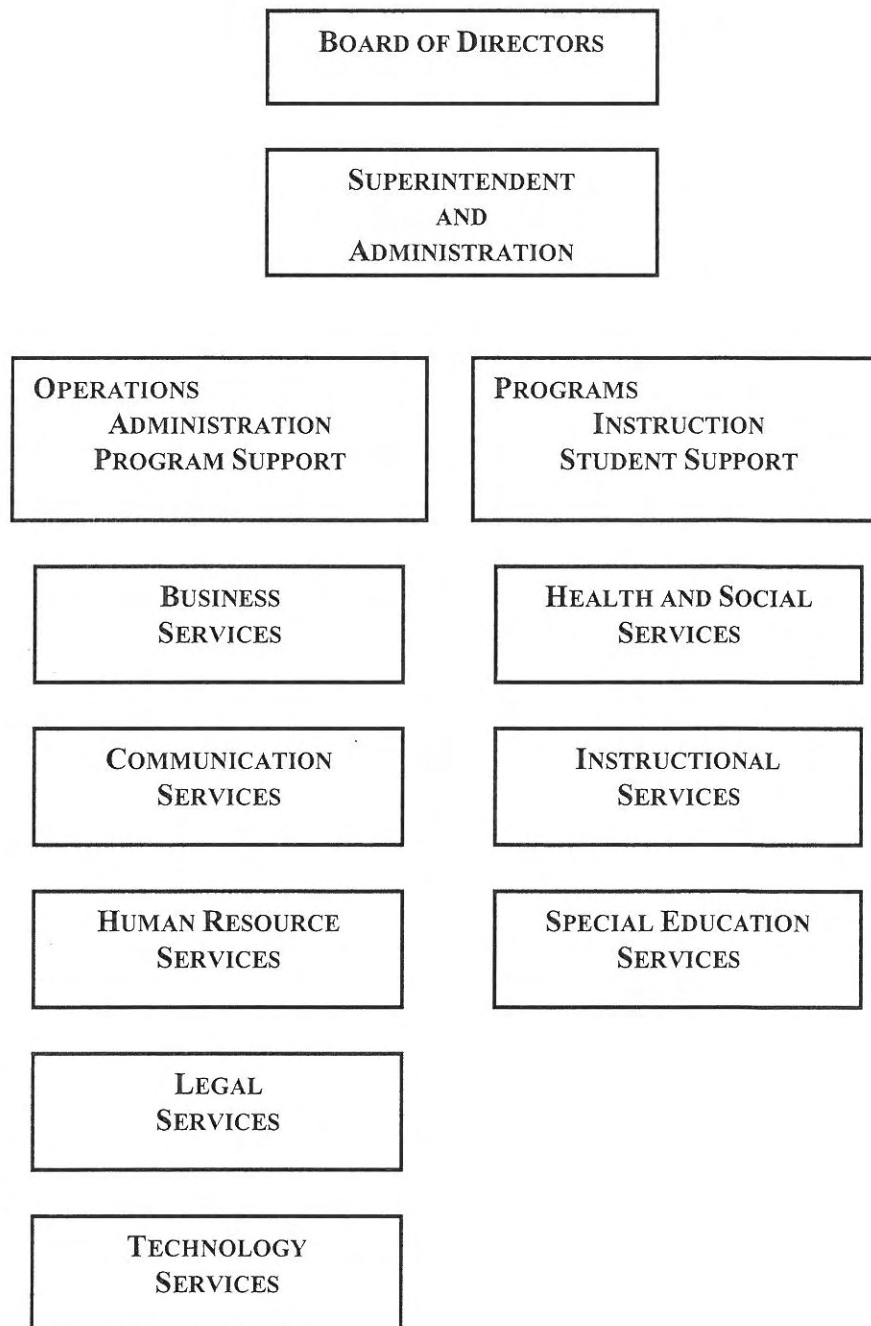
Cash Management – Through the year, cash not required for current operations is invested in the State of Oregon Local Government Investment Pool, U.S. Treasury securities and demand deposits.

Respectfully submitted,

Ron Hitchcock
Superintendent

Robert Sesnon
Director of Business Services

ORGANIZATIONAL STRUCTURE



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

BOARD OF DIRECTORS

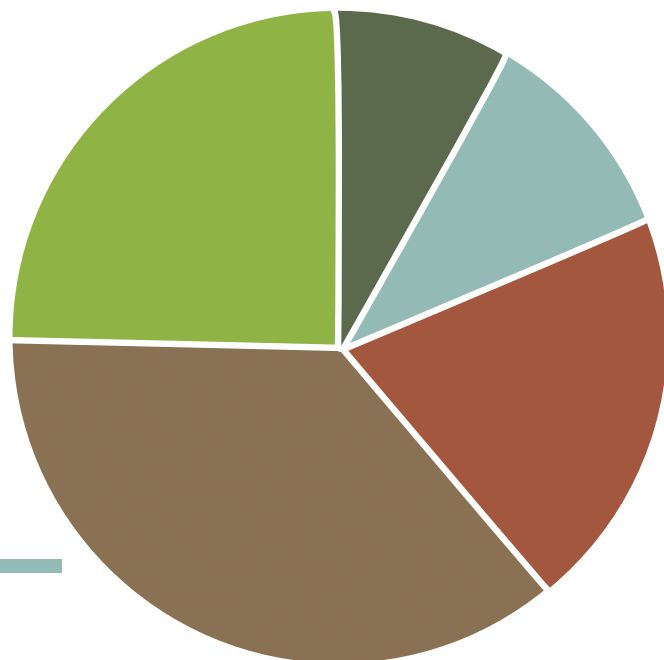
JUNE 30, 2010

Position	Board Member	Represented Zone	Term Ends
One	Bernie Giusto	East Multnomah County	6/30/2013
Two	Sean Schafer, Vice Chair	At Large	6/30/2013
Three	Harry Ainsworth, Chair	Central Portland	6/30/2013
Four	Jean Haliski	Mid-Multnomah County	6/30/2013
Five	Geri Washington	N/NE Portland	6/30/2011
Six	Mike Delman	At large	6/30/2011
Seven	Kevin Spellman	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





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INDEPENDENT AUDITOR'S REPORT

December 22, 2010

Board of Directors
Multnomah Education Service District
Portland, Oregon

We have audited the accompanying financial statements of the governmental activities, each major fund and the remaining fund information of Multnomah Education Service District, Portland, Oregon, (the District), as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the remaining fund information of the District, as of June 30, 2010, and the respective changes in financial position thereof and the respective budgetary comparison for the Operating, Resolution Services, and Contracted Services Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2010, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on 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.

INDEPENDENT AUDITOR'S REPORT (Continued)

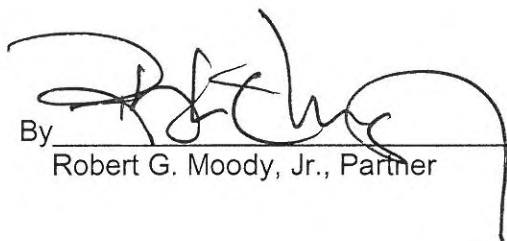
Board of Directors
Multnomah Education Service District
December 22, 2010
Page 2

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.

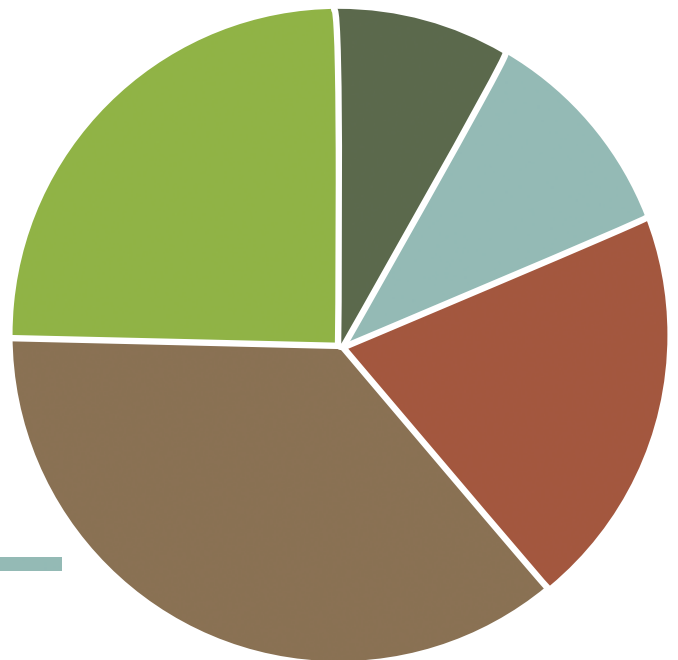
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other schedules, listed in the Table of Contents as Supplementary Information, are presented for purposes of additional analysis and are not 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 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, 2010

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, 2010.

FISCAL HIGHLIGHTS

During the 2009-10 fiscal year the District maintained six funds and in addition created one new one at the end of the fiscal year. The Resolution Services fund accounts for the revenues 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. The remaining 10% off 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 Contracted Services Fund 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 Operating fund is funded mainly from the 10% transfer of local revenue from the Resolution Services fund and a maximum 10% overhead charge from the Contracted Services Fund. Because this Fund is unrestricted in nature it is the District's General Fund.

The Debt Service fund is used to account for the debt service related to the 2004 Refunding of 1997 full faith credit obligations.

The Facilities Acquisition and Improvements fund accounts for capital expenditures of the District. Typical sources for this fund come from transfers from the Operating fund.

The Agency Pass-Through fund was created in fiscal year 2008-09 in order to more clearly account for proceeds for which the District acts purely as a custodian for its component school districts. All monies are now recorded as a liability in this fund and such it does not carry any fund balance.

Lastly, the Risk Management Reserve fund was established at the end of the 2009-10 fiscal year to pay for costs associated with risk management activities and to set aside \$450,000 to help offset future PERS cost increases.

Multnomah Education Service District
Multnomah County, Oregon
Management's Discussion and Analysis
For the Year Ended June 30, 2010

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. 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, and Operating. 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. All other funds except for the Fiduciary Fund are presented in one column.

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.

Multnomah Education Service District
Multnomah County, Oregon
Management's Discussion and Analysis
For the Year Ended June 30, 2010

Table 1 provides a comparative summary of the Multnomah Education Service District's net assets for the year ending June 30, 2009 and 2010 respectively.

