

Multnomah Education Service District

Multnomah County, Oregon



Comprehensive Annual Financial Report For the Year Ended June 30, 2011



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Multnomah County, Oregon

Comprehensive Annual Financial Report

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Introduction



February 21, 2012

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 (District) for the fiscal year ended June 30, 2011 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 Auditor's Report, Management's Discussion and Analysis, Basic Financial Statements, Notes to Basic Financial Statements and Required and Other Supplemental Information.
- The **Statistical Section** includes government wide summary financial data, summary financial trends, revenue capacity, debt capacity, demographic and economic information and operating 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 **Independent Auditor's Report 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 District's 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.

The District 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 the District 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 the District'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 the District. 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 the District'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 the affiliated nonprofit corporation that raises money for the District's programs, creates community partnerships, builds awareness of the District's 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 budget serves as the financial plan of operation for the District and includes estimates of expenditures for a given period and purpose and the proposed means of financing the estimated expenditures.

The District's 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 and representatives from component school districts make up the District'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 the District 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 the District 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.

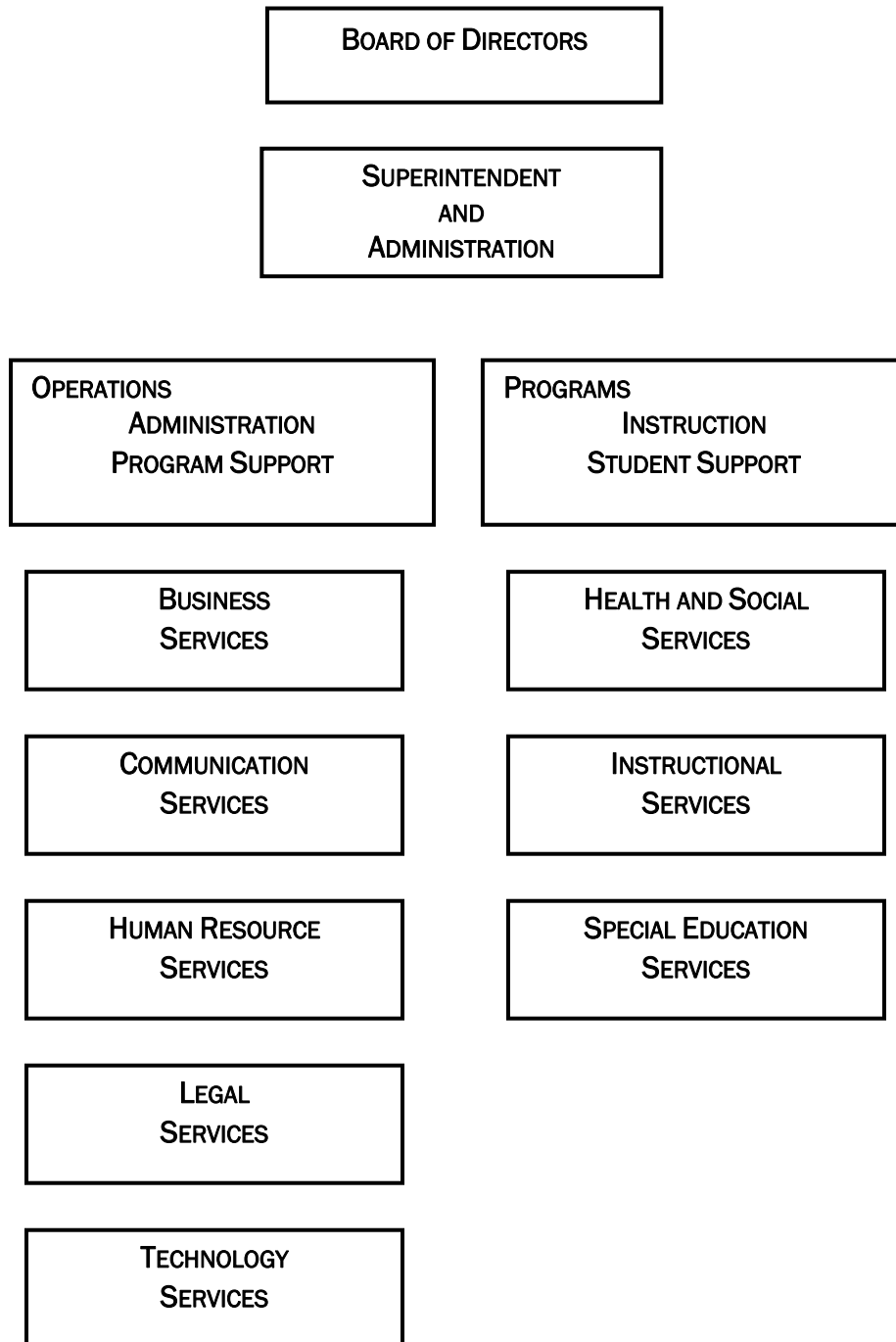
Respectfully submitted,

Barbara Jorgensen
Interim Superintendent

David A. Shick
Supervisor of Accounting & Finance

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ORGANIZATIONAL STRUCTURE



BOARD OF DIRECTORS**JUNE 30, 2011**

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	Gary Hollands	N/NE Portland	6/30/2015
Six	Doug Montgomery	At large	6/30/2015
Seven	Kevin Spellman	SE/SW Portland	6/30/2015

ADMINISTRATION

Barbara Jorgensen	Interim Superintendent and Chief Program Officer
David A. Shick	Supervisor of Accounting & Finance
David Turner	General Counsel

Financial Section



**Talbot, Korvola
& Warwick, LLP**

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& Consultants

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INDEPENDENT AUDITOR'S REPORT

February 21, 2012

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 aggregate remaining fund information of Multnomah Education Service District, Oregon (the District), as of and for the year ended June 30, 2011, 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 aggregate remaining fund information of the District, as of June 30, 2011, and the respective changes in financial position thereof and the respective budgetary comparisons 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 February 21, 2012, 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



INDEPENDENT AUDITOR'S REPORT (Continued)

Board of Directors
Multnomah Education Service District
February 21, 2012
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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.

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.

The Required Supplementary Information consisting of the Other Postemployment Benefits Schedule of Funding Progress, 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The combining and individual non major fund financial statements and schedules, and other schedules listed in the Table of Contents as Other Supplementary Information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is 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 basic financial statements. This information has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on it.

TALBOT, KORVOLA & WARWICK, LLP
Certified Public Accountants

By 
Timothy R. Gillette, Partner

Management's Discussion and Analysis

Multnomah Education Service District
Multnomah County, Oregon
Management's Discussion and Analysis
For the Year Ended June 30, 2011

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, 2011.

FISCAL HIGHLIGHTS

During the 2010-11 fiscal year the District maintained seven funds. As a result of Government Accounting Standards Board (GASB) Statement 54, it was determined the Risk Management Reserve Fund and the Operating Fund were to be combined for reporting purposes and together referred to as the General Fund.

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% of local revenues received are transferred to the General Fund in order to fund support operations. Any fund balance is restricted for the District's component school districts' 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 General 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 and the OSBA Pension bonds.

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 Fiduciary 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 funds 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, 2011

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 required and other 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 changed 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 are 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 General. The General Fund is a combination of the Operating Fund and the Risk Management Reserve Fund. Information on each of the major 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 23-44 of this report.

Multnomah Education Service District
Multnomah County, Oregon
Management's Discussion and Analysis
For the Year Ended June 30, 2011

Government-Wide Financial Analysis

Statement of Net Assets. As noted earlier, net assets may serve as a useful indicator of a government's financial position over time. Table 1 provides a comparative summary of the Multnomah Education Service District's net assets for the years ending June 30, 2010 and 2011 respectively.

Table 1
Net Assets

	<u>June 30, 2010</u>	<u>June 30, 2011</u>	<u>Increase (Decrease)</u>
Assets			
Cash and Cash Equivalents	\$ 20,699,809	\$ 20,546,394	\$ (153,415)
Property Tax Receivable	1,401,273	1,335,975	(65,298)
Accounts Receivable	8,578,790	8,760,115	181,325
Inventory	982,728	788,838	(193,890)
Prepaid Items	13,580	28,883	15,303
Prepaid Pension Cost, Net of Amortization	23,941,123	22,532,822	(1,408,301)
Bond Issuance Costs, Net of Amortization	176,172	165,809	(10,363)
Capital Assets, Net of Depreciation	11,046,679	10,562,297	(484,382)
Total Assets	66,840,154	64,721,133	(2,119,021)
Liabilities			
Accounts Payable	5,839,512	5,304,091	(535,421)
Accrued Payroll and Withholdings	3,685,714	3,588,748	(96,966)
Accrued Compensated Absences	170,310	144,726	(25,584)
Other Post Employment Benefits	329,126	527,550	198,424
Non-Current Liabilities:			
Due Within One Year	716,353	858,679	142,326
Due in More Than One Year	35,749,795	34,891,116	(858,679)
Total Liabilities	46,490,810	45,314,910	(1,175,900)
Net assets:			
Invested in Capital Assets, Net of Related Debt	7,540,531	7,517,473	(23,058)
Unrestricted	3,162,530	3,664,511	501,981
Restricted	9,646,283	8,224,239	(1,422,044)
Total Net Assets	\$ 20,349,344	\$ 19,406,223	\$ (943,121)

Multnomah Education Service District
Multnomah County, Oregon
Management's Discussion and Analysis
For the Year Ended June 30, 2011

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.

The largest changes to the Statement of Net Assets from June 30, 2010 to June 30, 2011 were:

Accounts Receivable increased by approximately \$758,000 due to a higher volume of contracted services and larger unbilled earned income on contracts at year end. Prepaid Pension Costs, Net of Amortization decreased by approximately \$1,408,000 due to scheduled amortization of the costs. Capital Assets, Net of Depreciation decreased by approximately \$484,000 as purchases of capital assets were delayed beyond the fiscal year end. Accounts Payable decreased by approximately \$540,000. This is mainly attributable to timing of payments and receipts of invoices. Non-Current Liabilities Due in More Than One Year decreased by approximately \$859,000 due to scheduled principal payments on the outstanding bonds and the capital lease. Overall, Net Assets decreased by approximately \$943,000. See the following discussion on the Statement of Changes in Net Assets.

Multnomah Education Service District
Multnomah County, Oregon
Management's Discussion and Analysis
For the Year Ended June 30, 2011

Statement of Activities: Table 2 shows the District's net assets decreased by approximately \$943,000 for fiscal year 2010-11.

Table 2
Changes in Net Assets

	<u>June 30, 2010</u>	<u>June 30, 2011</u>	<u>Increase (Decrease)</u>
Revenues			
Program Revenues			
Charges for Services	\$ 8,092,199	\$ 12,999,332	\$ 4,907,133
Operating Grants and Contributions	18,785,136	20,140,915	1,355,779
General Revenues			
Property Taxes	24,505,818	25,075,966	570,148
State School Fund- General Support	8,033,770	4,222,969	(3,810,801)
Federal Stimulus	2,601,970	2,550,138	(51,832)
Earnings on Investments	171,510	108,512	(62,998)
Miscellaneous	2,566,822	3,314,562	747,740
Total Revenues	<u>64,757,225</u>	<u>68,412,394</u>	<u>3,655,169</u>
Expenses			
Instruction	16,371,148	17,569,453	1,198,305
Support Services	37,705,025	37,152,822	(552,203)
Enterprise & Community	2,782,432	3,524,849	742,417
Facilities Acquisition & Construction	489,409	2,685	(486,724)
Apportionment of Funds	9,297,814	8,916,168	(381,646)
Unallocated Depreciation	273,357	286,200	12,843
Interest - Long-Term Debt	1,922,468	1,903,338	(19,130)
Total Expenses	<u>68,841,653</u>	<u>69,355,515</u>	<u>513,862</u>
Change in Net Assets	(4,084,428)	(943,121)	3,141,307
NET ASSETS, Beginning	<u>24,433,772</u>	<u>20,349,344</u>	<u>(4,084,428)</u>
NET ASSETS, Ending	<u>\$ 20,349,344</u>	<u>\$ 19,406,223</u>	<u>\$ (943,121)</u>

Multnomah Education Service District
Multnomah County, Oregon
Management's Discussion and Analysis
For the Year Ended June 30, 2011

Changes in Net Assets- 2011 compared to 2010

Due to the nature of grants, fluctuations in Operating Grants and Contributions revenue is common. The 2011 Oregon State Legislature decreased the portion of the State School (SSF) fund allocated to education service districts by .25% (4.75% to 4.50%). This decrease in funding formula combined with an overall decrease in the SSF, resulted in a decrease of approximately \$3,800,000 in SSF revenue for the District. Since the component school districts we serve may not be able to change core services they are providing, any significant decrease in state funding often results in additional contracted services ordered by the districts. Therefore, the decrease in funding formula caused a corresponding increase in "Charges for Services" above.

