

2013

Comprehensive Annual Financial Report

For the Year Ended June 30, 2013



Multnomah Education Service District
Multnomah County, Oregon



Multnomah Education Service District

Multnomah County, Oregon

Comprehensive Annual Financial Report

For the Year Ended June 30, 2013

Prepared by the Business Services Department

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Portland, OR 97220
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Table of Contents

INTRODUCTORY SECTION

Letter of Transmittal	i
Board of Directors and Administration	ix
Organizational Structure	x

FINANCIAL SECTION

Independent Auditor's Report	3
Management's Discussion and Analysis	6
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	15
Statement of Activities	16
Fund Financial Statements	
Balance Sheet – Governmental Funds	17
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	18
Statement of Revenue, Expenditures, and Changes in Fund Balance - Governmental Funds	19
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	20
Fiduciary Financial Statement	
Statement of Changes in Fiduciary Net Position	21
Notes to the Basic Financial Statements	23
Required Supplementary Information	
Schedules of Revenues, Expenditures, and Changes in Fund Balance	
General Fund	43
Resolution Services Fund	44
Contracted Services Fund	45
Schedule of Funding Progress – Other Post-Employment Benefits	46
Other Supplementary Information	
Combining Balance Sheet - General Fund	49
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - General Fund	50
Schedule of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual	
Operating Fund	51
Risk Management Reserve Fund	52
Combining Balance Sheet - Nonmajor Funds	53
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Nonmajor Funds	54
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual	
Debt Service Fund	55
Facilities Acquisition and Improvements Fund	56
Schedule of Property Tax Transactions - Resolution Fund	57

Table of Contents (continued)

STATISTICAL SECTION

Financial Trend Information

Statement of Net Position – Last Ten Years	60
Changes in Net Position - Last Ten Years.....	62
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds - Last Ten Years	64

Revenue Capacity Information

Assessed Values of Taxable Property Within District Boundaries – Last Ten Years	66
Direct and Overlapping Property Tax Rates – Last Ten Years	67
Principal Property Tax Payers in Multnomah County – MESD Taxing District– Current Year and Nine Years Prior	68
Property Tax Levies and Collections by County – Last Ten Years	69

Debt Capacity Information

Ratios of Outstanding Debt - Last Ten Fiscal Years	70
Direct and Overlapping Debt	71

Demographic and Economic Information

Demographic and Economic Statistics – Last Ten Years.....	72
Principal Employers - Current and Nine Years Prior	73

Operating Information

Licensed, Classified and Administrative Employees – Last Ten Years	74
School District Participation in MESD Programs and Services – Last Ten Years.....	75
Schools, Sites, and Offices	76

SINGLE AUDIT SECTION

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 <i>Governmental Auditing Standards</i>	79
Independent Auditor’s Report on Compliance for Each Major Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133	81
Schedule of Expenditures and Federal Awards.....	84
Schedule of Findings and Questioned Costs.....	86
Summary of Prior Audit Findings.....	88

OTHER INFORMATION AS REQUIRED BY THE OREGON DEPARTMENT OF EDUCATION

Supplemental Information as Required by ODE.....	91
ODE District Audit Summary – Revenues and Other Resources	92
ODE District Audit Summary – Expenditures and Other Uses	94

AUDIT COMMENTS AND DISCLOSURES

Independent Auditor’s Report Required by Oregon State Regulations	101
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INTRODUCTORY SECTION





December 17, 2013

To the Board of Directors of the Multnomah Education Service District and
Residents of Multnomah County, 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 (the District or Multnomah ESD or MESD) for the fiscal year ended June 30, 2013 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). Since 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.

Independent Audit

The provisions of Oregon Revised Statutes require an independent audit of the financial records and fiscal affairs of the District. The auditors selected by the Board of Education, Talbot, Korvola & Warwick, LLP, have completed their audit of the financial statements and, accordingly, have issued an unmodified ("clean") opinion on the MESD's financial statements for the year ended June 30, 2013. The independent auditor's report is located at the front of the financial section of this report.