Table 1
Net Assets

	<u>June 30, 2009</u>	<u>June 30, 2010</u>	<u>Increase (Decrease)</u>
Assets			
Cash and Cash Equivalents	\$ 25,052,367	\$ 20,699,809	\$ (4,352,558)
Property Tax Receivable	1,385,301	1,401,273	15,972
Accounts Receivable	7,928,531	8,002,199	73,668
Inventory	1,029,202	982,728	(46,474)
Prepaid Items	63,893	13,580	(50,313)
Prepaid Pension Cost,			
Net of Amortization	25,349,424	23,941,123	(1,408,301)
Bond Issuance Costs,			
Net of Amortization	186,535	176,172	(10,363)
Capital Assets,			
Net of Depreciation	<u>11,179,845</u>	<u>11,046,679</u>	<u>(133,166)</u>
Total Assets	<u>\$ 72,175,098</u>	<u>\$ 66,263,563</u>	<u>\$ (5,911,535)</u>
Liabilities			
Accounts Payable	7,630,175	5,839,512	(1,790,663)
Accrued Payroll, Taxes			
and Withholdings	2,719,152	3,685,714	966,562
Accrued Compensated			
Absences Payables	173,731	170,310	(3,421)
Other Post Employment Benefits	166,067	329,126	163,059
Long-term Liabilities:			
Due Within One Year	589,386	716,353	126,967
Due in More than One Year	<u>36,462,815</u>	<u>35,749,795</u>	<u>(713,020)</u>
Total Liabilities	<u>\$ 47,741,326</u>	<u>\$ 46,490,810</u>	<u>\$ (1,250,516)</u>
Net assets:			
Invested in Capital Assets,	7,227,643	7,540,531	312,888
Net of Related Debt			
Unrestricted (as restated and	\$ 17,206,129	\$ 12,232,222	\$ (4,973,907)
reclassified)			
TOTAL NET ASSETS	<u>\$ 24,433,772</u>	<u>\$ 19,772,753</u>	<u>\$ (4,661,019)</u>

Multnomah Education Service District
Multnomah County, Oregon
Management's Discussion and Analysis
For the Year Ended June 30, 2010

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 – 2010 compared to 2009

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 \$4.7 million in 2010, or 20.4%. Several factors account for the overall decline, as explained in the fiscal highlights section of this Management Discussion and Analysis. About 39% of the District's \$19.5 million in net assets (or \$7.5 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 \$5.0 million (20.7%) from \$17.2 million in 2009 to \$12.2 million in the current year. These decreases were planned for and are reflected in the 2009-10 budget.

Multnomah Education Service District
Multnomah County, Oregon
Management's Discussion and Analysis
For the Year Ended June 30, 2010

Statement of Activities: Table 2 shows the District's net assets decreased by \$4,661,019 for fiscal year 2009-10.

Table 2
Changes in Net Assets

	<u>June 30,</u> <u>2009</u>	<u>June 30,</u> <u>2010</u>	<u>Increase</u> <u>(Decrease)</u>
Revenues			
Program Revenues			
Charges for Services	\$ 13,205,946	\$ 8,092,199	\$ (5,113,747)
Operating Grants and Contributions	19,407,801	18,208,545	(1,199,256)
General Revenues			-
Property Taxes	23,561,749	24,505,818	944,069
State School Fund- General Support	8,298,709	8,033,770	(264,939)
Federal Stimulus	907,566	2,601,970	1,694,404
Earnings on Investments	576,777	171,511	(405,266)
Miscellaneous	1,422,965	2,566,822	1,143,857
Total Revenues	<u>\$ 67,381,513</u>	<u>\$ 64,180,635</u>	<u>\$ (3,200,878)</u>
Expenses			
Instruction	\$ 15,083,185	\$ 16,371,148	\$ 1,287,963
Support Services	40,395,972	37,705,025	(2,690,947)
Enterprise & Community	2,651,994	2,782,432	130,438
Facilities Repairs & Maintenance	-	489,409	489,409
Apportionment of Funds	10,218,146	9,297,814	(920,332)
Unallocated Depreciation	267,711	273,357	5,646
Interest - Long-Term Debt	1,936,735	1,922,468	(14,267)
Total Expenses	<u>\$ 70,553,743</u>	<u>\$ 68,841,653</u>	<u>\$ (1,712,090)</u>
Change in Net Assets	\$ (3,172,228)	\$ (4,661,019)	\$ (1,488,791)
NET ASSETS, Beginning	<u>27,606,000</u>	<u>24,433,772</u>	<u>(3,172,228)</u>
NET ASSETS, Ending	<u>\$ 24,433,772</u>	<u>\$ 19,772,753</u>	<u>\$ (4,661,019)</u>

Changes in Net Assets- 2010 compared to 2009

The decrease in Charges for Services is largely the result of a change in accounting practice that occurred at the beginning of the 2009-10 fiscal year. Previous to July 1, 2009 the District recorded internal revenues and expenditures for operating overhead charges to the programs. This practice has been discontinued. This also explains the decrease in Support Services expense.

Due to the nature of grants, fluctuations in Operating Grants and Contributions revenue is common. Due to the severe economic downturn the Oregon State Legislature decreased funding by over

Multnomah Education Service District
Multnomah County, Oregon
Management's Discussion and Analysis
For the Year Ended June 30, 2010

\$300,000 to the early childhood program in 2010. In accordance with the grant agreement, revenues received from the SAMHSA grant decreased by \$262,000 from the previous year.

Federal Stimulus revenues increased by nearly \$1.7 million from 2009. This was the result of the timing of the stimulus funding and availability.

At the beginning of the 2009-10 fiscal year several object codes were reclassified. Due to these changes the variance in miscellaneous revenue from 2010 to 2009 is difficult to ascertain.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the District's financial requirements. In particular, unreserved fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

The fund balances of the Operating and Contracted Services funds decreased by \$2.5 million and \$2.6 million respectively during the 2009-10 fiscal year. These decreases were anticipated and budgeted for in the adopted budget. Resolution Services fund balance increased by \$1.7 million and represents a carryover of unused funds by the District's component school districts.

At the time that the District adopted the 2009-10 fiscal year budget there was still a great deal of uncertainty. For one, the State Legislature had not yet adopted the state budget and therefore the amount of education funding was still unclear. Secondly, as a result of the uncertainty of state funding the District's component school districts had not, for the most part, submitted final service plans for the upcoming year. Upon receiving this information the District's board revised the adopted budget to reflect the services to be provided and the resources required to support these services.

OPERATING (GENERAL) FUND BUDGETARY HIGHLIGHTS

During the fiscal year several efficiency and cost-cutting measures were implemented to reduce the operating expenses of the agency. Through attrition several positions were eliminated in the Business Services, Human Resources and Technology Services departments, as reflected in the nearly \$1 million positive variance in expenditures. As a result of the severe economic downturn the District saw marked decreases in sales volume for both the cooperative purchasing and printing and graphics programs. Lastly, as a direct result of funding and corresponding spending reductions in the Contracted Services fund overhead revenues for the operating fund also decreased.

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, 2010 the District had invested \$11,046,679 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, 2010

Long-Term Debt. At the end of the current fiscal year, the District had two bond issues with a total debt outstanding of \$36,235,000. The OSBA Limited Tax Pension Obligations, Series 2004 bonds had a remaining balance of \$32,960,000 at June 30, 2010. 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.

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. Recent state financial forecasts indicate that while there are signs of a recovery, Oregon continues to face significant uncertainties created by the weakened economy. The state legislature will convene in January 2011 and will once again be faced with the need to rebalance the state budget due to declining revenues.

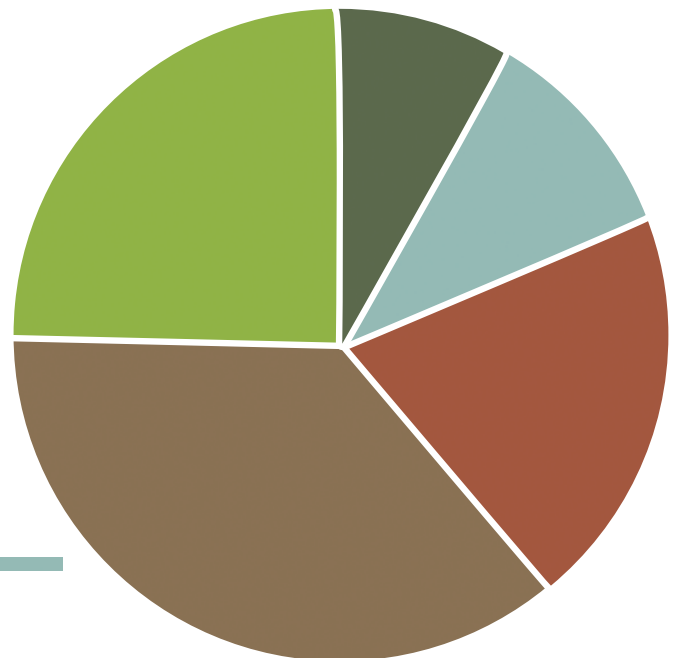
Beginning in July 2011, the District's contribution to PERS will increase significantly due to an updated actuarial valuation that reflects the economic recession and resulting loss of investment income. The overall increase in PERS benefit expense to the District is estimated to be nearly \$1,600,000.

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

Basic Financial Statements



Multnomah Education Service District
Multnomah County, Oregon
Statement of Net Assets
As of June 30, 2010

	Governmental Activities
Assets	
Cash and Cash Equivalents	20,699,809
Property Taxes Receivable	1,401,273
Accounts Receivable	8,002,199
Inventory	982,728
Prepaid Items	13,580
Prepaid Pension Costs, Net of Amortization	23,941,123
Bond Issuance Costs, Net of Amortization	176,172
Capital Assets, Net of Depreciation	11,046,679
Total Assets	66,263,563
Liabilities	
Accounts Payable	5,839,512
Accrued Payroll & Withholdings	3,685,714
Accrued Compensated Absences	170,310
Other Post Employment Benefits	329,126
Non-Current Liabilities:	
Due Within One Year	716,353
Due in More Than One Year	35,749,795
Total Liabilities	46,490,810
Net Assets	
Invested in Capital Assets, Net of Related Debt	7,540,531
Unrestricted	12,232,222
Total Net Assets	19,772,753

Multnomah Education Service District
Multnomah County, Oregon
Statement of Activities
For the Year Ended June 30, 2010

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Instruction				
Regular Programs	819,067	941,351	11,540	133,824
Special Programs	15,552,081	2,244,353	6,906,727	(6,401,001)
Support Services				
Student Services	21,678,042	3,326,133	6,483,343	(11,868,566)
Instructional Staff Services	2,143,041	-	1,041,448	(1,101,593)
General Administration	2,750,597	-	342	(2,750,255)
School Administration	620,861	-	196,905	(423,956)
Business Services	4,816,260	1,164,670	382,396	(3,269,194)
Central Activities	5,696,224	415,692	-	(5,280,532)
Enterprise and Community Services				
Food Services	607,148	-	163,885	(443,263)
Community Services	2,066,073	-	1,555,841	(510,232)
Custody and Care of Children	109,211	-	-	(109,211)
Facilities Repairs and Maintenance	489,409	-	-	(489,409)
Apportionment of Funds by the ESD	9,297,814	-	1,466,118	(7,831,696)
Unallocated Depreciation	273,357	-	-	(273,357)
Interest on Long-Term Debt	1,922,468	-	-	(1,922,468)
Total Governmental Activities	68,841,653	8,092,199	18,208,545	(42,540,909)
General Revenues				
				24,505,818
				8,033,770
				2,601,970
				171,510
				2,566,822
				37,879,890
				Change in Net Assets
				(4,661,019)
				Net Assets - Beginning
				24,433,772
				Net Assets - Ending
				19,772,753