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, unassigned 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 balance of the Operating Fund decreased by \$2.2 million during the 2010-11 fiscal year. These decreases were anticipated and budgeted for in the adopted budget. A majority of the decrease is attributable to the funding of facility costs incurred at the District's schools. These costs, which are directly related to the District's programs, totaled approximately \$1.7 million dollars. The Resolution Services Fund decreased by approximately \$1.1 million and represents a use of carryover funds by the District's component school districts. In the prior fiscal year this fund had increased by \$1.8 million. The Contracted Services Fund increased by \$2.8 million. The District significantly increased its Medicaid Claiming services, and services provided to other non-component school districts. The main uses of the funds derived from these sources are to lower costs for future services provided to our component school districts.

OPERATING (GENERAL) FUND BUDGETARY HIGHLIGHTS

During the fiscal year several efficiency and cost-cutting measures were implemented to reduce the operating expenses of the District. Through attrition several positions were eliminated in the Business Services, Human Resources, Communication and Technology Services departments, as reflected in the approximately \$540,000 positive variance in expenditures from the budget. As a result of the severe economic downturn the District saw continued depressed sales volumes for the cooperative purchasing program. In September 2011 the District made the decision to close its cooperative purchasing and warehousing service effective the end of the calendar year.

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, 2011 the District had invested \$10,562,297 in capital assets, net of depreciation. Additional information on the District's capital assets can be found in Note 4 to the financial statements.

Multnomah Education Service District
Multnomah County, Oregon
Management's Discussion and Analysis
For the Year Ended June 30, 2011

Long-Term Debt. At the end of the current fiscal year, the District had two bond issues with a total debt outstanding of \$35,560,000. The OSBA Limited Tax Pension Obligations, Series 2004 bonds had a remaining balance of \$32,705,000 at June 30, 2011. 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, which had a remaining balance of \$2,855,000 at June 30, 2011. 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 and Arata Creek 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 reduced revenues which has affected program choices made by component districts and other customers. The result has been 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 Oregon Legislature convenes in February of 2012 and may again 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 rates will increase as follows: from 3.79 percent to 11.72 percent for PERS employees and from 4.31 percent to 10.21 percent for OPSRP general employees. PERS contributions totaled approximately \$2.8 million during the fiscal year ended June 30, 2011 and are projected to increase by approximately \$2.2 million to \$5 million annually over the next two years.

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:

Supervisor of Accounting and Finance
Multnomah Education Service District
11611 NE Ainsworth Circle
Portland, OR 97220

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Basic Financial Statements

Multnomah Education Service District
Multnomah County, Oregon
Statement of Net Assets
As of June 30, 2011

	Governmental Activities
Assets	
Cash and Cash Equivalents	\$ 20,546,394
Property Taxes Receivable	1,335,975
Accounts Receivable	8,760,115
Inventory	788,838
Prepaid Items	28,883
Prepaid Pension Costs, Net of Amortization	22,532,822
Bond Issuance Costs, Net of Amortization	165,809
Capital Assets, Net of Depreciation	10,562,297
Total Assets	64,721,133
Liabilities	
Accounts Payable	5,304,091
Accrued Payroll & Withholdings	3,588,748
Accrued Compensated Absences	144,726
Other Post Employment Benefits	527,550
Non-Current Liabilities:	
Due Within One Year	858,679
Due in More Than One Year	34,891,116
Total Liabilities	45,314,910
Net Assets	
Invested in Capital Assets, Net of Related Debt	7,517,473
Unrestricted	3,664,511
Restricted	8,224,239
Total Net Assets	\$ 19,406,223

**Multnomah Education Service District
Multnomah County, Oregon
Statement of Activities
For the Year Ended June 30, 2011**

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Instruction				
Regular Programs	\$ 914,880	\$ 1,258,299	\$ 3,515	\$ 346,934
Special Programs	16,654,573	3,541,436	7,541,834	(5,571,303)
Student Services	-	-	1,499	1,499
Support Services				
Student Services	21,351,018	4,613,311	7,030,832	(9,706,875)
Instructional Staff Services	1,216,915	190,337	524,624	(501,954)
General Administration	1,044,153	438	-	(1,043,715)
School Administration	535,160	-	189,479	(345,681)
Business Services	7,457,271	1,907,438	497,688	(5,052,145)
Central Activities	5,548,305	1,488,073	-	(4,060,232)
Enterprise and Community Services				
Food Services	615,063	-	181,001	(434,062)
Community Services	2,722,727	-	2,681,695	(41,032)
Custody and Care of Children	187,059	-	-	(187,059)
Facilities Repairs and Maintenance	2,685	-	-	(2,685)
Apportionment of Funds by the ESD	8,916,168	-	1,488,748	(7,427,420)
Unallocated Depreciation	286,200	-	-	(286,200)
Interest on Long-Term Debt	1,903,338	-	-	(1,903,338)
Total Governmental Activities	\$ 69,355,515	\$ 12,999,332	\$ 20,140,915	(36,215,268)

General Revenues

Property Taxes, Levied for General Purposes	25,075,966
State School Fund- General Support	4,222,969
Federal Stimulus	2,550,138
Earnings on Investments	108,512
Miscellaneous Revenues	3,314,562

Total General Revenues **35,272,147**

Change in Net Assets **(943,121)**

Net Assets - Beginning **19,772,753**

Restatement **576,591**

Net Assets - Beginning **20,349,344**

Net Assets - Ending **\$ 19,406,223**

Multnomah Education Service District
Multnomah County, Oregon
Balance Sheet
As of June 30, 2011

Governmental Funds

	General	Resolution Services	Contracted Services	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and Cash Equivalents	\$ 10,272,362	\$ 2,537,184	\$ 6,516,664	\$ 1,220,184	\$ 20,546,394
Property Taxes Receivable	-	1,335,975	-	-	1,335,975
Accounts Receivable	234,827	946,336	7,578,952	-	8,760,115
Inventory	788,838	-	-	-	788,838
Prepaid Items	28,883	-	-	-	28,883
Total Assets	\$ 11,324,910	\$ 4,819,495	\$ 14,095,616	\$ 1,220,184	\$ 31,460,205
Liabilities					
Accounts Payable	\$ 653,769	\$ 2,595,140	\$ 2,040,751	\$ 14,431	\$ 5,304,091
Accrued Payroll & Withholdings	3,588,748	-	-	-	3,588,748
Deferred Tax Revenue	-	1,038,874	-	-	1,038,874
Total Liabilities	4,242,517	3,634,014	2,040,751	14,431	9,931,713
Fund Balances					
Nonspendable					
Inventory	788,838	-	-	-	788,838
Prepaid Items	28,883	-	-	-	28,883
Total Nonspendable Funds	817,721	-	-	-	817,721
Assigned	-	-	4,507,910	1,202,725	5,710,635
Committed	573,936	-	-	-	573,936
Restricted	-	1,185,481	7,035,730	3,028	8,224,239
Unassigned	5,690,736	-	511,225	-	6,201,961
Total Fund Balances	7,082,393	1,185,481	12,054,865	1,205,753	21,528,492
Total Liabilities and Fund Balances	\$ 11,324,910	\$ 4,819,495	\$ 14,095,616	\$ 1,220,184	\$ 31,460,205

**Multnomah Education Service District
Multnomah County, Oregon
Reconciliation of the Government Funds
Balance Sheet to the Statement of Net Assets
As of June 30, 2011**

Total Fund Balances - Governmental Funds	\$ 21,528,492
Capital assets are not financial resources and therefore are not reported in the governmental funds.	10,562,297
Prepaid pension expense, net of accumulated amortization	22,532,822
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.	1,038,874
Unamortized Bond Issuance Costs not reported in the governmental funds.	165,809
Accrued compensated absences are not reported in the governmental funds.	(144,726)
Long-term liabilities not payable in the current year are not reported as governmental fund liabilities.	
These liabilities consist of:	
GO Bonds Payable	(2,855,000)
OSBA Bonds Payable	(32,705,000)
Capital Lease Payable	(189,795)
Other Post employment Benefits	(527,550)
Net Assets	<u>\$ 19,406,223</u>

Multnomah Education Service District
Multnomah County, Oregon
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2011

Governmental Funds

	General	Resolution Services	Contracted Services	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$ -	\$ 25,097,989	\$ -	\$ -	\$ 25,097,989
State School Fund	-	4,222,969	-	-	4,222,969
Local Sources	589,633	-	8,776,973	-	9,366,606
State Sources	-	-	14,543,993	-	14,543,993
Federal Sources	11,160	843,143	9,119,404	-	9,973,707
Investment Earnings	106,004	-	2,508	-	108,512
Sales of Goods & Services	1,457,477	-	14,713	-	1,472,190
Other Revenues	1,051,421	74,190	310,920	1,964,874	3,401,405
Charges For Services	2,205,840	-	-	-	2,205,840
Total Revenues	5,421,535	30,238,291	32,768,511	1,964,874	70,393,211
Expenditures					
Instruction	-	7,172,133	11,035,009	-	18,207,142
Support Services	8,601,005	12,924,594	14,770,659	92,664	36,388,922
Enterprise and Community Services	-	393,285	3,154,708	-	3,547,993
Facilities Repairs and Maintenance	-	-	-	145,903	145,903
Debt Service	-	-	-	2,578,338	2,578,338
Total Expenditures	8,601,005	20,490,012	28,960,376	2,816,905	60,868,298
Excess of Revenues Over (Under) Expenditures	(3,179,470)	9,748,279	3,808,135	(852,031)	9,524,913
Other Financing Sources (Uses)					
Apportionment of Funds	-	(7,235,673)	(1,680,495)	-	(8,916,168)
Transfers In	2,855,435	-	670,261	1,510,830	5,036,526
Transfers Out	(1,435,158)	(3,601,368)	-	-	(5,036,526)
Total Other Financing Sources (Uses)	1,420,277	(10,837,041)	(1,010,234)	1,510,830	(8,916,168)
Net Change in Fund Balances	(1,759,193)	(1,088,762)	2,797,901	658,799	608,745
Beginning Fund Balances	8,751,751	2,274,243	8,680,373	636,789	20,343,156
Restatement	89,835	-	576,591	(89,835)	576,591
Restated Beginning Balance	8,841,586	2,274,243	9,256,964	546,954	20,919,747
Ending Fund Balances	\$ 7,082,393	\$ 1,185,481	\$ 12,054,865	\$ 1,205,753	\$ 21,528,492

**Multnomah Education Service District
Multnomah County, Oregon
Reconciliation of the Government Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
to the Statement of Activities
For The Year Ended June 30, 2011**

Total Net Changes in Fund Balances – Governmental Funds	\$ 608,745
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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.

Purchases of Capital Assets	194,404
Depreciation Expense	(678,786)

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	716,353
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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 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 when earned.