The Single Audit Act of 1984 and the Single Audit Act Amendments of 1996 require state and local governments that expend \$500,000 or more in federal assistance in a year have a special form of audit conducted for that year. MESD has issued a report on these requirements and the requirements of the implementing circular, U.S. Office of Management and Budget's Circular A-133, Audits of State and Local Governments. Talbot, Korvola & Warwick, LLP have also provided various required reports. These reports are located in the Single Audit Section of this report.

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 the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the independent auditor's report.

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, the list of the Board of Directors and Administration, and the District's organization chart.
- The **Financial Section** includes the Independent Auditor's Report, Management's Discussion and Analysis (MD&A), the basic financial statements including notes to the basic financial statements, required supplementary information (RSI), and other supplemental information including fund financial statements.
- 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 the Schedule of Expenditures of Federal Awards, and the required Independent Auditor's Reports on internal controls and compliance with laws and regulations.
- The **Audit Comments and Disclosures** section contains disclosures required by the Minimum Standards for Audits of Oregon Municipal Corporations.

PROFILE OF THE DISTRICT

Mission Statement:

The mission of MESD is to support our local school districts and share in providing a quality education for the children and families of our communities

General Background

Education Service Districts (ESDs) originated in Oregon's first laws establishing a general system of common schools. The Multnomah ESD evolved from the county school superintendent's office, first established in 1854. Responsibilities of that office were transferred from county government to an independent district in 1957. The state legislature formally established the ESD in 1963. In 1978, the name of the district was changed from Intermediate Education District to Multnomah Education Service District.

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, each ESD provides

regional services to its component school districts, primarily in areas that the school districts alone would not be able to adequately and equitably provide. Currently there are 19 ESDs in Oregon serving 36 counties.

Local district programs and services are provided by two means. Non-resolution programs are funded via grants or fee for service contracts. Resolution programs are those that, through a resolution, are authorized by at least two-thirds of the school boards representing a majority of total county students. Resolution programs are funded from property taxes and state school fund revenue. The State allocates support by granting ESDs a percentage of the total amount available for K-12 school funding, with each ESD receiving a fixed share of that total based on the ADMw of its component school districts.

Senate Bill 250, adopted in the 2011 Legislative Session, substantially changed how ESDs operate. The bill allows component school districts in specific Education Service Districts, including MESD, to opt out of ESD services and provides for school districts to receive funding for ESD services directly from the state. In 2012-13, none of the MESD's local districts chose to opt out.

District Structure

Multnomah ESD is governed by an elected seven-member board consisting of five directors representing specific geographic zones in Multnomah County and two at-large. The Board of Directors establishes and oversees policies, employs staff and dedicates resources. It is the chief governing body and is exclusively responsible for its public policies and accountable for fiscal oversight. Board members serve four-year terms without compensation and can be re-elected. The chief administrative officer of the District is the superintendent who is appointed by the Board.

Geography and Population

The Multnomah ESD is the second-largest education service district in Oregon. The eight school districts (referred to as “component districts”) in MESD's region are diverse and include inner city, suburban and rural schools.

MESD Component Districts



MESD Eight Component Districts					
District	Total Schools	Total Enrollment	District	Total Schools	Total Enrollment
Centennial	10	7,819	Parkrose	6	4,171
Corbett	3	1,230	Portland	92	53,201
David Douglas	16	13,272	Reynolds	19	14,161
Gresham-Barlow	20	13,901	Riverdale	2	590

Source: MESD Accountability Report 2011-2012, Enrollment = ADMw

Within these districts are 168 schools with 108,345 students over a geographic area that stretches from Portland's west hills to the foothills of the Cascades, and from the Columbia River on the north to the Clackamas County line on the south. An estimated population of 760,000 live within the Multnomah ESD boundary which includes Multnomah County and extends into Clackamas and Washington counties along school district boundaries.