Multnomah Education Service District
Multnomah County, Oregon
Balance Sheet - Governmental Funds
As of June 30, 2010

	Operating	Resolution Services	Contracted Services	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and Cash Equivalents	11,650,632	3,183,352	5,229,036	636,789	20,699,809
Property Taxes Receivable	-	1,401,273	-	-	1,401,273
Accounts Receivable	295,743	1,175,019	6,531,437	-	8,002,199
Inventory	982,728	-	-	-	982,728
Prepaid Items	10,000	3,580	-	-	13,580
Total Assets	12,939,103	5,763,224	11,760,473	636,789	31,099,589
Liabilities					
Accounts Payable	406,739	2,358,280	3,074,493	-	5,839,512
Accrued Payroll & Withholdings	3,780,613	69,804	5,607	-	3,856,024
Deferred Tax Revenue	-	1,060,897	-	-	1,060,897
Total Liabilities	4,187,352	3,488,981	3,080,100	-	10,756,433
Fund Balances					
Reserved for:					
Future Debt Service Payments	-	-	-	74,742	74,742
Inventory	982,728	-	-	-	982,728
Prepaid Items	10,000	3,580	-	-	13,580
Unreserved, Undesignated Reported In:					
General Fund	7,759,023	-	-	-	7,759,023
Special Revenue Funds	-	2,270,663	8,680,373	89,836	11,040,872
Capital Projects Funds	-	-	-	472,211	472,211
Total Fund Balances	8,751,751	2,274,243	8,680,373	636,789	20,343,155
Total Liabilities and Fund Balances	12,939,103	5,763,224	11,760,473	636,789	31,099,589

**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, 2010**

Total Fund Balances – Governmental Funds	20,343,156
Capital assets are not financial resources and therefore are not reported in the governmental funds.	11,046,679
Prepaid pension expense, net of accumulated amortization	23,941,123
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.	1,060,897
Long-term liabilities not payable in the current year are not reported as governmental fund liabilities.	
These liabilities consist of:	
GO Bonds Payable	(3,275,000)
OSBA Bonds Payable	(32,960,000)
Capital Lease Payable	(231,148)
Unamortized Bond Issuance Costs	176,172
Other Post Employment Benefits	(329,126)
Net Assets	<u>19,772,753</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, 2010

	Operating	Resolution Services	Contracted Services	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	-	24,511,191	-	-	24,511,191
State School Fund	-	8,033,260	510	-	8,033,770
Local Sources	416,685	89,832	5,261,288	-	5,767,805
State Sources	-	-	12,676,732	-	12,676,732
Federal Sources	36,875	1,102,286	7,852,884	-	8,992,045
Investment Earnings	171,510	-	-	-	171,510
Sales of Goods & Services	1,422,187	-	12,983	-	1,435,170
Other Revenues	46,265	-	361,284	119,774	527,323
Charges For Services	2,070,415	-	-	-	2,070,415
Total Revenues	4,163,937	33,736,569	26,165,681	119,774	64,185,961
Expenditures					
Instruction	-	6,459,578	9,666,585	-	16,126,163
Support Services	8,432,401	14,249,146	14,019,831	32,027	36,733,405
Enterprise and Community Services	-	173,305	2,593,152	-	2,766,457
Facilities Repairs and Maintenance	-	-	-	489,409	489,409
Debt Service	249,246	825,703	849,364	548,955	2,473,268
Total Expenditures	8,681,647	21,707,732	27,128,932	1,070,391	58,588,702
Excess of Revenues Over (Under) Expenditures	(4,517,710)	12,028,837	(963,251)	(950,617)	5,597,259
Other Financing Sources (Uses)					
Apportionment of Funds	-	(7,632,177)	(1,665,637)	-	(9,297,814)
Transfers In	3,171,291	593,637	-	593,759	4,358,687
Transfers Out	(1,187,396)	(3,171,291)	-	-	(4,358,687)
Total Other Financing Sources (Uses)	1,983,895	(10,209,831)	(1,665,637)	593,759	(9,297,814)
Net Change in Fund Balances	(2,533,815)	1,819,006	(2,628,888)	(356,858)	(3,700,554)
Beginning Fund Balances	11,285,566	455,237	11,309,260	993,647	24,043,710
Ending Fund Balances	8,751,751	2,274,243	8,680,373	636,789	20,343,156

**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, 2010**

Total Net Changes in Fund Balances – Governmental Funds	(3,700,554)
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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.	(133,166)
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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	586,053
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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

Amortization of Bond Discount and Amortization of Issuance Costs	(10,363)
Amortization of Prepaid Pension Expense	(1,408,301)

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	(5,373)
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Other post employment benefits expenses are reported in the Statement of Activities but they are not reported as expenditures in the governmental funds.	(163,059)
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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.	173,744
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Change in Net Assets of Governmental Activities	(4,661,019)
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**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, 2010**

Operating Fund

	Original Budget	Final Budget	Actual	Variance to Final Budget Positive (Negative)
Revenues				
Local Sources	70,000	600,000	416,685	(183,315)
Federal Sources	-	-	36,875	36,875
Investment Earnings	260,000	260,000	171,510	(88,490)
Sales of Goods & Services	1,895,000	1,895,000	1,422,187	(472,813)
Other Revenues	31,500	49,300	46,265	(3,035)
Overhead Revenues	2,718,923	2,672,442	2,070,415	(602,027)
Total Revenues	4,975,423	5,476,742	4,163,937	(1,312,805)
Expenditures				
Support Services	10,073,498	9,624,675	8,432,401	1,192,274
Debt Service	-	-	249,246	(249,246)
Total Expenditures	10,073,498	9,624,675	8,681,647	943,028
Excess of Revenues Over (Under) Expenditures	(5,098,075)	(4,147,933)	(4,517,710)	(369,777)
Other Financing Sources (Uses)				
Transfers In	3,382,951	3,215,382	3,171,291	(44,091)
Transfers Out	(551,155)	(1,290,286)	(1,187,396)	102,890
Total Other Financing Sources (Uses)	2,831,796	1,925,096	1,983,895	58,799
Net Change in Fund Balance	(2,266,279)	(2,222,837)	(2,533,815)	(310,978)
Beginning Fund Balances	10,366,844	11,142,237	11,285,566	143,329
Ending Fund Balances	8,100,565	8,919,400	8,751,751	(167,649)

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, 2010

Resolution Services Fund

	Original Budget	Final Budget	Actual	Variance to Final Budget Positive (Negative)
Revenues				
Property Taxes	24,375,301	24,375,301	24,511,191	135,890
State School Fund	10,201,212	8,025,726	8,033,260	7,534
Local Sources	-	179,520	89,832	(89,688)
Federal Sources	-	1,258,177	1,102,286	(155,891)
Total Revenues	34,576,513	33,838,724	33,736,569	(102,155)
Expenditures				
Instruction	6,006,086	7,369,870	6,459,578	910,292
Support Services	13,649,450	14,980,175	14,249,146	731,029
Enterprise and Community Services	113,316	178,054	173,305	4,749
Debt Service	-	-	825,703	(825,703)
Contingencies	-	627,456	-	627,456
Total Expenditures	19,768,852	23,155,555	21,707,732	1,447,823
Excess of Revenues Over (Under) Expenditures	14,807,661	10,683,169	12,028,837	1,345,668
Other Financing Sources (Uses)				
Apportionment of Funds	(8,836,819)	(8,086,485)	(7,632,177)	454,308
Transfers In	-	593,637	593,637	-
Transfers Out	(3,432,951)	(3,265,382)	(3,171,291)	94,091
Total Other Financing Sources (Uses)	(12,269,770)	(10,758,230)	(10,209,831)	548,399
Net Change in Fund Balance	2,537,891	(75,066)	1,819,006	1,894,067
Beginning Fund Balances	360,000	454,100	455,237	1,137
Ending Fund Balances	2,897,891	379,034	2,274,243	1,895,204

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, 2010

Contracted Services Fund

	Original Budget	Final Budget	Actual	Variance to Final Budget Positive (Negative)
Revenues				
State School Fund	-	-	510	510
Local Sources	6,826,666	8,780,326	5,261,288	(3,519,038)
State Sources	13,109,461	13,369,086	12,676,732	(692,354)
Federal Sources	7,274,819	7,243,920	7,852,884	608,964
Sales of Goods & Services	32,250	32,250	12,983	(19,267)
Other Revenues	150,903	139,456	361,284	221,828
Total Revenues	27,394,099	29,565,038	26,165,681	(3,399,357)
Expenditures				
Instruction	12,150,494	11,366,089	9,666,585	1,699,504
Support Services	16,190,926	16,833,779	14,019,831	2,813,948
Enterprise and Community Services	3,240,815	3,228,651	2,593,152	635,499
Debt Service	-	-	849,364	(849,364)
Total Expenditures	31,582,235	31,428,519	27,128,932	4,299,587
Excess of Revenues Over (Under) Expenditures	(4,188,136)	(1,863,481)	(963,251)	900,230
Other Financing Sources (Uses)				
Apportionment of Funds	(1,512,967)	(1,665,637)	(1,665,637)	-
Total Other Financing Sources (Uses)	(1,512,967)	(1,665,637)	(1,665,637)	-
Net Change in Fund Balance	(5,701,103)	(3,529,118)	(2,628,888)	900,230
Beginning Fund Balances	9,532,450	11,309,260	11,309,260	-
Ending Fund Balances	3,831,347	7,780,142	8,680,373	900,230

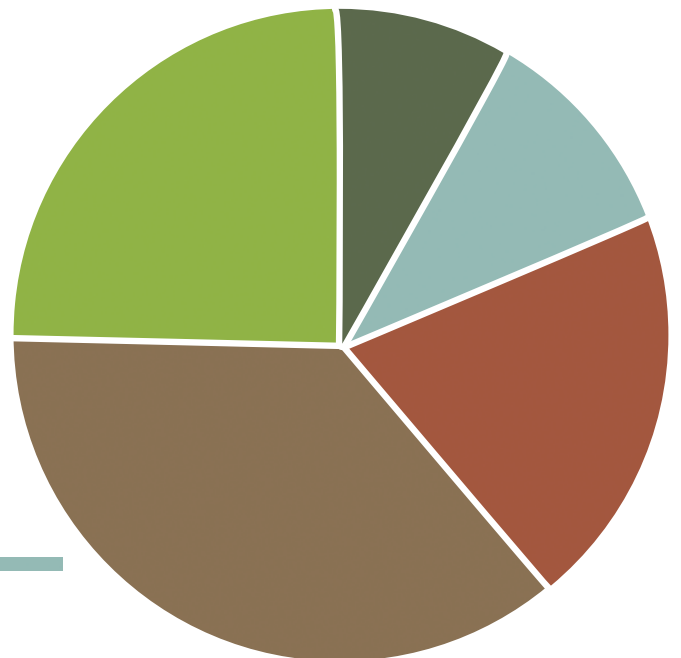
**Multnomah Education Service District
Multnomah County, Oregon
Statement of Fiduciary Net Assets
Fiduciary Fund
As of June 30, 2010**

	<u>Agency Pass-Through Fund</u>
Assets	
Cash and Cash Equivalents	4,222,908
Total Assets	<u><u>4,222,908</u></u>
Liabilities	
Held in Trust	4,222,908
Total Liabilities	<u><u>4,222,908</u></u>
Net Assets	
Unrestricted	-
Total Net Assets	<u><u>-</u></u>

**Multnomah Education Service District
Multnomah County, Oregon
Statement of Changes in Assets and Liabilities
Fiduciary Fund
As of June 30, 2010**

	Balance July 1	Additions	Deletions	Balance June 30
Assets				
Cash and Cash Equivalents	5,151,653	2,353,455	3,282,200	4,222,908
Total Assets	5,151,653	2,353,455	3,282,200	4,222,908
Liabilities				
Held in Trust	5,151,653	6,019,848	6,948,594	4,222,908
Total Liabilities	5,151,653	6,019,848	6,948,594	4,222,908

Notes to Basic Financial Statements



Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2010

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.

Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2010

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.

Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2010

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.

In addition, the District reports the following fund types:

- **Special Revenue Funds-** These funds account for revenues derived from specific tax or other earmarked revenue sources, including federal and state grant awards, which are restricted to finance particular functions or activities.
- **Debt Service Funds-** These funds account for the payment and interest on general obligation bonds and capital leases.
- **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.

D. 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.

E. 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.

Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. 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.

F. 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.

G. 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).

H. 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

I. 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.

Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. 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.

K. 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, 2010 of \$9,198,877. Annual amortization has been calculated on the straight line basis.

L. Other Post-Employment Benefits Obligations

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.

M. 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.

Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. 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 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.

Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2010

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, 2010, (recorded at fair value) consisted of:

Cash on Hand	\$	300
Demand Deposits		1,904,224
Local Government		
Investment Pool		<u>23,018,193</u>
Subtotal		24,922,717
Less Fiduciary Fund		<u>4,222,908</u>
Total	\$	<u>20,699,809</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, 2010.

Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2010

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, 2010 was \$3,176,149. Of these deposits, \$250,000 was covered by federal depository insurance. As required by Oregon Revised Statutes, deposits in excess of federal depository insurance (\$2,926,149) 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.

Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2010

NOTE 4 – CAPITAL ASSETS

The changes in capital assets for the year ended June 30, 2010 are as follows:

Description	Balance June 30, 2009	Additions	Dispositions	Balance June 30, 2010
Capital Assets, not being depreciated:				
Land	\$ 1,935,748	\$	\$	\$ 1,935,748
Construction in Progress	46,769		46,769	
	<u>1,982,517</u>		<u>46,769</u>	<u>1,935,748</u>
Capital Assets, being depreciated:				
Building & Improvements	11,342,116			11,342,116
Site Improvements	269,720	532,317		802,037
Equipment & Furniture	1,838,914	8,234		1,847,148
Vehicles	349,218	39,873		389,091
	<u>13,799,968</u>	<u>580,424</u>		<u>14,380,392</u>
Less Accumulated Depreciation:				
Building & Improvements	3,121,219	336,861		3,468,080
Site Improvements	136,009	31,068		167,077
Equipment & Furniture	1,129,212	256,187		1,385,399
Vehicles	216,200	42,705		258,905
	<u>4,602,640</u>	<u>666,821</u>		<u>5,269,461</u>
Total Capital Assets being Depreciated, net	<u>9,197,328</u>	<u>(86,397)</u>		<u>9,110,931</u>
Capital Assets, net	<u>\$ 11,179,845</u>	<u>\$ (86,397)</u>	<u>\$ 46,769</u>	<u>\$ 11,046,679</u>

Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2010

NOTE 4 – CAPITAL ASSETS (Continued)

Depreciation expense for the year ended June 30, 2010 was allocated to the functions as follows:

<u>Function</u>	<u>Amount</u>
Regular Programs	\$ 3,502
Special Programs	23,175
Student Services	29,897
Instructional Staff Services	396
General Administration	1,119
Business Services	284,475
Central Services	49,400
Community Services	1,501
Unallocated Depreciation	273,357
	<u>\$ 666,821</u>

NOTE 5 – LONG-TERM DEBT

Following are the changes in long-term debt, for the year ended June 30, 2010:

	<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 6/30/09	\$ 33,100,000	\$ 3,685,000	\$ 267,201	37,052,201	
Additions	-	-			
Payments & Deletions	(140,000)	(410,000)	(36,053)	(\$586,053)	
Bal at 6/30/10	<u>\$ 32,960,000</u>	<u>\$ 3,275,000</u>	<u>\$ 231,148</u>	<u>\$ 36,466,188</u>	

Amounts Payable in Fiscal Years:

2010-11	\$ 255,000	\$ 420,000	\$ 41,353	\$ 716,353	\$ 1,914,856
2011-12	375,000	440,000	43,679	858,679	1,886,641
2012-13	510,000	455,000	46,101	1,011,101	1,849,414
2013-14	655,000	470,000	48,658	1,173,658	1,806,589
2014-15	810,000	490,000	51,357	1,351,357	1,762,509
2015-2020	6,960,000	1,000,000		7,960,000	7,724,232
2020-2025	13,535,000	-	-	13,535,000	5,141,479
2025-2028	9,860,000	-	-	9,860,000	989,512
TOTAL	<u>\$ 32,960,000</u>	<u>\$ 3,275,000</u>	<u>\$ 231,148</u>	<u>\$ 36,466,148</u>	<u>\$ 23,075,232</u>

Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2010

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 \$36,235,000. The OSBA Limited Tax Pension Obligations, Series 2004 bonds had a remaining balance of \$32,960,000 at June 30, 2010. 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, 2010, were as follows:

Year Ending June 30,		
	2011	\$ 52,874
	2012	52,874
	2013	52,874
	2014	52,874
	2015	<u>52,874</u>
Total Minimum lease payments		264,370
Less: Amount representing interest		<u>(33,222)</u>
Total Minimum Future Lease Payments	\$	<u><u>231,148</u></u>
Machinery and Equipment	\$	307,952
Less depreciation		<u>(123,180)</u>
Total Equipment acquired Under lease agreement	\$	<u><u>184,772</u></u>

Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2010

NOTE 7 – OPERATING LEASES

The District leases building space at various locations. Total payments in 2009-10 were approximately \$597,330. Future minimum rental commitments at June 30, 2010 are as follows:

Year Ending June 30,	
2011	587,904
2012	579,257
2013	584,777
2014	296,888
2015	285,036
2016 - 2018	<u>703,290</u>
Total Minimum Future Rental Payments	\$ <u><u>3,037,152</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, 2010 is as follows:

	Transfers Out		
Transfers In	Resolution Services	Operating Fund	Total Transfers In
Resolution Services	\$ -	\$ 593,637	\$ 593,637
Operating Fund	3,171,291	-	3,171,291
Other Governmental Funds	-	593,759	593,759
Total Transfers Out	<u>\$ 3,171,291</u>	<u>\$ 1,187,396</u>	<u>\$ 4,358,687</u>

- \$593,637 was transferred from the Operating Fund to the Resolution Services Fund to cover an under-budgeted program.
- \$548,955 was transferred from the Operating Fund to other governmental funds to cover debt service principal and interest payments.
- \$3,171,291 was transferred from the Resolution Services Fund to the Operating Fund in order to fund the district's indirect and support service functions.
- \$44,804 was transferred to other governmental funds to fund Risk Management activities.

Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2010

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

Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2010

NOTE 10 – STATEWIDE LOCAL GOVERNMENT RETIREMENT SYSTEM (Continued)

to contribute at an actuarially determined rate. The District's rate is 3.79 percent for PERS, 4.31 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, 2010, 2009, and 2008 were approximately \$1,328,000, \$2,476,000, and \$1,788,000, 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, 2010, the District's annual debt service for the limited tax pension bonds included \$140,000 of principal, and \$1,784,313 of interest. Total debt service payments for the years 2008, 2009 and 2010 were \$1,785,780, \$1,825,780, and \$1,924,313, 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, 2010. The series 2004 bonds maturing on June 30, 2028 are subject to mandatory prepayment beginning June 30, 2023.

Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2010

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, 2010, 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 July 1, 2008, 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	\$ 329,876
Interest on net OPEB obligation	6,642
Adjustment to annual required contribution	(6,121)
Annual OPEB Cost	\$ 330,397
Contributions made	<u>(167,338)</u>
Increase in net OPEB obligation	163,059
Net OPEB obligation- beginning of year	<u>166,067</u>
Net OPEB obligation- end of year	<u><u>\$ 329,126</u></u>

Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2010

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
6/30/2010	\$ 330,397	51%	\$ 163,059

Funding Status and Funding Progress

The funded status of the plan as of July 1, 2008, 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)	<u>\$ 2,830,915</u>

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 July 1, 2008, 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.

Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2010

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 0.29% 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, 2010 are included in the PERS annual pension amount.

Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2010

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

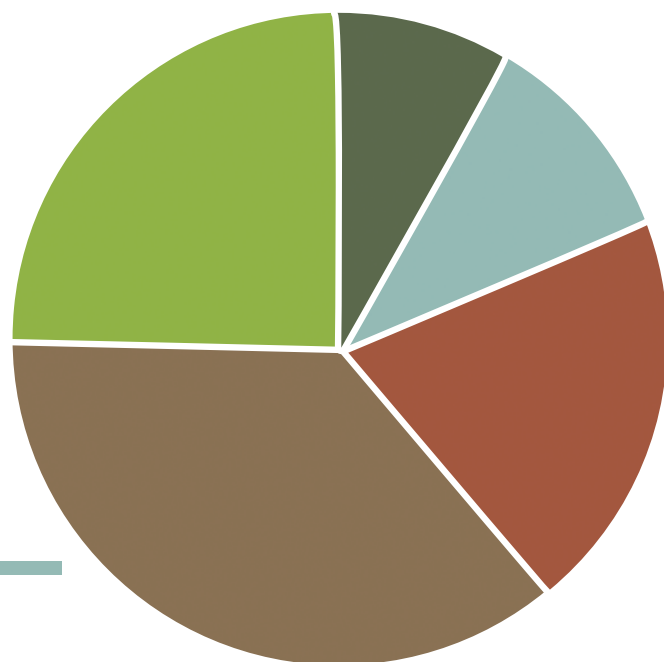
For the year ended June 30, 2010 expenditures exceeded appropriations in the following budgetary control categories:

Fund / Function	Appropriation	Expenditure	Excess
Facilities Acquisition & Construction			
Facilities Acquisition	\$ 482,973	\$ 489,409	\$ (6,436)

NOTE 14 – COMMITMENTS AND CONTINGENCIES

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.