Property Taxes	(22,023)
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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.	(198,424)
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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 expense when incurred.	(144,726)
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Change in Net Assets of Governmental Activities	<u>\$ (943,121)</u>
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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, 2011

Operating Fund

(Reported as part of the General Fund in the Governmental Funds Statements)

	Original Budget	Final Budget	Actual	Variance to Final Budget Positive (Negative)
Revenues				
Local Sources	\$ 560,500	\$ 560,500	\$ 589,633	\$ 29,133
Federal Sources	-	-	11,160	11,160
Investment Earnings	140,000	140,000	106,004	(33,996)
Sales of Goods & Services	1,533,000	1,533,000	1,457,477	(75,523)
Other Revenues	39,672	39,672	460,305	420,633
Overhead Revenues	2,249,023	2,249,023	2,205,840	(43,183)
Total Revenues	4,522,195	4,522,195	4,830,419	308,224
Expenditures				
Support Services	8,489,524	8,489,524	7,948,990	540,534
Total Expenditures	8,489,524	8,489,524	7,948,990	540,534
Excess of Revenues Over (Under) Expenditures	(3,967,329)	(3,967,329)	(3,118,571)	848,758
Other Financing Sources (Uses)				
Transfers In	3,222,156	3,222,156	2,855,435	(366,721)
Transfers Out	(1,835,830)	(1,835,830)	(1,980,158)	(144,328)
Total Other Financing Sources (Uses)	1,386,326	1,386,326	875,277	(511,049)
Net Change in Fund Balance	(2,581,003)	(2,581,003)	(2,243,294)	337,709
Beginning Fund Balances	8,898,214	8,898,214	8,751,751	(146,463)
Ending Fund Balances	\$ 6,317,211	\$ 6,317,211	\$ 6,508,457	\$ 191,246

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, 2011

Resolution Services Fund

	Original Budget	Final Budget	Actual	Variance to Final Budget Positive (Negative)
Revenues				
Property Taxes	\$ 25,203,001	\$ 25,203,001	\$ 25,097,989	\$ (105,012)
State School Fund	7,716,558	7,716,558	4,222,969	(3,493,589)
Federal Sources	-	-	843,143	843,143
Other Revenues	-	-	74,190	74,190
Total Revenues	32,919,559	32,919,559	30,238,291	(2,681,268)
Expenditures				
Instruction	7,001,690	7,001,690	7,172,133	(170,443)
Support Services	14,487,654	14,487,654	12,924,594	1,563,060
Enterprise and Community Services	555,898	555,898	393,285	162,613
Total Expenditures	22,045,242	22,045,242	20,490,012	1,555,230
Excess of Revenues Over (Under) Expenditures	10,874,317	10,874,317	9,748,279	(1,126,038)
Other Financing Sources (Uses)				
Apportionment of Funds	(7,594,323)	(7,594,323)	(7,235,673)	358,650
Transfers Out	(3,347,156)	(3,347,156)	(3,601,368)	(254,212)
Total Other Financing Sources (Uses)	(10,941,479)	(10,941,479)	(10,837,041)	104,438
Net Change in Fund Balance	(67,162)	(67,162)	(1,088,762)	(1,021,600)
Beginning Fund Balances	1,313,561	1,313,561	2,274,243	960,682
Ending Fund Balances	\$ 1,246,399	\$ 1,246,399	\$ 1,185,481	\$ (60,918)

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, 2011

Contracted Services Fund

	Original Budget	Final Budget	Actual	Variance to Final Budget Positive (Negative)
Revenues				
Local Sources	\$ 7,171,771	\$ 7,171,771	\$ 8,776,973	\$ 1,605,202
State Sources	13,821,940	13,821,940	14,543,993	722,053
Federal Sources	8,268,603	8,268,603	9,119,404	850,801
Investment Earnings	-	-	2,508	2,508
Sales of Goods & Services	2,000	2,000	14,713	12,713
Other Revenues	214,811	214,811	310,920	96,109
Total Revenues	29,479,125	29,479,125	32,768,511	3,289,386
Expenditures				
Instruction	10,758,686	10,758,686	11,035,009	(276,323)
Support Services	16,275,583	16,275,583	14,770,659	1,504,924
Enterprise and Community Services	1,755,985	1,755,985	3,154,708	(1,398,723)
Total Expenditures	28,790,254	28,790,254	28,960,376	(170,122)
Excess of Revenues Over (Under) Expenditures	688,871	688,871	3,808,135	3,119,264
Other Financing Sources (Uses)				
Apportionment of Funds	(1,646,368)	(1,646,368)	(1,680,495)	(34,127)
Transfers In	-	-	670,261	670,261
Total Other Financing Sources (Uses)	(1,646,368)	(1,646,368)	(1,010,234)	636,134
Net Change in Fund Balance	(957,497)	(957,497)	2,797,901	3,755,398
Beginning Fund Balances	8,429,344	8,429,344	9,256,964	827,620
Ending Fund Balances	\$ 7,471,847	\$ 7,471,847	\$ 12,054,865	\$ 4,583,018

**Multnomah Education Service District
Multnomah County, Oregon
Statement of Net Assets
As of June 30, 2011**

Fiduciary Fund

Assets

Cash and Cash Equivalents	\$ 4,852,732
Accounts Receivable	<u>100,235</u>
Total Assets	<u>\$ 4,952,967</u>

Liabilities

Held in Trust	<u>\$ 4,952,967</u>
Total Liabilities	<u>\$ 4,952,967</u>

**Multnomah Education Service District
Multnomah County, Oregon
Statement of Changes in Assets and Liabilities
For the Year Ended June 30, 2011**

Fiduciary Fund

	Balance July 1	Additions	Deletions	Balance June 30
Assets				
Cash and Cash Equivalents	\$ 4,222,908	\$ 2,146,106	\$ 1,516,282	\$ 4,852,732
Accounts Receivable	-	100,235	-	100,235
Total Assets	\$ 4,222,908	\$ 2,246,341	\$ 1,516,282	\$ 4,952,967
Liabilities				
Held in Trust	\$ 4,222,908	\$ 1,443,511	\$ 713,452	\$ 4,952,967
Total Liabilities	\$ 4,222,908	\$ 1,443,511	\$ 713,452	\$ 4,952,967

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Notes to Basic Financial Statements

Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

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. Unallocated depreciation and interest on long-term debt are considered indirect expenses and are 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, 2011

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 (60 days). Expenditures are recorded when the liability is incurred, except for unmatured interest on long-term debt which is recognized when due, claims and judgments and compensated absences, which are recognized when expended.

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.

Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The District reports the following major governmental funds:

General 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. Risk Management Reserves are also included in this fund.

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 General 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:

- Debt Service Fund- These funds account for the payment and interest on the Limited Tax Pension Obligation bonds, the general obligation bonds and the capital leases.
- Capital Project Fund- These funds account for capital expenditure projects such as building construction, improvements and purchases.
- 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.

Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 unearned revenue on the Statement of Net Assets.

G. Inventories

The value of inventories is determined at the lower of cost or market, 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.

Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets (Continued)

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.

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, 2011 of \$10,607,178. Annual amortization has been calculated on the straight line basis.

Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 in the Government-wide Financial Statements

Net assets are classified into the following 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.

Restricted net assets – consists of net assets with constraints placed on use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

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

When both restricted and unrestricted resources are available for use in a specific program or for a specific purpose, the District's normal policy is to use restricted resources first to finance its activities.

N. Fund Balances in Fund Financial Statements

Governmental fund equity is classified as fund balance. Beginning with FY 2011, MESD implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on purpose for which resources can be used:

- ***Nonspendable:*** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Management has classified inventories and prepaid items as being nonspendable as they are not expected to be converted to cash.

Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Fund Balances in Fund Financial Statements (Continued)

- ***Restricted:*** This classification includes amounts for which constraints have been placed on the use of resources are either:
 - Externally imposed by creditors (such as though debt covenants), grantors, contributors, or laws or regulations of other governments; or
 - Imposed by law through constitutional provisions or enabling legislation.
- ***Committed:*** This classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action (resolution) of the District's Board of Directors, which is the District's highest level of decision-making authority. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed.
- ***Assigned:*** This classification includes spendable amounts for a specific purpose. The intent of an assigned fund balance should be expressed by either the District's Board of Directors, or a subordinate high-level body, such as a finance committee, or an official, such as the superintendent, that has the authority to assign amounts to be used for assigned purposes.
- ***Unassigned:*** This classification is the residual fund balance for the General Fund. It also represents fund balance that has not been assigned, committed, or restricted.

When fund balance resources are available for a specific purpose in multiple classifications, the District uses the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

O. Estimates

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

Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

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. Budget recommendations are developed by management and the Board Budget Committee throughout the spring. The Budget Committee meets and approves the budget document in March. Public notices of the budget hearing are generally published in April, and the hearing is held in May. 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.

The Resolution Services Fund shows expenditures for Instruction over budget by \$170,443. Total expenditures in the fund are under budgeted amounts by more than \$1.5 million. Expenditures within categories fluctuated depending on services ordered from other districts.

The Contracted Services Fund shows expenditures for Instruction and Enterprise and Community Services over budget by \$276,323 and \$1,398,723, respectively. Expenditures within categories fluctuated depending on services ordered as well as funding changes. The fund received additional funding from other than state sources of over \$3 million. Transfers in of \$670,261 were recorded to rebalance various program costs.

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, 2011

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, 2011, (recorded at fair value) consisted of:

Cash on Hand	\$ 506
Demand Deposits	2,341,284
Local Government Investment Pool	<u>23,057,336</u>
	25,399,126
Less Fiduciary Fund	<u>4,852,732</u>
Total	<u>\$ 20,546,394</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, 2011.

Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

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, 2011 was \$2,720,484 (carrying amount \$2,341,284). As required by Oregon Revised Statutes, deposits 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, 2011

NOTE 4 – CAPITAL ASSETS

The changes in capital assets for the year ended June 30, 2011 are as follows:

	Balance June 30, 2010	Additions	Dispositions	Balance June 30, 2011
Non-depreciable Capital Assets:				
Land	\$ 1,935,748	\$ -	\$ -	\$ 1,935,748
Construction in Progress	-	15,792	-	15,792
	<u>1,935,748</u>	<u>15,792</u>	<u>-</u>	<u>1,951,540</u>
Depreciable Capital Assets:				
Building & Improvements	11,342,116	47,477	-	11,389,593
Site Improvements	802,037	26,755	-	828,792
Equipment & Furniture	1,847,148	104,380	-	1,951,528
Vehicles	389,091	-	-	389,091
	<u>14,380,392</u>	<u>178,612</u>	<u>-</u>	<u>14,559,004</u>
Less: Accumulated Depreciation:				
Building & Improvements	3,458,080	337,173	-	3,795,253
Site Improvements	167,077	54,658	-	221,735
Equipment & Furniture	1,385,399	238,933	-	1,624,332
Vehicles	258,905	48,022	-	306,927
	<u>5,269,461</u>	<u>678,786</u>	<u>-</u>	<u>5,948,247</u>
Total Depreciable Capital Assets, net	<u>9,110,931</u>	<u>(500,174)</u>	<u>-</u>	<u>8,610,757</u>
Total Capital Assets, net	<u>\$ 11,046,679</u>	<u>\$ (484,382)</u>	<u>\$ -</u>	<u>\$ 10,562,297</u>

Depreciation expense for the year ended June 30, 2011 was allocated to the functions as follows:

Regular Programs	\$ 3,502
Special Programs	22,788
Student Services	55,995
Instructional Staff Services	396
General Administration	3,187
Business Services	268,475
Central Services	36,742
Community Services	1,501
Unallocated Depreciation	<u>286,200</u>
	<u>\$ 678,786</u>

Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

NOTE 5 – LONG-TERM DEBT AND CAPITAL LEASES

The changes in long-term debt, for the year ended June 30, 2011 are as follows:

	OSBA Pension Bonds	2004 GO Bonds	Capital Lease	Total
Original Amount	<u>\$ 33,140,000</u>	<u>\$ 4,570,000</u>	<u>\$ 307,952</u>	<u>\$ 38,017,952</u>
Balance at June 30, 2010	\$ 32,960,000	\$ 3,275,000	\$ 231,148	\$ 36,466,188
Payments & Deletions	<u>(255,000)</u>	<u>(420,000)</u>	<u>(41,384)</u>	<u>(716,353)</u>
Balance at June 30, 2011	<u>\$ 32,705,000</u>	<u>\$ 2,855,000</u>	<u>\$ 189,795</u>	<u>\$ 35,749,795</u>

The future principal and interest payments on long-term debt are as follows:

	OSBA Pension Bonds	2004 GO Bonds	Capital Lease	Total	Interest
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	1,752,521
2015-16	985,000	500,000	-	1,485,000	1,692,998
2016-2021	8,070,000	500,000	-	8,570,000	7,321,003
2021-2026	15,195,000	-	-	15,195,000	4,396,771
2026-2028	<u>6,105,000</u>	<u>-</u>	<u>-</u>	<u>6,105,000</u>	<u>444,451</u>
TOTAL	<u>\$ 32,705,000</u>	<u>\$ 2,855,000</u>	<u>\$ 189,795</u>	<u>\$ 35,749,795</u>	<u>\$ 21,150,388</u>

At the end of the current fiscal year, the District had two bond issues with a total debt outstanding of \$35,560,000. The OSBA Limited Tax Pension Obligations, Series 2004 bonds had a remaining balance of \$32,705,000 at June 30, 2011. 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 for all funds with payroll expenditures. The funding is then recognized in the Debt Service Fund as revenue for services to other funds.

Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

NOTE 5 – LONG-TERM DEBT AND CAPITAL LEASES (Continued)

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 and Arata Creek School.

Total principal and interest paid on the two bonds during the year ended June 30, 2011 was \$2,578,338.

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, 2011, were as follows:

Year Ending June 30,	
2012	\$ 52,874
2013	52,874
2014	52,874
2015	52,874
Total Minimum lease payments	<u>211,498</u>
Less: Amount representing interest	<u>(21,703)</u>
Total Minimum Future Lease Payments	<u>\$ 189,795</u>
Machinery and Equipment	\$ 307,952
Less accumulated depreciation	<u>(307,952)</u>
Total Equipment acquired Under lease agreement	<u>\$ -</u>

Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

NOTE 6 – OPERATING LEASES

The District leases building space at various locations. Total payments in 2010-11 were approximately \$611,927.

Future minimum rental commitments at June 30, 2011 are as follow

Year Ending June 30,	
2012	\$ 486,966
2013	401,093
2014	317,647
2015	327,341
2016	337,374
2017 – 2018	<u>368,718</u>
Total Minimum Future Rental Payments	<u>\$ 2,239,139</u>

Some leases are cancellable if funding is not available.

NOTE 7 - TRANSFERS

Interfund transfers are used to fund operations in the various accounts. The composition of interfund transfers as of June 30, 2011 is as follows:

Transfers In	Transfers Out		Total Transfers In
	Resolution Services	Operating	
Operating Fund	\$2,855,435	\$ -	\$ 2,855,435
Contracted Services Fund	620,933	49,328	670,261
Other Governmental Funds	<u>125,000</u>	<u>1,385,830</u>	<u>1,510,830</u>
Total Transfers Out	<u>\$3,601,368</u>	<u>\$ 1,435,158</u>	<u>\$ 5,036,526</u>

Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

NOTE 7 – TRANSFERS (Continued)

- \$2,855,435 was transferred from the Resolution Services Fund to the Operating Fund in order to fund the District's indirect and support service functions.
- \$125,000 was transferred from the Resolution Services Fund to other governmental funds to fund capital expenditures.
- \$620,932 was transferred from the Resolution Services Fund to the Contracted Services Fund to reimburse the fund for services originally funded by the Contracted Services Fund.
- \$838,000 was transferred from the Operating Fund to other governmental funds to fund capital expenditures.
- \$547,830 was transferred from the Operating Fund to other governmental funds to cover debt service principal and interest payments.
- \$49,328 was transferred from the Operating Fund to the Contracted Services Fund to reimburse the fund for services originally funded by the Contracted Services Fund.

NOTE 8 – 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 9 – 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.

Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

NOTE 9 – STATEWIDE LOCAL GOVERNMENT RETIREMENT SYSTEM (Continued)

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 to contribute at an actuarially determined rate. The District's rate is 3.79 percent for PERS, and 4.31 percent for OPSRP – general employees. For the next two fiscal years the District's rates will be 11.72 percent for PERS, and 10.21 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, 2011, 2010, and 2009 were approximately \$1,174,000, \$1,328,000, and \$2,476,000, 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, 2011, the District's annual debt service for the limited tax pension bonds included \$255,000 of principal, and \$1,778,536 of interest. Total debt service payments for the years 2011, 2010 and 2009 were \$2,033,536, \$1,924,313, and \$1,825,780, respectively.

Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

NOTE 9 – STATEWIDE LOCAL GOVERNMENT RETIREMENT SYSTEM (Continued)

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. The debt service activity is reflected as “employee benefit” expense in all funds with wages and as revenue to the Debt Service Fund. The actual debt service payments are then recorded as a debt service expenditure of the Debt Service Fund. 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.

NOTE 10 – 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. This “plan” is not a stand-alone plan and therefore does not issue its own financial statements.

Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

NOTE 10 – OTHER POST EMPLOYMENT BENEFITS (Continued)

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, 2011, 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, 2010, 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	\$ 309,567
Interest on net OPEB obligation	13,165
Adjustment to annual required contribution	(11,756)
Annual OPEB Cost	<u>310,976</u>
Contributions made	(112,552)
Increase in net OPEB obligation	<u>198,424</u>
Net OPEB obligation- beginning of year	<u>329,126</u>
Net OPEB obligation- end of year	<u><u>\$ 527,550</u></u>

Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

NOTE 10 – OTHER POST EMPLOYMENT BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation (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 three fiscal years ended as follows:

Fiscal Year Ended	Annual OPEB Cost	Contribution Made	Percentage Contributed	Net OPEB Obligation
6/30/2011	\$ 310,976	\$ 112,552	36%	\$ 527,550
6/30/2010	330,397	167,338	51%	329,126
6/30/2009	318,722	152,655	48%	166,067

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, 2010, 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 a closed period of thirty years.

Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

NOTE 10 – 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, 2011 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, 2011

NOTE 11 – RESTATEMENT OF FUND BALANCES

In accordance with the requirements of GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, it was determined the Risk Management Reserve Fund should be included with the Operating Fund to constitute the General Fund of the District. Therefore the ending fund balances as of June 30, 2010 were restated to align with this determination.

Restatement of June 30, 2010 ending fund balances are as follows:

	Operating (General)	Risk Management Reserve
	<u> </u>	<u> </u>
Fund Balances as of June 30, 2010	\$ 8,751,751	\$ 89,835
Restatement	<u>89,835</u>	<u>(89,835)</u>
Restated Fund Balances as of June 30, 2010	<u><u>\$ 8,841,586</u></u>	<u><u>\$ -</u></u>

During the current fiscal year, the District identified \$576,591 of federal monies received in the Contracted Services fund which was earned in the previous fiscal year, but which had not been accrued in the previous fiscal year. The Contracted Services fund balance and the entity-wide net assets as of June 30, 2010 have been restated by this amount.

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.

Multnomah Education Service District
Multnomah County, Oregon
Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

NOTE 13 – 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.

The District is a defendant in one lawsuit and one union grievance and has received two other tort claim notices regarding potential lawsuits. The likely outcome of these legal actions is not determinable at this time; however, the District's management intends to defend these legal actions vigorously and believes the likely outcome will not have a material adverse effect on the District's basic financial statements. None of the actual or potential lawsuits appear to be of a magnitude which would require the District to pay out any more than the deductible on its insurance policy in the event of unfavorable opinions by a court.

Required Supplementary Information

**Multnomah Education Service District
Other Postemployment Benefits
Schedule of Funding Progress
June 30, 2011**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2008	\$ -	\$ 2,830,915	\$ 2,830,915	0.0%	\$ 30,403,925	9.3%
July 1, 2010	-	2,700,107	2,700,107	0.0%	29,876,193	9.0%

The above table represents the most recent actuarial valuations for the District's post-retirement health and welfare benefits plan and it provides information that approximates the funding progress of the plan.

Other Supplementary Information

**Multnomah Education Service District
Multnomah County, Oregon
Combining Balance Sheet
As of June 30, 2011**

General Fund

	Operating	Risk Management Reserve	Total
Assets			
Cash and Cash Equivalents	\$ 9,667,141	\$ 605,221	\$ 10,272,362
Accounts Receivable	234,827	-	234,827
Inventory	788,838	-	788,838
Prepaid Items	28,883	-	28,883
Total Assets	\$ 10,719,689	\$ 605,221	\$ 11,324,910
Liabilities			
Accounts Payable	\$ 622,484	\$ 31,285	\$ 653,769
Accrued Payroll & Withholdings	3,588,748	-	3,588,748
Total Liabilities	4,211,232	31,285	4,242,517
Fund Balances			
Nonspendable			
Inventory	788,838	-	788,838
Prepaid Items	28,883	-	28,883
Total Nonspendable Funds	817,721	-	817,721
Committed	-	573,936	573,936
Unassigned	5,690,736	-	5,690,736
Total Fund Balances	6,508,457	573,936	7,082,393
Total Liabilities and Fund Balances	\$ 10,719,689	\$ 605,221	\$ 11,324,910

**Multnomah Education Service District
Multnomah County, Oregon
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
For the Year Ended June 30, 2011**

General Fund

	Operating	Risk Management Reserve	Eliminations *	Total
Revenues				
Local Sources	\$ 589,633	\$ -	\$ -	\$ 589,633
Federal Sources	11,160	-	-	11,160
Investment Earnings	106,004	-	-	106,004
Sales of Goods & Services	1,457,477	-	-	1,457,477
Other Revenues	460,305	591,116	-	1,051,421
Overhead Revenues	2,205,840	-	-	2,205,840
Total Revenues	4,830,419	591,116	-	5,421,535
Expenditures				
Support Services	7,948,990	652,015	-	8,601,005
Total Expenditures	7,948,990	652,015	-	8,601,005
Excess of Revenues Over (Under) Expenditures	(3,118,571)	(60,899)	-	(3,179,470)
Other Financing Sources (Uses)				
Transfers In	2,855,435	545,000	(545,000)	2,855,435
Transfers Out	(1,980,158)	-	545,000	(1,435,158)
Total Other Financing Sources (Uses)	875,277	545,000	-	1,420,277
Net Change in Fund Balances	(2,243,294)	484,101	-	(1,759,193)
Beginning Fund Balances	8,751,751	89,835	-	8,841,586
Ending Fund Balances	\$ 6,508,457	\$ 573,936	\$ -	\$ 7,082,393

* Eliminated intrafund transfer between Operating and Risk Management Reserve Funds

**Multnomah Education Service District
Multnomah County, Oregon
Combining Balance Sheet
June 30, 2011**

Nonmajor Governmental Funds

	Debt Service	Facilities Acquisition and Improvements	Total
Assets			
Cash and Cash Equivalents	\$ 3,028	\$ 1,217,156	\$ 1,220,184
Total Assets	\$ 3,028	\$ 1,217,156	\$ 1,220,184
Liabilities			
Accounts Payable & Accrued Liabilities	\$ -	\$ 14,431	\$ 14,431
Total Liabilities	-	14,431	14,431
Fund Balances			
Assigned	-	1,202,725	1,202,725
Committed	-	-	-
Restricted	3,028	-	3,028
Unassigned	-	-	-
Total Fund Balances	3,028	1,202,725	1,205,753
Total Liabilities and Fund Balances	\$ 3,028	\$ 1,217,156	\$ 1,220,184

**Multnomah Education Service District
Multnomah County, Oregon
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
For the Year Ended June 30, 2011**

Nonmajor Governmental Funds

	Debt Service	Facilities Acquisition and Improvements	Total
Revenues			
Other Revenues	\$ 1,958,794	\$ 6,080	\$ 1,964,874
Total Revenues	1,958,794	6,080	1,964,874
Expenditures			
Support Services	-	92,664	92,664
Facilities Repairs and Maintenance	-	145,903	145,903
Debt Service	2,578,338	-	2,578,338
Total Expenditures	2,578,338	238,567	2,816,905
Excess of Revenues Over (Under) Expenditures	(619,544)	(232,487)	(852,031)
Other Financing Sources (Uses)			
Transfers In	547,830	963,000	1,510,830
Total Other Financing Sources (Uses)	547,830	963,000	1,510,830
Net Change in Fund Balances	(71,714)	730,513	658,799
Beginning Fund Balances	74,742	472,212	546,954
Ending Fund Balances	\$ 3,028	\$ 1,202,725	\$ 1,205,753