Services Provided (Local Service Plan)

Every Oregon ESD, working with their component school districts, must annually develop a Local Service Plan which determines how the State School Funds (SSF) will be used. Ninety percent of the SSF revenue received by an ESD is subject to this process. The Local Service Plan determines programs and services that the ESD will offer its component districts for the following fiscal year. In accordance with Oregon Revised Statute 334.177, the remaining ten percent of the SSF revenue is used for the general operating costs of the ESD.

The Local Service Plan must include services from at least the following categories: special education, technology, school improvement, and administrative support. The plan must also include any "entrepreneurial services" that the ESD intends to offer to any entity that is not a component school district either outside of the ESD boundary or inside the ESD boundary.

Under the Resolution Process, at least two-thirds of the school districts in an ESD, representing more than one-half of the student population, must approve the Local Service Plan.

MESD provides the following services to its component school districts:

Special Education Services provides services to the component districts as well as to districts outside of Multnomah County. 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 services that support the educational experience for students enrolled in our component districts as well as some Clackamas County districts. The department works to ensure that all areas of health are supported for our students' physical, emotional and mental well-being. Together a connection is formed between health and education.

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 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. 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.

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 consisted of three programs: Public Information, Printing and Graphic Services and the Multnomah Children's Foundation (formerly E2). 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 was scaled back in 2012-13 but continued to provide high speed and color copying, bindery and document finishing for internal and external customers. In June 2013 the remaining Printing and Graphics Services closed and the leased equipment was returned to the vendor. The Multnomah Children's 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 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 include home school registration and courier services.

Budget Process and Budgetary Level of Control

The District is required by the State of Oregon to adopt an annual budget for all funds subject to the requirements of Local Budget Law as outlined in the 2011 Oregon Revised Statutes 297.405 to 297.555 and 297.990. The budget for each individual fund is a plan for the financial operations to be conducted during the coming fiscal year and is adopted annually, prior to July 1, by the Board after certification by the Multnomah County Tax Supervising and Conservation Commission (TSCC). The budget also provides the authority to levy property taxes. After adoption, the budget may be amended through procedures specified in State statute and Board policy.

The Budget Committee consists of the seven members of the MESD Board, along with an equal number of representatives, plus one, who are appointed by the MESD Board from among members of component district boards or designees of component district boards. The Superintendent is designated as budget officer and he/she or designee prepares the budget document and submits it to the Budget Committee for approval before presentation to the Board and the TSCC. Activities for all governmental funds are included in the annual appropriated budget. For each fund, the expenditures are appropriated by the following major functions:

- Instruction
- Enterprise & Community Services
- Debt Service
- Fund Transfers
- Support Services
- Facilities Acquisitions & Construction
- Other Uses (Transit Payments)
- Contingencies

Department directors may realign appropriation within a major function as they see fit; however, transfers between major functions, even within the same fund, require Board approval. More information about the budgetary process can be found in the notes to the basic financial statements (see note 2).

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.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the District operates.

Local Economy

The District is primarily encompassed within Multnomah County. It is located in northwestern Oregon at the confluence of the Columbia and Willamette rivers, approximately 110 river miles and 80 highway miles from the Pacific Ocean. The County covers 465 square miles, and serves a population of 748,031 residents. The cities of Portland and Gresham are the largest incorporated cities in the County.