Supplemental Information



**Multnomah Education Service District
Multnomah County, Oregon
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2010**

	Debt Service	Facilities Acquisition & Improvements	Risk Management Reserve	Total
Assets				
Cash and Cash Equivalents	74,742	472,211	89,836	636,789
Total Assets	74,742	472,211	89,836	636,789
Liabilities				
Accrued Payroll & Withholdings	-	-	-	-
Total Liabilities	-	-	-	-
Fund Balances				
Reserved for:				
Future Debt Service Payments	74,742	-	-	74,742
Unreserved, Undesignated Reported In:				
Special Revenue Funds	-	-	89,836	89,836
Capital Projects Funds	-	472,211	-	472,211
Total Fund Balances	74,742	472,211	89,836	636,789
Total Liabilities and Fund Balances	74,742	472,211	89,836	636,789

Multnomah Education Service District
Multnomah County, Oregon
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2010

	Debt Service	Facilities Acquisition & Improvements	Risk Management Reserve	Total
Revenues				
Other Revenues	74,742	-	45,032	119,774
Total Revenues	74,742	-	45,032	119,774
Expenditures				
Support Services	-	32,027	-	32,027
Facilities Repairs and Maintenance	-	489,409	-	489,409
Debt Service	548,955	-	-	548,955
Total Expenditures	548,955	521,436	-	1,070,391
Excess of Revenues Over (Under) Expenditures	(474,213)	(521,436)	45,032	(950,617)
Other Financing Sources (Uses)				
Transfers In	548,955	-	44,804	593,759
Total Other Financing Sources (Uses)	548,955	-	44,804	593,759
Net Change in Fund Balances	74,742	(521,436)	89,836	(356,858)
Beginning Fund Balances	-	993,647	-	993,647
Ending Fund Balances	74,742	472,211	89,836	636,789

**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, 2010**

Debt Service Fund

	Original Budget	Final Budget	Actual	Variance to Final Budget Positive (Negative)
Revenues				
Other Revenues	-	-	74,742	74,742
Total Revenues	-	-	74,742	74,742
Expenditures				
Debt Service	551,155	551,155	548,955	2,200
Total Expenditures	551,155	551,155	548,955	2,200
Excess of Revenues Over (Under) Expenditures	(551,155)	(551,155)	(474,213)	76,942
Other Financing Sources (Uses)				
Transfers In	551,155	551,155	548,955	(2,200)
Total Other Financing Sources (Uses)	551,155	551,155	548,955	(2,200)
Net Change in Fund Balance	-	-	74,742	74,742
Beginning Fund Balance	33,054	-	-	-
Ending Fund Balance	33,054	-	74,742	74,742

**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, 2010**

Facilities Acquisition Improvement Fund

	Original Budget	Final Budget	Actual	Variance to Final Budget Positive (Negative)
Expenditures				
Support Services	-	32,027	32,027	-
Facilities Repairs and Maintenance	515,000	482,973	489,409	(6,436)
Total Expenditures	515,000	515,000	521,436	(6,436)
Excess of Revenues Over (Under) Expenditures	(515,000)	(515,000)	(521,436)	(6,436)
Other Financing Sources (Uses)				
Transfers In	50,000	50,000	-	(50,000)
Total Other Financing Sources (Uses)	50,000	50,000	-	(50,000)
Net Change in Fund Balance	(465,000)	(465,000)	(521,436)	(56,436)
Beginning Fund Balance	969,782	969,782	993,647	23,865
Ending Fund Balance	504,782	504,782	472,211	(32,571)

**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, 2010**

Risk Management Reserve Fund

	Original Budget	Final Budget	Actual	Variance to Final Budget Positive (Negative)
Revenues				
Other Revenues	-	-	45,032	45,032
Total Revenues	-	-	45,032	45,032
Expenditures				
Support Services	-	-	-	-
Total Expenditures	-	-	-	-
Excess of Revenues Over (Under) Expenditures	-	-	45,032	45,032
Other Financing Sources (Uses)				
Transfers In	-	-	44,804	44,804
Total Other Financing Sources (Uses)	-	-	44,804	44,804
Net Change in Fund Balance	-	-	89,836	89,836
Beginning Fund Balance	-	-	-	-
Ending Fund Balance	-	-	89,836	89,836

Multnomah Education Service District

Schedule of Property Tax Transactions

Fiscal Year Ended June 30, 2010

Tax Year	Original Levy or Uncollected July 1, 2009	Add (Deduct) Discounts	Adjustments To Rolls	Add Interest	Add (Deduct) Cash Collections by County Treasurer	Balance Uncollected or Unsegregated June 30, 2010
Current:						
2009-10	\$ 25,184,128	\$ (614,642)	\$ (106,227)	\$ 17,057	\$ 23,684,111	\$ 796,204
Prior Years:						
2008-09	873,709	667	(45,701)	34,105	513,454	349,326
2007-08	296,728	175	(13,574)	24,805	155,752	152,383
2006-07	123,451	132	(7,054)	18,022	76,292	58,258
2005-06	47,122	78	(3,346)	12,737	47,262	9,329
2004-05 & Prior	44,380	104	(5,391)	2,269	5,592	35,771
Total Prior	1,385,391	1,156	(75,066)	91,938	798,351	605,068
Total	26,569,519	(613,486)	(181,293)	108,995	24,482,463	1,401,273

Oregon Department of Education
225 Capitol Street NE
Salem, Oregon 97310

Office of Finance and Administration
School Finance Unit

SUPPLEMENTAL INFORMATION, 2009-10

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

Part A is needed for computing Oregon's full allocation of 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	\$ 354,919
Function 2550	None

B. Replacement of Equipment – General Fund:

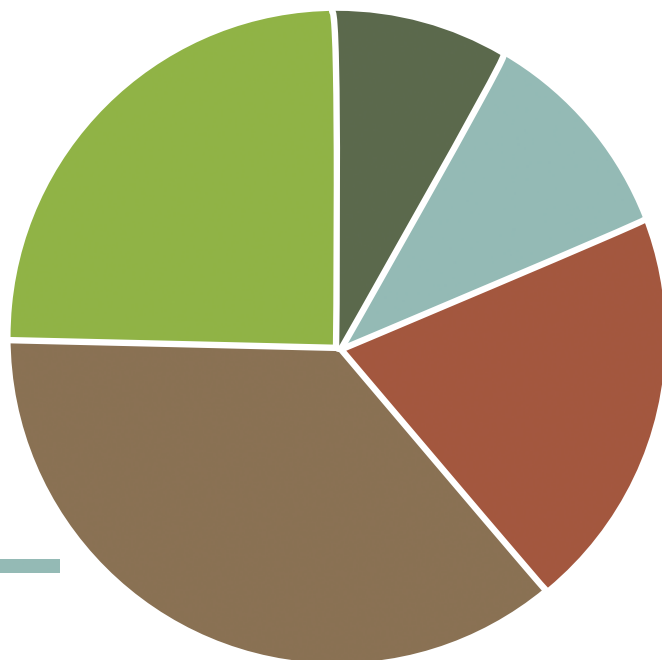
Include all General Fund expenditures in
object 542, except for the following exclusions:

None

Exclude these 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



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

	2003	2004	2005	2006	2007	2008	2009	2010
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	\$ 20,699,809
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	1,401,273
Accounts Receivable	5,543,708	11,167,740	6,482,316	10,146,720	6,466,338	4,332,536	7,928,544	8,002,199
Inventory	799,458	1,340,224	1,562,752	820,344	1,129,707	1,054,156	1,029,202	982,728
Prepaid Items	193,015	3,000	200,313	183,577	230,784	319,333	63,893	13,580
Prepaid Pension Cost, Net of Amortization		32,391,100	30,982,696	29,574,391	28,166,087	26,757,783	25,349,424	23,941,123
Bond Issuance Costs, Net of Amortization		182,267	174,673	168,851	159,484	151,889	186,535	176,172
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	11,046,679
Total Assets	\$ 36,150,036	\$ 79,473,947	\$ 78,099,647	\$ 79,421,399	\$ 77,477,480	\$ 73,792,014	\$ 72,175,098	\$ 66,263,563
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	5,839,512
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	3,685,714
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	170,310
Implicit Rate Subsidy	-	-	-	-	-	-	166,067	329,126
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	716,353
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	35,749,795
Total Liabilities	\$ 21,125,009	\$ 61,008,833	\$ 56,452,205	\$ 51,384,311	\$ 47,519,214	\$ 41,740,565	\$ 47,741,326	\$ 46,490,810
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	\$ 7,540,531
Reserved for:								
Future Debt Service Payments	-	-	-	-	-	-	-	74,742
Inventory	-	-	-	-	-	-	-	982,728
Prepaid Items	-	-	-	-	-	-	-	13,580
Unrestricted	8,645,901	12,282,146	15,765,221	22,072,701	23,927,684	20,865,033	17,206,127	11,161,172
TOTAL NET ASSETS	\$ 15,025,027	\$ 18,465,114	\$ 21,647,442	\$ 28,037,088	\$ 29,958,266	\$ 27,606,000*	\$ 24,433,772	\$ 19,772,753

*Net Assets Restated

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

	2003	2004	2005	2006	2007	2008	2009	2010
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	\$ 8,092,199
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	18,208,545
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	24,505,818
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	8,033,770
Earnings on Investments	242,756	258,838	-	-	-	1,407,155	576,777	171,510
Federal Stimulus	-	-	-	-	-	-	907,566	2,601,970
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	2,566,822
Total Revenues	\$ 51,205,359	\$ 62,484,670	\$ 65,492,315	\$ 65,440,669	\$ 69,839,963	\$ 68,192,222	\$ 67,381,513	\$ 64,180,634
Expenses:								
Instruction	\$ 24,798,955	\$ 26,182,031	\$ 17,107,374	\$ 15,167,098	\$ 16,471,265	\$ 16,977,374	\$ 15,083,185	\$ 16,371,148
Support Services	28,677,004	31,607,962	34,279,738	34,862,274	38,722,555	37,284,143	40,395,972	37,705,025
Enterprise and Community Services	517,158	664,030	704,042	46,870	1,419,024	2,315,736	2,651,994	2,782,432
Facilities Repairs and Maintenance	-	-	-	-	-	-	-	489,409
Apportionment of Funds	-	-	8,090,257	7,256,141	9,340,305	9,492,872	10,218,146	9,297,814
Unallocated Depreciation	-	-	-	-	-	-	267,711	273,357
Interest on Long-Term Debt	292,102	590,540	2,128,576	1,718,641	1,965,638	1,956,306	1,936,735	1,922,468
Total Expenses	\$ 54,285,219	\$ 59,044,563	\$ 62,309,987	\$ 59,051,024	\$ 67,918,787	\$ 68,026,431	\$ 70,553,743	\$ 68,841,653
CHANGE IN NET ASSETS								
NET ASSETS, beginning of year	\$ (3,079,860)	\$ 3,440,107	\$ 3,182,328	\$ 6,389,645	\$ 1,921,176	\$ 165,791	\$ (3,172,230)	\$ (4,661,019)
	18,104,887	15,025,027	18,465,134	21,647,462	29,964,482*	31,885,658	27,606,000	24,433,772
NET ASSETS, end of year	\$ 15,025,027	\$ 18,465,134	\$ 21,647,462	\$ 28,037,107	\$ 31,885,658	\$ 27,606,000*	\$ 24,433,773	\$ 19,772,753