Multnomah Education Service District
Multnomah County, Oregon
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2011

Debt Service Fund

	Original Budget	Final Budget	Actual	Variance to Final Budget Positive (Negative)
Revenues				
Other Revenues	\$ -	\$ -	\$ 1,958,794	\$ 1,958,794
Total Revenues	-	-	1,958,794	1,958,794
Expenditures				
Debt Service	547,830	547,830	2,578,338	(2,030,508)
Total Expenditures	547,830	547,830	2,578,338	(2,030,508)
Excess of Revenues Over (Under) Expenditures	(547,830)	(547,830)	(619,544)	(71,714)
Other Financing Sources (Uses)				
Transfers In	547,830	547,830	547,830	-
Total Other Financing Sources (Uses)	547,830	547,830	547,830	-
Net Change in Fund Balance	-	-	(71,714)	(71,714)
Beginning Fund Balance	-	-	74,742	74,742
Ending Fund Balance	\$ -	\$ -	\$ 3,028	\$ 3,028

**Multnomah Education Service District
Multnomah County, Oregon
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2011**

Facilities Acquisition and Improvements Fund

	Original Budget	Final Budget	Actual	Variance to Final Budget Positive (Negative)
Revenues				
Other Revenues	\$ -	\$ -	\$ 6,080	\$ 6,080
Total Revenues	-	-	6,080	6,080
Expenditures				
Support Services	165,000	165,000	92,664	72,336
Facilities Repairs and Maintenance	350,000	350,000	145,903	204,097
Contingencies	500,000	500,000	-	500,000
Total Expenditures	1,015,000	1,015,000	238,567	776,433
Excess of Revenues Over (Under) Expenditures	(1,015,000)	(1,015,000)	(232,487)	782,513
Other Financing Sources (Uses)				
Transfers In	963,000	963,000	963,000	-
Total Other Financing Sources (Uses)	963,000	963,000	963,000	-
Net Change in Fund Balance	(52,000)	(52,000)	730,513	782,513
Beginning Fund Balance	478,647	478,647	472,212	(6,435)
Ending Fund Balance	\$ 426,647	\$ 426,647	\$ 1,202,725	\$ 776,078

**Multnomah Education Service District
Multnomah County, Oregon
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2011**

Risk Management Reserve Fund

	Original Budget	Final Budget	Actual	Variance to Final Budget Positive (Negative)
Revenues				
Other Revenues	\$ 260,000	\$ 260,000	\$ 591,116	\$ 331,116
Total Revenues	260,000	260,000	591,116	331,116
Expenditures				
Support Services	327,691	327,691	652,015	(324,324)
Total Expenditures	327,691	327,691	652,015	(324,324)
Excess of Revenues Over (Under) Expenditures	(67,691)	(67,691)	(60,899)	6,792
Other Financing Sources (Uses)				
Transfers In	450,000	450,000	545,000	95,000
Total Other Financing Sources (Uses)	450,000	450,000	545,000	95,000
Net Change in Fund Balance	382,309	382,309	484,101	101,792
Beginning Fund Balance	145,493	145,493	89,835	(55,658)
Ending Fund Balance	\$ 527,802	\$ 527,802	\$ 573,936	\$ 46,134

**Multnomah Education Service District
Schedule of Property Tax Transactions
Fiscal Year Ended June 30, 2011**

<u>Tax Year</u>	<u>Original Levy or Uncollected July 1, 2010</u>	<u>Add (Deduct) Discounts</u>	<u>Adjustments To Rolls</u>	<u>Add Interest</u>	<u>Add (Deduct) Collections by County Treasurer</u>	<u>Balance Uncollected or Unsegregated June 30, 2011</u>
Current:						
2010-11	\$ 25,829,109	\$ (642,105)	\$ (89,766)	\$ 12,087	\$ 24,378,850	\$ 718,388
Prior Years:						
2009-10	796,204	915	(55,453)	31,551	411,292	330,374
2008-09	349,326	281	(15,684)	31,627	153,611	180,312
2007-08	152,383	16	(2,417)	30,075	89,064	60,918
2006-07	58,258	4	(2,240)	18,729	46,004	10,018
2005-06 & Prior	45,148	1	(2,494)	5,248	6,691	35,965
Total Prior	<u>1,401,319</u>	<u>1,217</u>	<u>(78,288)</u>	<u>117,231</u>	<u>706,662</u>	<u>617,587</u>
Total	<u><u>\$ 27,230,428</u></u>	<u><u>\$ (640,888)</u></u>	<u><u>\$ (168,055)</u></u>	<u><u>\$129,318</u></u>	<u><u>\$ 25,085,511</u></u>	<u><u>\$ 1,335,975</u></u>

SUPPLEMENTAL INFORMATION, 2010-11

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	\$ 324,095
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 Nine Years

	2003	2004	2005	2006	2007	2008	2009	2010	2011
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	\$ 20,546,394
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	1,335,975
Accounts Receivable	5,543,708	11,167,740	6,482,316	10,146,720	6,466,338	4,332,536	7,928,544	8,578,790	8,760,115
Inventory	799,458	1,340,224	1,562,752	820,344	1,129,707	1,054,156	1,029,202	982,728	788,838
Prepaid Items	193,015	3,000	200,313	183,577	230,784	319,333	63,881	13,580	28,883
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	22,532,822
Bond Issuance Costs, Net of Amortization		182,267	174,673	168,851	159,484	151,889	186,535	176,172	165,809
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	10,562,297
Total Assets	36,150,036	79,473,947	78,099,647	79,421,399	77,477,480	73,792,014	72,175,099	66,840,154	64,721,133
Liabilities									
Book Overdraft	4,644,564	1,968,238	-	-	-	-	-	-	-
Accounts Payable	8,373,204	15,742,257	12,759,984	11,259,709	7,509,638	684,144	7,630,175	5,839,512	5,304,091
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	3,588,748
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	144,726
Other Post Employment Benefits	-	-	-	-	-	-	166,067	329,126	527,550
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	858,679
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	34,891,116
Total Liabilities	21,125,009	61,008,813	56,452,185	51,384,292	47,519,214	41,740,565	47,741,326	46,490,810	45,314,910
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	7,517,473
Unrestricted	8,645,901	12,282,166	15,765,241	22,072,720	25,855,076	20,865,036	17,206,130	3,162,530	3,664,511
Restricted	**	**	**	**	**	**	**	9,646,283	8,224,239
TOTAL NET ASSETS	\$ 15,025,027	\$ 18,465,134	\$ 21,647,462	\$ 28,037,107	\$ 31,885,658	\$ 27,606,003	\$ 24,433,773	\$ 20,349,344	\$ 19,406,223

**Restated*

*** Restrictions not presented these years*

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

	2003	2004	2005	2006	2007	2008	2009	2010	2011
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	\$ 12,999,332
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	18,785,136 *	20,140,915
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	25,073,966
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	4,222,969
Earnings on Investments	242,756	258,838	-	-	-	1,407,155	576,777	171,510	108,512
Federal Stimulus	-	-	-	-	-	-	907,566	2,601,970	2,550,138
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	3,314,562
Total Revenues	51,205,359	62,484,670	65,492,315	65,440,669	69,839,963	68,192,222	67,381,513	64,757,225	68,412,394
Expenses:									
Instruction	24,798,955	26,182,031	17,107,374	15,167,098	16,471,265	16,977,374	15,083,185	16,371,149	17,569,453
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	37,152,822
Enterprise and Community Services	517,158	664,030	704,042	46,870	1,419,024	2,315,736	2,651,994	2,782,432	3,524,849
Facilities Repairs and Maintenance	-	-	-	-	-	-	-	489,409	2,685
Apportionment of Funds	-	-	8,090,257	7,256,141	9,340,305	9,492,872	10,218,146	9,297,814	8,916,168
Unallocated Depreciation	-	-	-	-	-	-	267,711	273,357	286,200
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	1,903,338
Total Expenses	54,285,219	59,044,563	62,309,987	59,051,024	67,918,787	68,026,431	70,553,743	68,841,654	69,355,515
CHANGE IN NET ASSETS	(3,079,860)	3,440,107	3,182,328	6,389,645	1,921,176	165,791	(3,172,230)	(4,084,429)	(943,121)
NET ASSETS, beginning of year	18,104,887	15,025,027	18,465,134	21,647,462	29,964,482 *	27,440,212 *	27,606,003	24,433,773	20,349,344 *
NET ASSETS, end of year	\$ 15,025,027	\$ 18,465,134	\$ 21,647,462	\$ 28,037,107	\$ 31,885,658	\$ 27,606,003	\$ 24,433,773	\$ 20,349,344	\$ 19,406,223

*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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Revenues										
Property Taxes	\$ 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	\$ 25,097,989
State School Fund	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	4,222,969
Local Sources	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	9,366,606
State Sources	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	14,543,993
School Improvement Fund	-	-	-	-	-	-	-	965,201	-	-
Federal Sources	2,271,560	1,611,949	5,060,892	4,362,055	5,230,819	7,449,302	5,818,759	7,627,019	9,568,636	9,973,707
Investment Earnings	338,663	242,756	258,838	585,213	1,166,597	1,821,211	1,407,154	576,777	171,510	108,512
Debt Proceeds	-	-	32,963,381	-	-	-	-	-	-	-
Sales of Goods & Services	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	1,472,190
SBI149 Proceeds	-	-	-	-	-	4,188,737	1,558,547	-	-	-
Other Revenues	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	3,401,405
Overhead Revenues	317,974	309,903	635,641	713,225	832,854	1,853,178	381,504	8,520,656	2,070,415	2,205,840
Total Revenues	58,131,526	56,101,468	98,030,263	67,668,033	73,147,493	74,339,402	72,350,623	77,294,336	64,762,552	70,393,211
Expenditures										
Instruction	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	18,207,142
Support Services	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	36,388,922
Enterprise and Community Services	275,394	517,158	628,003	674,541	778,322	1,415,832	2,294,594	2,812,317	2,766,457	3,547,993
Facilities Repair and Maintenance	-	-	-	-	-	-	25,237	-	489,409	145,903
Other Uses	196,493	165,005	-	(10)	-	-	-	-	-	-
Debt Service	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	2,578,338
Contingencies	-	-	-	68,657	-	-	-	-	-	-
Total Expenditures	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	60,868,298
Excess of Revenues Over (Under) Expenditures	12,200,825	9,635,701	13,555,032	13,212,311	15,041,478	12,645,938	10,237,359	7,598,876	6,173,850	9,524,913
Other Financing Sources (Uses)										
Apportionment of Funds	(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)	(8,916,168)
Transfers In	396,463	405,879	780,592	808,000	1,358,648	-	1,370,000	10,242,125	4,358,687	5,036,526
Transfers Out	(553,600)	(405,879)	(780,592)	(808,000)	(1,359,285)	-	(1,371,500)	(10,242,125)	(4,358,687)	(5,036,526)
Capital Leases	-	-	-	-	-	-	-	307,952	-	-
Total Other Financing Sources (Uses)	(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)	(8,916,168)
Net Change in Fund Balances	727,824	(699,875)	4,101,466	5,122,044	7,784,700	3,305,633	742,987	(2,311,317)	(3,123,964)	608,745
Beginning Fund Balances	7,721,314	8,449,136 *	7,747,340 *	11,848,804 *	16,970,859 *	24,755,559	30,129,223 *	26,355,028 *	24,043,711 *	20,919,747 *
Ending Fund Balances	\$ 8,449,138	\$ 7,749,261	\$ 11,848,807	\$ 16,970,849	\$ 24,755,559	\$ 28,061,192	\$ 30,872,211	\$ 24,043,711	\$ 20,919,747	\$ 21,528,492

*Restated

Multnomah Education Service District
Assessed Values of Taxable Property Within District Boundaries
Last Eight Fiscal Years

Assessed Values (Not including exempt properties)

<u>Fiscal Year</u> <u>Ending</u> <u>June 30</u>	<u>Total Taxable</u> <u>Assessed Value</u>	<u>Total Direct</u> <u>Tax Rate</u>	<u>Amount tax rate</u> <u>will raise</u>	<u>Less: (Reductions)</u> <u>and Adjustments</u>	<u>Total Taxes</u> <u>Imposed</u> <u>(Net Levy)</u>
Multnomah County					
2004	\$45,232,939,657	0.4576	\$ 19,732,394	\$ (267,482)	\$ 19,464,912
2005	46,999,557,767	0.4576	20,416,899	(296,376)	20,120,523
2006	48,858,881,559	0.4576	21,071,817	(46,368)	21,025,449
2007	51,092,185,905	0.4576	21,925,095	(221,114)	21,703,981
2008	53,953,324,311	0.4576	23,040,515	(180,618)	22,859,897
2009	56,582,052,734	0.4576	24,011,401	(185,919)	23,825,482
2010	58,913,882,239	0.4576	24,800,879	(194,854)	24,606,025
2011	57,070,859,452	0.4576	26,137,874	(903,855)	25,234,019
Clackamas County					
2004	\$ 787,130,815	0.4576	\$ 360,191	\$ (860)	\$ 359,331
2005	820,194,947	0.4576	375,321	(1,663)	373,658
2006	859,002,627	0.4576	393,080	1,195	394,275
2007	898,516,907	0.4576	411,162	(1,832)	409,330
2008	934,184,792	0.4576	427,483	(2,264)	425,219
2009	974,008,543	0.4576	445,706	(1,519)	444,187
2010	1,035,244,248	0.4576	473,728	(15,731)	457,997
2011	1,071,616,106	0.4576	490,367	(18,661)	471,706
Washington County					
2004	\$ 212,704,992	0.4576	\$ 97,334	\$ (1,712)	\$ 95,622
2005	224,111,074	0.4576	102,553	(1,862)	100,691
2006	232,351,636	0.4576	106,324	(1,468)	104,856
2007	241,260,765	0.4576	110,401	(2,114)	108,287
2008	250,558,442	0.4576	114,656	(2,219)	112,437
2009	259,544,266	0.4576	118,767	(2,516)	116,251
2010	268,754,468	0.4576	122,982	(2,876)	120,106
2011	276,852,340	0.4576	126,688	(3,304)	123,384
Multnomah, Clackamas and Washington Counties Combined					
2004	\$46,232,775,464	0.4576	\$ 20,189,919	\$ (270,055)	\$ 19,919,864
2005	48,043,863,788	0.4576	20,894,773	(299,901)	20,594,872
2006	49,950,235,822	0.4576	21,571,221	(46,642)	21,524,580
2007	52,231,963,577	0.4576	22,446,658	(225,061)	22,221,597
2008	55,138,067,545	0.4576	23,582,654	(185,101)	23,397,553
2009	57,815,605,543	0.4576	24,575,874	(189,954)	24,385,920
2010	60,217,880,955	0.4576	25,397,589	(213,461)	25,184,128
2011	58,419,327,898	0.4576	26,754,929	(925,820)	25,829,109

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.

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

Multnomah Education Service District
Market Values of Taxable Property Within District Boundaries
Last Ten Fiscal Years
Market Value

<u>Fiscal Year</u> <u>Ending</u> <u>June 30</u>	<u>Residential &</u> <u>Commercial</u>	<u>Personal</u> <u>Property</u>	<u>Public Utility</u>	<u>Other *</u>	<u>Total Market</u> <u>Value</u>
2002	\$51,790,801,730	\$2,440,785,656	\$2,745,249,079	\$6,414,502,160	\$ 63,391,338,625
2003	55,034,098,200	2,493,592,688	2,531,198,353	6,432,112,210	66,491,001,451
2004	58,811,462,370	2,273,897,076	2,641,163,370	6,808,348,050	70,534,870,866
2005	65,874,275,123	2,461,504,567	2,433,022,372	7,341,193,270	78,109,995,332
2006	74,147,855,770	2,536,104,102	2,589,064,057	7,797,057,090	87,070,081,019
2007	86,908,468,802	2,488,853,857	2,613,611,777	8,291,828,830	100,302,763,266
2008	93,427,436,572	2,550,450,904	2,639,904,764	8,764,165,890	107,381,958,130
2009	90,818,470,187	2,498,863,815	2,868,835,361	8,824,540,220	105,010,709,583
2010	87,130,561,197	2,392,401,613	2,912,172,418	9,124,217,960	101,559,353,188
2011	80,817,880,897	2,276,974,770	3,068,852,951	9,190,723,000	95,354,431,618

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

Source: Multnomah County Department of Assessment and Taxation

* Includes Farm, forest & other categories

**Multnomah Education Service District
Principal Property Tax Payers For Multnomah County
Fiscal Years 2011 and 2002**

Taxpayer	2011		2002	
	Taxable Assessed Value	Rank	Taxable Assessed Value	Rank
Portland General Electric Co	\$ 398,246,922	1	\$ 302,533,670	2
Comcast Corporation	351,266,300	2		
PacifiCorp (PP&L)	319,636,000	3	252,030,200	3
Weston Investments Co LLC	248,199,200	4		
Qwest Wireless	220,168,700	5	475,405,066	1
LC Portland LLC	173,395,750	6		
ECRAZ Inc NA	166,298,921	7		
Fred Meyer Stores Inc	163,368,968	8	147,486,570	9
The Boeing Co Inc	163,001,200	9	190,771,020	5
Northwest Natural Gas Co	162,767,290	10	141,258,730	10
Microchip Technology Inc			176,085,730	6
Oregon Steel Mills Inc			149,337,260	8
Wacker Siltronic Corp			204,815,810	4
Alaska Airlines Inc			164,000,000	7
United Airlines Inc			114,520,000	9
	<u>\$ 2,366,349,251</u>		<u>\$2,318,244,056</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, 2011		
		Amount	Percentage of Levy	Amount	Percentage Collected	
Multnomah County						
2002	\$ 18,512,544	\$ 655,726	3.54%	\$ 2,583	99.61%	
2003	18,949,684	650,554	3.43%	3,001	99.54%	
2004	19,464,912	599,331	3.08%	4,196	99.30%	
2005	20,120,523	582,329	2.89%	4,357	99.25%	
2006	21,025,449	588,764	2.80%	4,277	99.27%	
2007	21,703,981	588,236	2.71%	9,923	98.31%	
2008	22,859,897	670,534	2.93%	59,825	91.08%	
2009	23,825,482	851,090	3.57%	176,950	79.21%	
2010	24,606,025	775,848	3.15%	323,313	58.33%	
2011	25,234,019	700,321	2.78%	700,321	0.00%	
Clackamas County						
2002	330,561	12,995	3.93%	44	99.66%	
2003	688,539	12,155	1.77%	48	99.61%	
2004	359,331	11,075	3.08%	68	99.39%	
2005	373,658	9,967	2.67%	72	99.28%	
2006	394,275	9,516	2.41%	103	98.92%	
2007	409,330	11,151	2.72%	52	99.53%	
2008	425,219	14,634	3.44%	934	93.62%	
2009	444,187	19,067	4.29%	2,753	85.56%	
2010	457,997	17,009	3.71%	5,845	65.64%	
2011	471,706	15,150	3.21%	15,150	0.00%	
Washington County						
2002	90,556	*	*	*	*	
2003	95,622	*	*	*	*	
2004	95,622	*	*	*	*	
2005	100,691	*	*	*	*	
2006	104,856	*	*	20	*	
2007	108,287	2,249	2.08%	44	98.04%	
2008	112,437	2,732	2.43%	159	94.18%	
2009	116,251	3,553	3.06%	608	82.89%	
2010	120,106	3,348	2.79%	1,215	63.71%	
2011	123,384	2,916	2.36%	2,916	0.00%	

Note: Represents Multnomah, Clackamas and Washington Counties

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

* Information not available at this time.

**Multnomah Education Service District
Portland, Oregon
Debt Capacity
Last Ten Fiscal Years**

<u>Fiscal Year Ending June 30</u>	<u>2004 Go Bonds</u>	<u>Total Taxable Assessed Value</u>	<u>Percentage of Actual Assessment Value</u>	<u>Percentage of Personal Income</u>	<u>Personal Income All Counties</u>
2002	\$ 5,480,001	*	*	10.77%	\$ 50,864,686
2003	5,200,001	*	*	9.93%	52,366,971
2004	4,905,001	\$ 46,232,775,464	0.01%	9.00%	54,489,664
2005	4,560,000	48,043,863,788	0.01%	7.91%	57,677,210
2006	4,520,000	49,950,235,822	0.01%	7.32%	61,742,282
2007	4,475,000	52,231,963,577	0.01%	6.84%	65,410,959
2008	4,085,000	55,138,067,545	0.01%	6.06%	67,411,286
2009	3,685,000	57,815,605,543	0.01%	5.46%	67,489,595
2010	3,275,000	60,217,889,550	0.01%	*	*
2011	2,855,000	58,419,327,898	0.00%	*	*

* 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				
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	5.6%
2009	726,855	29,430,654	40,490	10.6%
2010	*	*	*	*
2011	*	*	*	*
Clackamas County				
2002	351,661	\$ 12,430,074	\$ 35,347	Portland Metro Unemployment Rates include Clackamas & Washington Counties
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	386,143	16,853,655	43,646	
2010	*	*	*	
2011	*	*	*	
Washington County				
2002	471,724	\$ 14,972,521	\$ 31,740	Portland Metro Unemployment Rates include Clackamas & Washington Counties
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	537,318	21,205,286	39,465	
2010	*	*	*	
2011	*	*	*	

* 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>Fiscal Year Ending</u>	<u>Licensed</u>	<u>Classified</u>	<u>Administration</u>	<u>Total</u>
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
2011	289	313	45	647

Source: Multnomah Education Service District Human Resources Department

Multnomah Education Service District (MESD)
School District Participation
In MESD Programs and Services
Last Ten Fiscal Years

Fiscal Year Ending	Special Education Services	Instructional Services	Health & Social Services	Technology & Other Support Services	Total
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
2011	24,273,554	16,569,950	12,791,521	4,731,591	58,366,616

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**

February 21, 2012

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, 2011, and have issued our report thereon dated February 21, 2012. 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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting 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 described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2011-03 to be a material weakness.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (Continued)**

Page 2

INTERNAL CONTROL OVER FINANCIAL REPORTING (Continued)

A *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. We identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 2011-01 and 2011-02 that we consider to be significant deficiencies in internal control over financial reporting.

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*.

The District's responses to the findings identified in our audit are described in the accompanying District Corrective Action Plan for the year ended June 30, 2011. We did not audit the District's responses and, accordingly, express no opinion on them.

* * * * *

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, Kowola & Warwick LLP

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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**

February 21, 2012

Board of Directors
Multnomah Education Service District
Portland, Oregon

COMPLIANCE

We have audited the compliance of Multnomah Education Service District, Portland, Oregon, (the District) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The District's major federal programs are identified in the Summary of Independent 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.

As described in items 2011-07, 2011-08, 2011-09, and 2011-10 in the accompanying Schedule of Findings and Questioned Costs the District did not comply with requirements regarding allowable costs that are applicable to its Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (CFDA #93.104), Special Education Cluster (CFDA #84.027, #84.173, #84.391, and #84.392), Early Intervention Services Cluster (CFDA #84.181 and #84.393), and Education Jobs Fund (CFDA #84.410). Compliance with such requirements is necessary, in our opinion, for the District to comply with requirements applicable to those programs.

**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

COMPLIANCE (Continued)

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

INTERNAL CONTROL OVER COMPLIANCE

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the 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 the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose 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 preceding paragraph 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 material weaknesses and other deficiencies 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 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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2011-07, 2011-08, 2011-09, and 2011-10 to be material weaknesses.

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 described in the accompanying Schedule of Findings and Questioned Costs as items 2011-04, 2011-05, and 2011-06 to be significant deficiencies.