*Net Assets Restated

Multnomah Education Service District
Multnomah County, Oregon
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Last 10 Fiscal Years

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Revenues										
Property Taxes	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	24,511,191
State School Fund	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	8,033,770
Local Sources	7,538,222	7,910,546	8,067,540	9,618,760	11,750,330	14,976,739	13,192,511	10,066,970	10,670,438	5,767,805
State Sources	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	12,676,732
School Improvement Fund	-	-	-	-	-	-	-	-	965,201	-
Federal Sources	1,672,135	2,271,560	1,611,949	5,060,892	4,362,055	5,230,819	7,449,302	5,818,759	7,627,019	8,992,045
Investment Earnings	792,668	338,663	242,756	258,838	585,213	1,166,597	1,821,211	1,407,154	576,777	171,510
Debt Proceeds	-	-	-	32,963,381	-	-	-	-	-	-
Sales of Goods & Services	1,013,754	902,145	2,283,604	2,153,496	2,089,159	2,393,970	786,743	3,436,068	1,884,560	1,435,170
SB1149 Proceeds	-	-	-	-	-	-	4,188,737	1,558,547	-	-
Other Revenues	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	527,323
Overhead Revenues	314,760	317,974	309,903	635,641	713,225	832,854	1,853,178	381,504	8,520,656	2,070,415
Total Revenues	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	64,185,961
Expenditures										
Instruction	13,178,662	13,270,870	14,189,189	16,358,050	16,321,874	16,328,176	16,899,030	16,882,596	16,400,599	16,126,163
Support Services	32,210,801	31,628,197	31,031,285	33,500,452	35,415,145	38,921,915	41,040,462	40,572,157	48,105,823	36,733,405
Enterprise and Community Services	209,424	275,394	517,158	628,003	674,541	778,322	1,415,832	2,294,594	2,812,317	2,766,457
Facilities Repairs and Maintenance	-	-	-	-	-	-	-	25,237	-	489,409
Other Uses	341,121	196,493	165,005	-	(10)	-	-	-	-	-
Debt Service	560,653	559,750	563,148	33,988,754	1,975,515	2,077,633	2,338,163	2,338,711	2,376,735	2,473,268
Contingencies	-	-	-	-	68,657	-	-	-	-	-
Total Expenditures	46,500,661	45,930,704	46,465,785	84,475,259	54,455,722	58,106,046	61,693,487	62,113,295	69,695,474	58,588,702
Excess of Revenues Over (Under) Expenditures	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	5,597,259
Other Financing Sources (Uses)										
Apportionment of Funds	(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)	(9,297,814)
Transfers In	528,441	396,463	405,879	780,592	808,000	1,358,648	-	1,370,000	10,242,125	4,358,687
Transfers Out	(755,041)	(553,600)	(405,879)	(780,592)	(808,000)	(1,359,285)	-	(1,371,500)	(10,242,125)	(4,358,687)
Capital Leases	-	-	-	-	-	-	-	-	307,952	-
Total Other Financing Sources (Uses)	(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)	(9,297,814)
Net Change in Fund Balances	525,550	727,824	(699,875)	4,101,466	5,122,044	7,784,700	3,305,633	742,987	(2,311,317)	(3,700,554)
Beginning Fund Balances	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 *	24,043,710
Ending Fund Balances	7,720,841	8,449,138	7,749,261	11,848,807	16,970,849	24,755,559	28,061,192	30,872,211	24,043,711	20,343,156

*Restated

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 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)
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
2010	58,913,882,239	0.4576	24,800,879	245,069	24,579,112

Clackamas County

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)
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
2010	1,035,244,248	0.4576	473,728	(2,078)	471,706

Washington County

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)
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
2010	268,754,468	0.4576	122,982	(2,430)	120,106

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

Note: Over a period of time data will reflect ten 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)
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
2010	60,217,880,955	0.4576	25,397,589	240,561	25,170,924

Note: Over a period of time data will reflect ten 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 Ending June 30	Real Property	Manufactured Structures	Personal Property	Public Utility	Total Market Value
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
2010	*	*	*	*	*

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

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

Source: Multnomah County Department of Assessment and Taxation

* Information is not available at this time.

Multnomah Education Service District

Principal Property Tax Payers For Multnomah County
Fiscal Years 2010 and 2001

Taxpayer	2010		2001	
	Taxable Assessed Value	Rank	Taxable Assessed Value	Rank
Portland General Electric Co	\$ 387,130,710	1	\$ 314,764,950	2
Comcast Corporation	338,520,300	2		
PacifiCorp (PP&L)	315,637,000	3	245,345,100	5
Weston Investment Co LLC	236,682,230	4		
Qwest Corporation	217,348,200	5	434,394,900	1
Fred Meyer Stores Inc	181,523,750	6		
EVRAZ Inc NA	175,714,460	7		
LC Portland LLC	168,334,490	8		
Boeing Co	165,439,750	9	177,582,610	8
Northwest Natural Gas Co	163,162,020	10		
Fujitsu Microelectronics			314,477,010	3
Fujitsu Microelectronics Inc			299,258,020	4
Wacker Siltronic Corp			249,400,294	6
Alaska Airlines Inc			178,410,500	7
United Airlines Inc			144,242,900	9
Northwest Natural Gas Co			141,856,090	10
	<u>\$ 2,349,492,910</u>		<u>\$ 2,499,732,374</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, 2010		
		Amount	Percentage of Levy	Amount	Percentage Collected	
Multnomah County						
2001	\$ 17,608,310	\$ 642,379	\$ 3.65%	\$ 2,021	99.69%	
2002	18,512,544	655,726	3.54%	2,883	99.56%	
2003	18,949,684	650,554	3.43%	3,590	99.45%	
2004	19,464,912	599,331	3.08%	4,559	99.24%	
2005	20,120,523	582,329	2.89%	6,175	98.94%	
2006	21,025,449	588,764	2.80%	9,098	98.45%	
2007	21,703,981	588,236	2.71%	57,200	90.28%	
2008	22,859,897	670,534	2.93%	149,010	77.78%	
2009	23,825,482	851,090	3.57%	340,460	60.00%	
2010	24,606,025	775,848	3.15%	775,848	0.00%	
Clackamas County						
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%	
2010	457,997	*	*	*	*	

Note: Represents Multnomah and Clackamas Counties

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

* Information not available at this time.

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, 2010	
		Amount	Percentage of Levy	Amount	Percentage Collected
Washington County					
2001	\$ 87,978	\$ *	*	\$ *	*
2002	90,556	*	*	*	*
2003	95,622	*	*	*	*
2004	95,622	*	*	*	*
2005	100,691	*	*	27	*
2006	104,856	*	*	28	*
2007	108,287	2,249	2.08%	120	94.66%
2008	112,437	2,732	2.43%	466	82.94%
2009	116,251	3,553	3.06%	1,278	64.03%
2010	120,106	3,348	2.79%	3,348	0.00%

Note: Represents Washington County

* Data unavailable at this time

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
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	4,560,000	48,043,863,788	0.01%	8.09%	56,389,127
2006	4,520,000	49,950,235,822	0.01%	7.41%	61,036,723
2007	4,475,000	52,231,963,577	0.01%	6.90%	64,822,117
2008	4,085,000	55,138,067,545	0.01%	6.63%	61,638,123
2009	3,685,000	57,815,605,543	0.01%	*	*
2010	3,275,000	60,217,889,550	0.01%	*	*

* Data unavailable.

Source: Bureau of Economic Analysis

Multnomah Education Service District

Demographic and Economic Statistics
Last Ten Calendar Years

Year	Population	Personal Income (thousands)		Per Capita Income	Portland Metropolitan Unemployment Rate 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		29,372,019		41,222	5.3%
2009	712,539		*		*	*
2010	725,000		*		*	*
Clackamas County						
2000	339,512	\$	12,416,346	\$	36,571	Portland Metro Unemployment Rates include Clackamas & Washington Counties
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	381,229		17,080,392		44,803	
2009	*		*		*	
2010	*		*		*	
Washington County						
2000	448,509	\$	14,880,607	\$	33,178	Portland Metro Unemployment Rates include Clackamas & Washington Counties
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	527,168		21,185,612		40,188	
2009	*		*		*	
2010	*		*		*	

* Data unavailable at time of print.

Source: US Department of Commerce-Bureau of Economic Analysis

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

Multnomah Education Service District
Licensed, Classified and Administrative Employees
 Last Ten Fiscal Years

<u>Year</u>	<u>Licensed</u>	<u>Classified</u>	<u>Administration</u>	<u>Total</u>
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
2010	281	341	48	670

Source: Multnomah ESD Human Resources Department

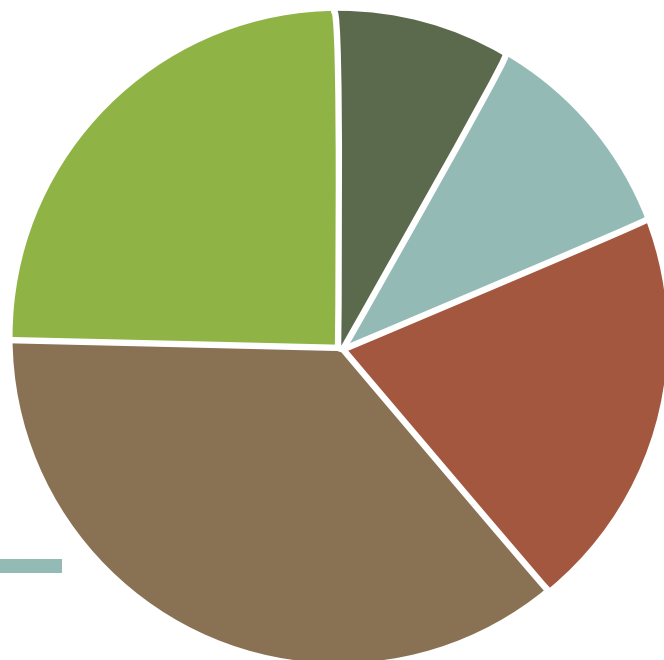
Multnomah Education Service District

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

<u>Fiscal Year Ending</u>		<u>Special Education Services</u>	<u>Instructional Services</u>	<u>Health & Social Services</u>	<u>Technology & Other Support Services</u>	<u>Total</u>
2001	\$	23,110,925	\$ 13,227,494	\$ 6,530,724	\$ 13,976,557	\$ 56,895,700
2002		22,737,506	13,087,419	7,017,268	13,071,292	55,913,485
2003		22,446,385	12,550,994	7,596,948	11,432,168	54,026,495
2004		23,502,456	15,804,543	8,330,410	43,791,559	91,428,968
2005		23,708,875	15,634,597	9,450,314	10,893,591	59,687,377
2006		22,899,919	16,680,305	10,680,387	9,804,769	60,065,380
2007		25,003,833	18,538,848	11,885,582	10,313,749	65,742,012
2008		23,813,868	18,407,083	13,244,344	9,246,210	64,711,505
2009		26,356,512	19,949,756	13,986,022	12,651,890	72,944,180
2010		24,115,053	17,241,767	13,246,418	3,531,239	58,134,477

Source: Multnomah ESD Financial Records

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**

December 22, 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, 2010, and have issued our report thereon dated December 22, 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.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 10-01, that we consider to be a significant deficiency. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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*.

* * * * *

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

Talbot, Korvola & Warwick, LLP

Certified Public Accountants



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

December 22, 2010

Board of Directors
Multnomah Education Service District
Portland, Oregon

COMPLIANCE

We have audited Multnomah Education Service District's (the District's) compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. 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, 2010.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133 (Continued)

Page 2

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance as described in the accompanying Schedule of Findings and Questioned Costs as items 10-02, 10-03, 10-04, and 10-05 to be significant deficiencies.

* * * * *

This report is intended solely for the information and use of the Board of Directors, management, others within the District, 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, Kovda & Warwick, LLP

Certified Public Accountants

MULTNOMAH EDUCATION SERVICE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

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	07/01/09 - 06/30/10	\$ -	\$ 48,840
National School Lunch Program	10.555	N/A	07/01/09 - 06/30/10	-	106,791
Total Child Nutrition Cluster				-	155,631
Total US Department of Agriculture				-	155,631
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	2,172,795
Total US Dept of Health and Human Services				9,000,000	2,172,795
US Department of Education:					
TRIO Cluster:					
TRIO - Talent Search	84.044	N/A	09/01/07 - 08/31/12	1,133,000	252,713
Total TRIO Cluster				1,133,000	252,713
Passed through Oregon Department of Education:					
American Recovery and Reinvestment Act					
State Fiscal Stabilization Fund (SFSF) - Education State Grants Recovery Act	84.394	17379	02/17/09 - 09/30/11	1,258,177	1,139,161
	84.394	16976	02/17/09 - 09/30/11	20,879	4,813
	84.394	18722	02/17/09 - 09/30/11	14,984	14,984
Total State Fiscal Stabilization Fund				1,294,040	1,158,958
Title I Grants to Local Educational Agencies Fund- Education State Grants	84.010	17962	09/01/09 - 09/30/10	441,404	398,965
	84.010	18980	03/10/10 - 06/30/10	15,000	9,888
Total Grants to Local Educational Agencies Fund - Education State Grants				456,404	408,853
Special Education Cluster:					
Special Education - Grants to States	84.027	8594	07/01/09 - 06/30/11	2,743,267	1,178,873
	84.027	8633	07/01/09 - 06/30/11	32,969	16,485
	84.027	8653	07/01/09 - 06/30/11	31,744	12,709
	84.027	14651	01/01/09 - 09/30/09	2,500	2,207
	84.027	17620	08/01/09 - 06/30/10	1,299	1,299
	84.027	17644	08/01/09 - 06/30/10	997	997
	84.027	17645	08/01/09 - 06/30/10	3,311	3,311
	84.027	17646	08/01/09 - 06/30/10	3,987	3,987
	84.027	17647	08/01/09 - 06/30/10	1,305	1,305
	84.027	18297	09/01/09 - 06/30/10	5,400	5,400
	84.027	16171	08/01/09 - 07/31/10	12,000	8,371
	84.027	18560	10/01/09 - 09/30/10	2,575	-
Total Special Education Grants to States				2,841,354	1,234,944
Special Education - Preschool Grants	84.173	8594	07/01/09 - 06/30/11	1,016,702	408,676
Special Education Grants to States - American Recovery and Reinvestment Act	84.391	16049	02/17/09 - 09/30/11	1,507,360	715,444
	84.391	15938	02/17/09 - 06/30/10	4,661	1,898
	84.391	15955	02/17/09 - 06/30/10	18,297	9,858
Total Special Education Grants to States - American Recovery and Reinvestment Act				1,530,318	727,201
Special Education - Preschool Grants	84.392	16057	02/17/09 - 09/30/11	725,184	327,021
Total Special Education Cluster				6,113,558	2,697,843
Early Intervention Services (IDEA) Cluster:					
Special Education - Grants for Infants and Families	84.181	8594	07/01/09 - 06/30/11	1,630,857	657,924
	84.181	16157	07/01/09 - 06/30/10	1,500	1,500
Total Special Education - Grants for Infants and Families				1,632,357	659,424
Special Education - Grants for Infants and Families	84.393	16067	02/17/09 - 09/30/11	994,931	388,789
Total Early Intervention Services (IDEA) Cluster				2,627,288	1,048,213

MULTNOMAH EDUCATION SERVICE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass- through Number	Grant Period	Grant Amount	Expenditures
Migrant Education - State Grant Program	84.011	15873	06/01/09 - 08/31/09	\$ 2,050	\$ -
	84.011	16199	07/01/09 - 09/30/10	113,094	112,333
	84.011	17606	07/01/09 - 09/30/10	15,174	15,071
	84.011	14385	07/01/08 - 09/30/09	15,837	111
	84.011	12927	07/01/08 - 06/30/10	135,901	7,804
	84.011	14769	05/01/09 - 08/31/09	23,000	19,836
	84.011	19087	03/01/10 - 08/31/10	8,849	368
Total Migrant Education - State Grant Program				<u>313,905</u>	<u>155,524</u>
Title I Program for Neglected and Delinquent Children	84.013	8633	07/01/09 - 06/30/10	42,984	42,984
	84.013	8633	07/01/09 - 06/30/11	167,567	69,405
Total Program for Neglected and Delinquent Children				<u>210,551</u>	<u>112,389</u>
Career and Technical Education - Basic Grants to States	84.048	12371	07/01/08 - 09/30/09	87,864	29,579
	84.048	15374	07/01/09 - 09/30/10	106,904	94,836
Total Career and Education - Basic Grants to States				<u>194,768</u>	<u>124,414</u>
Improving Teacher Quality State Grants	84.367	16128	07/01/09 - 08/31/09	2,000	1,925
Total US Department of Education				<u>12,345,514</u>	<u>5,960,832</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE				<u>\$ 21,345,514</u>	<u>\$ 8,289,257</u>

Notes:

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

MULTNOMAH EDUCATION SERVICE DISTRICT

Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2010

SECTION 1 – SUMMARY OF INDEPENDENT AUDITORS RESULTS

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? No

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 *Circular A-133*? Yes

Identification of major programs:

CFDA NUMBER(S)

NAME OF FEDERAL PROGRAM OR CLUSTER

93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances
84.010	Title 1, Part A Cluster
84.027, 84.173, 84.391, & 84.392	Special Education Cluster
84.181 & 84.393	Early Intervention Services (IDEA) Cluster
84.394	State Fiscal Stabilization Fund Cluster

MULTNOMAH EDUCATION SERVICE DISTRICT

Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2010

SECTION I - SUMMARY OF INDEPENDENT AUDITOR'S RESULTS (Continued)

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

Auditee qualified as low-risk auditee? No

SECTION II- FINANCIAL STATEMENT FINDINGS

Finding 10-01:

Criteria: Bank reconciliations should be reviewed on a timely basis as this can identify errors which may cause material misstatement of the financial statements.

Condition: We noted that bank statements were reconciled in the general ledger, but the reconciliation lacked evidence of review by management.

Context: The opportunity exists that errors in the financial reporting system that are normally identified through the bank reconciliation may not be identified or corrected, resulting in the potential for misstatements in the financial statements.

Effect: Bank reconciliations not reviewed on a timely basis could result in financial statement misstatements.

Cause: Management relied upon other internal control procedures to assure that amounts appearing on the reconciliation were reflected properly on the general ledger.

Recommendation: We recommend that management document the review of all bank reconciliations.

Views of responsible
official: The District understands and concurs with the finding.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 10-02:

Federal Program: CFDA No. 93.104 – Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SAMSHA)

MULTNOMAH EDUCATION SERVICE DISTRICT

Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2010

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

Finding 10-02 (Continued):

Federal Agency:	Department of Health and Human Services
Award Year:	2009-10
Pass Through Entity:	N/A
Criteria:	In accordance with OMB Circular A-133, the District is required to maintain a structure of internal control to ensure compliance with SAMSHA cash management requirements. The authoritative requirements for maintaining internal control are in OMB Circular A-133 §____.300(b).
Condition:	The District's controls did not provide for proper review of claims for reimbursement of expenditures requested under this program.
Questioned costs:	None noted as no issues of noncompliance were noted.
Context:	The District submitted monthly requests for reimbursements of expenditures incurred under the program. Of the 12 requests submitted for reimbursement, three were selected for testing. None of the requests tested displayed evidence of supervisory review.
Effect:	While there appears to have been no direct effect of the condition, failure to review reimbursement requests may result in inaccurate, incomplete, or untimely requests filed.
Cause:	It appears the District did not prioritize the review of reimbursement requests relative to the allocation of available staff resources.
Recommendation:	We recommend the District develop review procedures for reimbursement requests to ensure accuracy, completeness, and timely filing.
Views of responsible official:	The District understands and concurs with the finding.

MULTNOMAH EDUCATION SERVICE DISTRICT

Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2010

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

Finding 10-03:

Federal Program:	CFDA No. 84.010 – Title I Grants to Local Educational Agencies
Federal Agency:	Department of Education
Award Year:	2009-10
Pass Through Entity:	N/A
Criteria:	In accordance with OMB Circular A-133, the District is required to maintain a structure of internal control to ensure compliance with Title I cash management requirements. The authoritative requirements for maintaining internal control are in OMB Circular A-133 §____.300(b).
Condition:	The District's controls did not provide for proper review of claims for reimbursement of expenditures requested under this program.
Questioned costs:	None noted as no issues of noncompliance were noted.
Context:	The District submitted periodic requests for reimbursements of expenditures incurred under the program. Of the eight requests submitted for reimbursement, three were selected for testing. None of the requests tested displayed evidence of supervisory review.
Effect:	While there appears to have been no direct effect of the condition, failure to review reimbursement requests may result in inaccurate, incomplete, or untimely requests filed.
Cause:	It appears the District did not prioritize the review of reimbursement requests relative to the allocation of available staff resources.
Recommendation:	We recommend the District develop review procedures for reimbursement requests to ensure accuracy, completeness, and timely filing.
Views of responsible official:	The District understands and concurs with the finding.