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 3

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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, Kowola & Warwick LLP

Certified Public Accountants

MULTNOMAH EDUCATION SERVICE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ending June 30, 2011

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	07/01/10 - 06/30/11	\$ -	\$ 52,767
National School Lunch Program	10.555	N/A	07/01/10 - 06/30/11	-	119,096
Total Child Nutrition Cluster				-	171,863
Total US Department of Agriculture				-	171,863
US Department of Education					
Impact Aid Cluster					
TRIO - Talent Search	84.044	N/A	09/01/07 - 08/31/12	1,133,000	210,538
Total Impact Aid Cluster				1,133,000	210,538
Passed through Oregon Department of Education:					
Title I, Part A Cluster					
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	84.010	17962	09/01/09 - 09/30/10	441,404	15,694
Total Title I, Part A Cluster	84.010	20475	09/01/10 - 09/30/11	40,300	39,454
				481,704	55,148
Migrant Education - State Grant Program	84.011	16199	07/01/09 - 09/30/10	113,094	752
	84.011	17606	07/01/09 - 09/30/10	15,174	102
	84.011	14385	07/01/10 - 09/30/11	17,913	17,785
	84.011	19277	07/01/10 - 09/30/11	146,639	146,598
	84.011	14769	05/01/11 - 09/30/11	23,000	4,796
	84.011	19087	03/01/10 - 08/31/10	8,849	8,656
Total Migrant Education - State Grant Program				324,669	178,689
Title I Program for Neglected and Delinquent Children	84.013	8633	07/01/09 - 06/30/11	167,567	59,688
Total Title I Program for Neglected and Delinquent Children				167,567	59,688
Career and Technical Education - Basic Grants to States	84.048	19188	07/01/10 - 09/30/11	103,978	72,443
	84.048	15374	07/01/09 - 09/30/10	106,904	12,068
Total Career and Technical Education - Basic Grants to States				210,882	84,511
Charter Schools	84.282	21206	07/15/09 - 07/15/11	225,000	112,620
Total Charter Schools				225,000	112,620
Special Education Cluster (IDEA)					
Special Education - Grants to States (IDEA, Part B)	84.027	8594	07/01/09 - 06/30/11	2,743,267	1,294,936
	84.027	8633	07/01/09 - 06/30/11	32,969	16,556
	84.027	8653	07/01/09 - 06/30/11	31,744	19,035
	84.027	21362	10/01/10 - 09/30/11	2,652	-
	84.027	20094	08/01/10 - 06/30/11	1,299	1,299
	84.027	20121	08/01/10 - 06/30/11	997	-
	84.027	20120	08/01/10 - 06/30/11	3,311	3,311
	84.027	20122	08/01/10 - 06/30/11	3,987	2,844
	84.027	20123	08/01/10 - 06/30/11	1,305	1,305
	84.027	21508	09/01/10 - 06/30/11	5,400	4,964
	84.027	16171	08/01/09 - 09/30/10	12,000	2,340
	84.027	18560	10/01/09 - 09/30/10	2,575	2,091
Total Special Education - Grants to States (IDEA, Part B)	84.027	N/A	07/01/09 - 06/30/11	25,131	19,116
				2,866,637	1,367,796

MULTNOMAH EDUCATION SERVICE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Year Ending June 30, 2011

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass through Number	Grant Period	Grant Amount	Expenditures
Special Education Cluster (IDEA) (Continued)					
Special Education - Preschool Grants (IDEA Preschool)	84.173	8594	07/01/09 - 06/30/11	\$ 1,016,702	\$ 607,022
	84.173	19838	07/01/10 - 06/30/11	1,185	987
Total Special Education - Preschool Grants (IDEA Preschool)				1,017,887	608,009
ARRA - Special Education - Grants to States (IDEA, Part B)	84.391	16049	02/17/09 - 09/30/11	1,507,360	574,426
	84.391	15938	02/17/09 - 09/30/11	4,661	2,763
	84.391	15955	02/17/09 - 09/30/11	18,297	8,439
	84.391	8611	07/01/09 - 06/30/11	15,424	15,424
Total ARRA - Special Education - Grants to States (IDEA, Part B)				1,545,742	601,052
ARRA - Special Education - Preschool Grants (Idea Preschool)	84.392	16057	02/17/09 - 09/30/11	725,184	334,243
Total Special Education Cluster (IDEA)				6,155,450	2,911,100
Early Intervention Services (IDEA) Cluster					
Special Education - Grants for Infants and Families	84.181	8594	07/01/09 - 06/30/11	1,630,857	608,593
	84.181	19838	07/01/10 - 06/30/11	315	263
Total Special Education - Grants for Infants and Families				1,631,172	608,855
ARRA - Special Education - Grants for Infants and Families	84.393	16067	02/17/09 - 09/30/11	994,931	496,456
Total Early Intervention Services (IDEA) Cluster				2,626,103	1,105,311
State Fiscal Stabilization Fund Cluster					
State Fiscal Stabilization Fund (SFSF) – Education State	84.394	17379	02/17/09 - 09/30/11	1,258,177	119,016
Grants, Recovery Act (Education Stabilization Fund)	84.394	21129	02/17/09 - 09/30/11	514,759	514,759
	84.394	16976	02/17/09 - 09/30/11	20,879	16,066
	84.394	18722	02/17/09 - 09/30/11	14,984	-
	84.394	21188	02/17/09 - 09/30/11	8,543	8,543
Total State Fiscal Stabilization Fund Cluster				1,817,342	658,383
Education Jobs Fund					
ARRA Funds	84.410	20922	08/10/10 - 09/30/12	933,993	460,000
ARRA Funds	84.410	21164	08/10/10 - 06/30/12	15,501	-
Total Education Jobs Fund				949,494	460,000
Total US Department of Education				14,091,211	5,835,988
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	1,621,707
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	N/A	09/30/10 - 09/29/15	3,250,000	195,517
Total US Dept of Health and Human Services				12,250,000	1,817,224
TOTAL FEDERAL FINANCIAL ASSISTANCE				\$ 26,341,211	\$ 7,825,076

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, 2011

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?	Yes
Significant deficiency(ies) identified not considered to be material weakness(es)?	Yes
Noncompliance material to financial statements noted?	None reported

Federal Awards:

Internal control over major programs:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified not considered to be material weakness(es)?	Yes
Type of auditor's report issued on compliance for major programs	Qualified
Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of <i>Circular A-133</i> ?	Yes

Identification of major programs:

CFDA NUMBER(S)

NAME OF FEDERAL PROGRAM OR CLUSTER

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

MULTNOMAH EDUCATION SERVICE DISTRICT

Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2011

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 11-01:

Criteria: There should be segregation of duties over cash management and bank reconciliations should be reviewed on a timely basis, as these can identify errors which may cause material misstatement of the financial statements.

Condition: We noted that the bank/general ledger clerk receives monies, makes deposits, records deposits to the general ledger bank and accounts receivable accounts and prepares reconciliations for both the general ledger bank and accounts receivable accounts. This process lacks evidence of review by management.

Context: The opportunity exists that this system may fail to prevent misuse of the District's assets and to detect any errors in the financial reporting system that are normally prevented or identified through segregation of duties and the review of the bank reconciliations and accounts receivables, resulting in the potential for misstatements in the financial statements.

Effect: Lack of segregation of duties and lack of proper review of bank reconciliations on a timely basis could result in financial statement misstatements.

Cause: Management relied upon other internal control procedures to assure the bank and accounts receivable reconciliations were reflected properly on the general ledger.

Recommendation: We recommend that management provide for evidenced review of all bank and accounts receivable reconciliations. In addition, we recommend the function of reconciliation and recording of such be segregated.

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, 2011

SECTION II- FINANCIAL STATEMENT FINDINGS (Continued)

Finding 11-02:

Criteria:	There should be a monthly reconciliation of the Public Employees Retirement System (PERS) expenses and accruals and a review of these reconciliations should be performed and documented on a timely basis, as these can identify errors which may cause material misstatement of the financial statements.
Condition:	We noted that there was a lack of reconciliation and review of PERS rates and amounts applied to monthly payroll for PERS accruals by management.
Context:	The opportunity exists that the incorrect PERS rate and/or amounts will be charged to cost centers in the financial system. Failing to complete this review and reconciliation reduce the ability to detect errors in the financial reporting system, resulting in the potential for misstatements in the financial statements.
Effect:	Lack of a consistent reconciliation and review of the PERS accrual resulted in incorrect amounts of PERS being charged to cost centers and creating a larger than appropriate accrual of the PERS liability.
Cause:	Management relied upon other internal control procedures to assure that amounts were appropriately reflected properly on the general ledger.
Recommendation:	We recommend that management reconcile the PERS expense and accrual on a consistent basis to ensure the correct rates are applied and appropriate amounts are reflected in the general ledger. This reconciliation should be reviewed timely by a responsible party.
Views of responsible official:	The District understands and concurs with the finding.

Finding 11-03:

Criteria:	Accounting principles generally accepted in the United States of America (GAAP) require that an entity maintain a structure of internal control designed to provide reasonable assurance that the financial statements are presented fairly.
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MULTNOMAH EDUCATION SERVICE DISTRICT

Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2011

SECTION II- FINANCIAL STATEMENT FINDINGS (Continued)

Finding 11-03 (Continued):

Condition:	The June 30, 2011 Comprehensive Annual Financial Report (CAFR) as drafted by the District required several modifications to be in accordance with GAAP and a prior period adjustment.
Context:	There were several material modifications to the financial statements and additions to footnotes to the basic financial statements to assure they were presented in accordance with GAAP.
Effect:	The June 30, 2011 CAFR, as originally presented for the audit, was not available when scheduled and, upon receipt, was materially misstated.
Cause:	District personnel responsible for the preparation of the CAFR were unable to complete drafting of the CAFR in accordance with GAAP on a timely basis.
Recommendation:	Evaluate competencies and resources required to prepare the CAFR. Consider additional training and education opportunities and additional staffing and implementation of review procedures to mitigate the risk of untimely and materially misstated financial statements.
Views of responsible official:	The District understands and concurs with the finding.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 11-04:

Federal Program:	CFDA No. 84.394 – State Fiscal Stabilization Fund (SFSF) – Education State Grants – ARRA
Federal Agency:	Department of Education
Award Year:	2010-11
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 cash management requirements. The authoritative

MULTNOMAH EDUCATION SERVICE DISTRICT

Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2011

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

Finding 11-04 (Continued):

Criteria (continued):	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 six requests for reimbursement of expenditures incurred under the program. Two of these requests 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.

Finding 11-05:

Federal Program:	CFDA No. 84.410 – Education Jobs Fund – ARRA
Federal Agency:	Department of Education
Award Year:	2010-11
Pass Through Entity:	Oregon Department of Education
Criteria:	In accordance with OMB Circular A-133, the District is required to maintain a structure of internal control to ensure compliance

MULTNOMAH EDUCATION SERVICE DISTRICT

Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2011

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

Finding 11-05 (Continued):

Criteria (Continued):	with 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 one request for reimbursement of expenditures incurred under the program. This request did not display evidence of 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 record the review of the reimbursement request.
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.

Finding 11-06:

Federal Program:	CFDA No. 93.104 – Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SAMSHA)
Federal Agency:	Department of Health and Human Services
Award Year:	2010-11
Pass Through Entity:	N/A

MULTNOMAH EDUCATION SERVICE DISTRICT

Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2011

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

Finding 11-06 (Continued):

Criteria:	For Matching, the A-102 Common Rule (§____.24) and OMB Circular A-110 (2 CFR section 215.23) provide detailed criteria for acceptable costs and contributions. The following is a list of the basic criteria for acceptable matching: costs are verifiable from the non-federal entity's records, are not included as contributions for any other federally assisted project or program, unless specifically allowed by Federal program law and regulations, are necessary and reasonable for proper and efficient accomplishment of project or program objectives, are allowed under the applicable cost principles, are not paid by the Federal Government under another award, except where authorized by federal statute to be allowable for cost sharing or matching, are provided for in the approved budget when required by the federal awarding agency, and conform to other applicable provisions of the A-102 Common Rule and OMB Circular A-110 and the laws, regulations, and provisions of contract or grant agreements applicable to the program.
Condition:	The District's records do not provide information as to the basis used for determining the valuation for personal services donated as In-Kind Contribution toward the matching requirement.
Questioned costs:	The matching requirement for this program is 100%. Total expenditures were \$1,621,769.
Context:	The District is required to have 100% matching for the program. There is no formal tracking process for the amount of In-Kind Contributions.
Effect:	The District may not have spent the required amount of non-federal funds on the program.
Cause:	It appears the District does not have a formalized process for tracking matching requirements.
Recommendation:	We recommend the District develop and implement a process for tracking In-Kind Contributions associated with matching requirements.
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, 2011

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

Finding 11-07:

Federal Program:	CFDA No. 93.104 – Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SAMSHA)
Federal Agency:	Department of Health and Human Services
Award Year:	2010-11
Pass Through Entity:	N/A
Criteria:	In accordance with Circular A-87, charges for salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which reflects an after the fact distribution of the actual activity of each employee, they must account for the total activity for which each employee is compensated, they must be prepared at least monthly and must coincide with one or more pay periods, and they must be signed by the employee and supervisor.
Condition:	The District does not require timecards for employees working under the federal program and does not require signature by a supervisor, indicating proper review and authorization of charges to the grant, unless the employee is a substitute.
Questioned costs:	We could not perform a test of controls over compliance or test compliance for this program. The likely questioned costs are the entire payroll expenditures under the program of \$318,964.
Context:	While obtaining an understanding of internal controls it was determined that timecards were not prepared by the employees and were not approved by a supervisor indicating proper review and authorization of charges to the grant.

MULTNOMAH EDUCATION SERVICE DISTRICT

Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2011

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

Finding 11-07 (Continued):

Effect:	Failure to obtain timecards and/or evidence of appropriate supervisory review supporting payroll related charges constitutes noncompliance under OMB Circular A-87. Other evidence indicates the personnel were authorized to work under the grant; however, without appropriate documentation of timecards or appropriate supervisory review, there is a risk that federal funds may have been misapplied under the program.
Cause:	It appears that the District does not have a formal procedure in place for the supervisor of federal programs to review and approve payroll of employees working on the program.
Recommendation:	We recommend the District develop and implement policies and procedures such that all relevant charges to federal programs are supported by timecards that are reviewed and approved in accordance with OMB Circular A-87.
Views of responsible official:	The District understands and concurs with the finding.

Finding 11-08:

Federal Program:	CFDA Nos. 84.027, 84.173, 84.391 (ARRA), 84.392 (ARRA) – Special Education Cluster
Federal Agency:	Department of Education
Award Year:	2010-11
Pass Through Entity:	N/A
Criteria:	In accordance with Circular A-87, charges for salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent

MULTNOMAH EDUCATION SERVICE DISTRICT

Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2011

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

Finding 11-08 (Continued):

documentation which reflects an after the fact distribution of the actual activity of each employee, they must account for the total activity for which each employee is compensated, they must be prepared at least monthly and must coincide with one or more pay periods, and they must be signed by the employee and supervisor.

Condition: The District does not require timecards for employees working under the federal program and does not require signature by a supervisor, indicating proper review and authorization of charges to the grant, unless the employee is a substitute.

Questioned costs: We could not perform a test of controls over compliance or test compliance for this program; therefore, known questioned costs are indeterminable. The likely questioned costs are the entire payroll expenditures under the program of \$1,895,655.

Context: While obtaining an understanding of internal controls it was determined that timecards were not prepared by the employees and were not approved by a supervisor indicating proper review and authorization of charges to the grant.

Effect: Failure to obtain timecards and/or evidence of appropriate supervisory review supporting payroll related charges constitutes noncompliance under OMB Circular A-87. Other evidence indicates the personnel were authorized to work under the grant; however, without appropriate documentation of timecards or appropriate supervisory review, there is a risk that federal funds may have been misapplied under the program.

Cause: It appears that the District does not have a formal procedure in place for the supervisor of federal programs to review and approve payroll of employees working on the program.

Recommendation: We recommend the District develop and implement policies and procedures such that all relevant charges to federal programs are supported by timecards that are reviewed and approved in accordance with OMB Circular A-87.

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, 2011

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

Finding 11-09:

Federal Program:	CFDA Nos. 84.181, 84.393 (ARRA) – Early Intervention Services (IDEA) Cluster
Federal Agency:	Department of Education
Award Year:	2010-11
Pass Through Entity:	N/A
Criteria:	In accordance with Circular A-87, charges for salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which reflects an after the fact distribution of the actual activity of each employee, they must account for the total activity for which each employee is compensated, they must be prepared at least monthly and must coincide with one or more pay periods, and they must be signed by the employee and supervisor.
Condition:	The District does not require timecards for employees working under the federal program and does not require signature by a supervisor, indicating proper review and authorization of charges to the grant, unless the employee is a substitute.
Questioned costs:	We could not perform a test of controls over compliance or test compliance for this program; therefore, known questioned costs are indeterminable. The likely questioned costs are the entire payroll expenditures under the program of \$806,876.
Context:	While obtaining an understanding of internal controls it was determined that timecards were not prepared by the employees and were not approved by a supervisor indicating proper review and authorization of charges to the grant.

MULTNOMAH EDUCATION SERVICE DISTRICT

Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2011

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

Finding 11-09 (Continued):

Effect:	Failure to obtain timecards and/or evidence of appropriate supervisory review, supporting payroll related charges constitutes noncompliance under OMB Circular A-87. Other evidence indicates the personnel were authorized to work under the grant; however, without appropriate documentation of timecards or appropriate supervisory review, there is a risk that federal funds may have been misapplied under the program.
Cause:	It appears that the District does not have a formal procedure in place for the supervisor of federal programs to review and approve payroll of employees working on the program.
Recommendation:	We recommend the District develop and implement policies and procedures such that all relevant charges to federal programs are supported by timecards that are reviewed and approved in accordance with OMB Circular A-87.
Views of responsible official:	The District understands and concurs with the finding.

Finding 11-10:

Federal Program:	CFDA No. 84.410 – Education Jobs Fund – ARRA
Federal Agency:	Department of Education
Award Year:	2010-11
Pass Through Entity:	Oregon Department of Education
Criteria:	In accordance with Circular A-87, charges for salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which reflects an after the fact distribution of the actual activity of each employee, they must account for the total

MULTNOMAH EDUCATION SERVICE DISTRICT

Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2011

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

Finding 11-10 (Continued):

activity for which each employee is compensated, they must be prepared at least monthly and must coincide with one or more pay periods, and they must be signed by the employee and supervisor.

Condition: The District does not require timecards for employees working under the federal program and does not require signature by a supervisor, indicating proper review and authorization of charges to the grant, unless the employee is a substitute.

Questioned costs: We could not perform a test controls over compliance or test compliance for this program known questioned costs are indeterminable. The likely questioned costs are the entire payroll expenditures under the program of \$460,000.

Context: While obtaining an understanding of internal controls it was determined that timecards were not prepared by the employees and were not approved by a supervisor indicating proper review and authorization of charges to the grant.

Effect: Failure to obtain timecards and/or evidence of appropriate supervisory review, supporting payroll related charges constitutes noncompliance under OMB Circular A-87. Other evidence indicates the personnel were authorized to work under the grant; however, without appropriate documentation of timecards or appropriate supervisory review, there is a risk that federal funds may have been misapplied under the program.

Cause: It appears that the District does not have a formal procedure in place for the supervisor of federal programs to review and approve payroll of employees working on the program.

Recommendation: We recommend the District develop and implement policies and procedures such that all relevant charges to federal programs are supported by timecards that are reviewed and approved in accordance with OMB Circular A-87.

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, 2011

Finding 10-01:

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

Repeated as Finding 11-01

Finding 10-02:

Audit Finding: The District's controls did not provide for proper review of claims for reimbursement of expenditures requested for CFDA #93.104.

Corrective Action Plan Taken: Upon notification to the District of the lack of review, reviews were performed by both the preparer of the reimbursement request as well as by a staff person in Business Services.

Finding 10-03:

Audit Findings: The District's controls did not provide for proper review of claims for reimbursement of expenditures requested for CFDA #84.010.

Corrective Action Plan Taken: Upon notification to the District of the lack of review, reviews were performed by both the preparer of the reimbursement request as well as by a staff person in Business Services.

Finding 10-04:

Audit Finding: The District's controls did not provide for proper review of the claim for reimbursement of expenditures requested for CFDA #83.394.

Repeated as Finding 11-04

MULTNOMAH EDUCATION SERVICE DISTRICT

Portland, Oregon

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

YEAR ENDED JUNE 30, 2011

Finding 10-05:

Audit Finding:

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 for CFDA #84.027, #84.173, #84.391 and #84.392.

Corrective Action Plan
Taken:

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.

Audit Comments & Disclosures

**INDEPENDENT AUDITOR'S REPORT
REQUIRED BY OREGON STATE REGULATIONS**



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INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

February 21, 2012

Board of Directors
Multnomah Education Service District
Portland, Oregon

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Multnomah Education Service District, Portland, Oregon (the District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 21, 2012. 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:

Expenditures exceeded appropriations as follows:

<u>Fund/function</u>	<u>Appropriation</u>	<u>Expenditures</u>	<u>Over Expenditure</u>
Operating Fund:			
Transfers out	\$ 1,835,830	\$ 1,980,158	\$ 144,328
Resolution Services Fund:			
Instruction	7,001,690	7,172,133	170,443
Transfers out	3,347,156	3,601,368	254,212
Contract Services Fund:			
Instruction	10,758,686	11,035,009	276,323
Enterprise and community services	1,755,985	3,154,708	1,398,723
Debt Service Fund:			
Debt service	547,830	2,578,338	2,030,508
Risk Management Reserve Fund:			
Transfers out	327,691	652,015	324,324

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, dated February 21, 2012, on internal control over financial reporting and compliance and other matters based on an audit of financial statements in accordance with *Government Auditing Standards* is presented in the Single Audit Section of the Comprehensive Annual Financial 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.

Talbot, Kowola & Warwick LLP

Certified Public Accountants

**Multnomah Education Service District
Portland, Oregon**

**District Corrective Action Plan For
Section II – Financial Statement Findings and,
Section III – Federal Award Findings and Questioned Costs**

Section II – Financial Statement Findings:

Finding 11-01

Segregation of duties over cash management and bank reconciliations.

It was noted that bank reconciliations as well as reconciliations of accounts receivable lacked evidence of review by management.

Corrective Action: All bank reconciliations are now reviewed and signed by the Supervisor of Accounting and Finance.

Finding 11-02

Reconciliation of PERS rates and related accrued liability.

It was noted that there was a lack of reconciliation and review of PERS rates and the related accrued liability.

Corrective Action: The District's procedures have been updated to include a monthly review of PERS rates applied to monthly payroll as well as review of the reconciliation of the PERS liability account. The Supervisor of Accounting and Finance now signs off as evidence of review of the above items.

Finding 11-03

Adjustments and modifications to the Comprehensive Annual Financial Report (CAFR).

It was noted that there were several modifications, including a prior period adjustment in order for the financial statements to be presented in accordance with Generally Accepted Accounting Principles (GAAP).

Corrective Action: The Supervisor of Accounting and Finance is continuing to receive education in the process of preparing Comprehensive Annual Financial Reports. It should be noted, the prior period adjustment reported in the finding was brought to the auditors attention by the District.

Section III – Federal Award Findings and Questioned Costs:

Findings 11-04, 11-05

Evidence of review of claims submitted for reimbursement on federal grants.

It was noted there was a lack of evidence of review of claims submitted for reimbursement on federal grants.

Corrective Action: The District has re-assessed its procedures and will re-train all staff involved in granting reimbursements and will tighten District procedures.

Finding 11-06

Support for the basis of determining the value of personal services donated as In-Kind contributions toward the matching requirement.

It was noted that no such documentation was kept supporting the valuation of services as it related to complying with the matching requirement of a federal grant.

Corrective Action: The District has re-assessed its in-kind identified work time and will tighten procedures to train and comply with district policies and grant requirements.

Findings 11-07, 11-08, 11-09, 11-10

Certification of all time worked for federal programs.

It was noted that the process for capturing time worked by teachers was not designed to include proper certification in every instance as required by federal regulations.

Corrective Action: The District is redesigning its system of time capture and certification for its teachers. The system will be designed with the understanding it will meet all time certification requirements as per federal and state grant laws and regulations.

David A. Shick
Supervisor of Accounting and Finance
Multnomah Education Service District