MULTNOMAH EDUCATION SERVICE DISTRICT

Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2010

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

Finding 10-04:

Federal Program:	CFDA No. 84.394 – State Fiscal Stabilization Fund (SFSF) – Education State Grants – ARRA
Federal Agency:	Department of Education
Award Year:	2009-10
Pass Through Entity:	N/A
Criteria:	In accordance with OMB Circular A-133, the District is required to maintain a structure of internal control to ensure compliance with SFSF cash management requirements. The authoritative requirements for maintaining internal control are in OMB Circular A-133 §____.300(b).
Condition:	The District's controls did not provide for proper review of the claim for reimbursement of expenditures requested under this program.
Questioned costs:	None noted as no issues of noncompliance were noted.
Context:	The District submitted one request for reimbursement of expenditures incurred under the program. The request did not display evidence of supervisory review.
Effect:	While there appears to have been no direct effect of the condition, failure to review the reimbursement request may result in inaccurate, incomplete, or untimely requests filed.
Cause:	It appears the District did not prioritize the review of the reimbursement request relative to the allocation of available staff resources.
Recommendation:	We recommend the District develop review procedures for reimbursement requests to ensure accuracy, completeness, and timely filing.
Views of responsible official:	The District understands and concurs with the finding.

MULTNOMAH EDUCATION SERVICE DISTRICT

Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2010

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

Finding 10-05:

Federal Program:	CFDA Nos. 84.027, 84.173, 84.391, 84.392 – Special Education Cluster
Federal Agency:	Department of Education
Award Year:	2009-10
Pass Through Entity:	N/A
Criteria:	Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. 2 CFR section 180.220 of the government-wide nonprocurement debarment and suspension guidance contains those additional limited circumstances. All nonprocurement transactions, irrespective of award amount, are considered covered transactions. When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).
Condition:	The District failed to review relevant contractors for potential suspension or debarment with respect to the contractor or its principals and failed to obtain a certification from the entity or add a clause or condition to the contract with the entity.
Questioned costs:	No questioned costs were identified at this time as the relevant contractors in question were not suspended or debarred.
Context:	The District had two contractors exceeding the \$25,000 threshold and both were tested for compliance.

MULTNOMAH EDUCATION SERVICE DISTRICT

Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2010

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

Finding 10-05 (Continued):

Effect:	While there was no noncompliance noted, the lack of review to determine suspension and debarment may result in the District inadvertently contracting with a prohibited contractor.
Cause:	District management and staff were not aware of the suspension and debarment compliance requirements for this program; therefore, steps were not performed to ensure compliance.
Recommendation:	We recommend the District develop and implement policies and procedures such that contracts in excess of \$25,000 that involve federal funding be reviewed for potential suspension and debarment of the contractors and their principals.
Views of responsible official:	The District understands and concurs with the finding.

MULTNOMAH EDUCATION SERVICE DISTRICT

Portland, Oregon

SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2010

Finding 09-01:

Audit Finding: We noted that journal entries are not reviewed by supervisory personnel after being entered into the accounting system by the preparer.

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.

See the District's response to prior year finding.

Finding 09-02:

Audit Finding: We noted that the Director of Business Services and individuals in the Technology Services Department have unrestricted access to the accounting system.

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:

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

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

Repeated as Finding 10-01.

MULTNOMAH EDUCATION SERVICE DISTRICT

Portland, Oregon

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

YEAR ENDED JUNE 30, 2010

Finding 09-04:

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

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:

Audit Finding: The District neglected to include all expenditures for federal programs on the Schedule of Expenditures of Federal Awards (SEFA).

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.

See the District's response to prior year finding.

Finding 09-06:

Federal Program: CFDA No. 84.044 – TRIO Cluster – Talent Search

Audit Finding: An independent review of documentation to support claims for reimbursement was not performed.

Corrective Action Plan: Business Services staff will review expenditures to assure that they were incurred prior to the claim for reimbursement.

Repeated as Findings 10-02, 10-03, and 10-04.



December 14, 2010

Management's Views and Corrective Action Plan Regarding Audit Findings for the Year Ended June 30, 2010

The following is provided in response to the Audit Findings for the Year Ended June 30, 2010

Financial Statement Findings

Finding 2010-01

Auditor Recommendation:

The District should perform and document the review of all bank reconciliations.

Corrective Action Plan:

During the 2009-10 fiscal year monthly bank reconciliations were regularly reviewed. Bank reconciliations are completed online and subsequently reviewed online without conversion to paper. Subsequent to 2009-10 a workflow model has been created and deployed to record that the review has been completed.

Federal Award Findings and Questioned Costs

Finding 2010-02

Federal Program:

CFDA No. 93.104 – Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SAMSHA)

Recommendation:

The District should develop and implement review of all reimbursement requests to ensure accuracy, completeness, and timely filing.

Corrective Action Plan:

During the 2009-10 fiscal year reviews were performed by both the preparer of the reimbursement request as well as by a staff person in Business Services. Subsequent to 2009-10 the respective program manager is now notified via email of the request for the reimbursement and responds with his/her approval. These responses are saved as evidence of this additional review and approval.

Finding 2010-03

Federal Program:

CFDA No. 84.010 – Title 1 Grants to Local Educational Agencies

Recommendation:

The District should develop and implement review of all reimbursement requests to ensure accuracy, completeness, and timely filing.

Corrective Action Plan:

During the 2009-10 fiscal year reviews were performed by both the preparer of the reimbursement request as well as by a staff person in Business Services. Subsequent to 2009-10 the respective program manager is now notified via email of the request for the reimbursement and responds with his/her approval. These responses are saved as evidence of this additional review and approval.

Finding 2010-04

Federal Program:

CFDA No. 84.394 – State Fiscal Stabilization Fund (SFSF) – Education State Grants – ARRA

Recommendation:

The District should develop and implement review of all reimbursement requests to ensure accuracy, completeness, and timely filing.

Corrective Action Plan:

During the 2009-10 fiscal year reviews were performed by both the preparer of the reimbursement request as well as by a staff person in Business Services. Subsequent to 2009-10 the respective program manager is now notified via email of the request for the reimbursement and responds with his/her approval. These responses are saved as evidence of this additional review and approval.

Finding 2010-05

Federal Program:

CFDA Nos. 84.027, 84.173, 84.391, 84.392 - Special Education Cluster

Recommendation:

The District should develop and implement policies and procedures such that contracts in excess of \$25,000 that involve federal funding be reviewed for potential suspension and debarment of the contractors and their principals.

Corrective Action Plan:

A condition has been added within the contract approval workflow model to automatically evaluate, flag and record that the debarment list has been checked for those contracts meeting this requirement

Prior Year Federal Award Findings

Finding 09-01

Audit Finding:

It was noted that journal entries are not reviewed by supervisory personnel after being entered into the accounting system by the preparer.

Corrective Action Taken:

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 assure that journal entries are not modified after approval but before distribution.

Finding 09-02

Audit Finding:

It was noted that the Director of Business Services and individuals in the Technology Services Department have unrestricted access to the accounting system.

Corrective Action Taken:

All changes to the vendor master and employee master tables are now being automatically logged by the system and reports have been created to report the creation of new records as well as changes to existing ones. The Risk Manager (who has very limited access and reports directly to the Superintendent) has been tasked with reviewing these reports monthly for anomalies.

Finding 09-03

Audit Finding:

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

Corrective Action Taken:

The Business Services Director now reviews bank reconciliations on a monthly basis.

Finding 2009-04

Audit Finding:

It was noted that the District has not formally documented all policies and procedures for accounting functions.

Corrective Action Taken:

All significant processes have been flowcharted and/or otherwise documented.

Finding 2009-05

Audit Finding:

The District neglected to include all expenditures for federal programs on the Schedule of Expenditures of Federal Awards (SEFA).

Corrective Action Taken:

Staff reviews 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.

Finding 2009-06

Federal Program

CFDA No. 84.044 – Trio Cluster – Talent Search

Audit Finding:

An independent review of documentation to support claims for reimbursement was not performed.

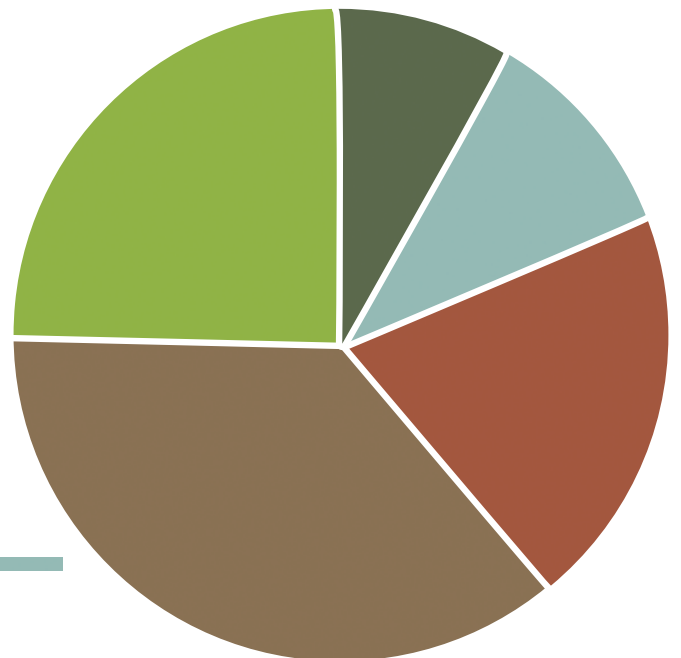
Corrective Action Taken:

Business Services staff review expenditures to assure that they were incurred prior to the claim for reimbursement.

Respectfully Submitted,

Robert Sesnon
Director of Business Services

Audit Comments & Disclosures





INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

December 22, 2010

Board of Directors
Multnomah Education Service District
Portland, Oregon

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We have audited the financial statements of the governmental activities, each major fund and the remaining fund information of Multnomah Education Service District, Portland, Oregon (the District), as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 22, 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.

COMPLIANCE

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 grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the *Minimum Standards for Audits of Oregon Municipal Corporations*, 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.

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

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

INDEPENDENT AUDITOR'S REPORT
REQUIRED BY OREGON STATE REGULATIONS (Continued)

Page 2

COMPLIANCE (Continued)

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

1. Expenditures exceeded appropriations authority for the Facilities Acquisition/Construction category in the Facilities Fund by \$6,436.

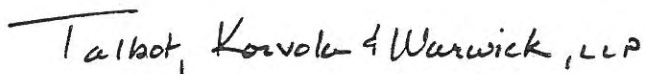
OAR 162-10-230 INTERNAL CONTROL

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 report relating to 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* is presented on pages 59 and 60 of this report.

* * * * *

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



Certified Public Accountants