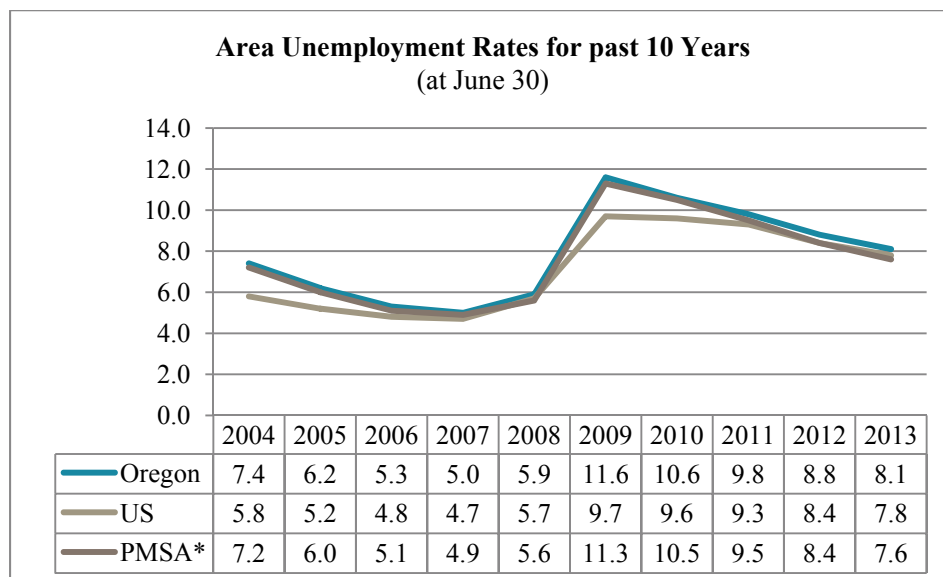
The Portland metropolitan area is the financial, trade, transportation and service center for Oregon, southwest Washington State and the Columbia River basin. Its manufacturing base includes electronics, machinery, transportation equipment, and fabricated metals. Between June 2012 and June 2013, area employment increased by 28,600 jobs, or 2.8 percent.

Nonfarm Payroll Employment (not seasonally adjusted)				
	June 2013	June 2012	Change	Percent
Construction	51,300	48,900	2,400	4.9%
Manufacturing	115,800	114,600	1,200	1.0%
Trade, Trans., & Utilities	197,400	193,700	3,700	1.9%
Information	23,700	22,500	1,200	5.3%
Financial Activities	65,200	62,400	2,800	4.5%
Professional & Bus. Svc	145,500	139,400	6,100	4.4%
Educ. & Health Services	146,400	142,600	3,800	2.7%
Leisure & Hospitality	107,800	101,500	6,300	6.2%
Government	149,100	148,600	500	0.3%
Mining and Logging	1,100	1,000	100	10.0%
Other Services	37,400	36,900	500	1.4%
Total Nonfarm Payroll	1,040,700	1,012,100	28,600	2.8%

Source: Oregon Employment Dept.: WorkSource Oregon Portland Metro Labor Trends (August 2013)

During the past four years, the area's unemployment rate has made a gradual decrease. As of June 30, 2013 the Portland-Vancouver-Hillsboro MSA unemployment rate was at 7.6%, down from 8.4% a year ago, but still much higher than the 4.9% in 2007. The unemployment rate for the area is slightly lower

than the State of Oregon (8.1%) and the national average (7.8%). The following chart shows the 10-year rate history.



* The Portland metro area includes all of Clackamas, Columbia, Multnomah, Washington and Yamhill counties in Oregon and Clark and Skamania counties in Washington State.

Source: Oregon Employment Department: WorkSource Oregon Labor Force Data (qualityinfo.org)

Long-Term Financial Planning

The Multnomah ESD is funded primarily through local property taxes and by the State of Oregon based on the state school formula. State funding is heavily dependent on personal income tax collections, and is subject to fluctuation based on the overall economic status of the state.

Oregon's budget for K-12 education through the State School Fund in the 2011-13 biennium was approved at \$5.7 billion. However, if the state revenue forecast projects declining revenues, budgets may be reduced statewide. MESD continues to monitor the State's economic condition and legislative actions and the 2012-13 budget was reduced in anticipation of lower funding levels. The 2013-15 biennium is seeing an increase in investment in education and changes in the PERS system which together increased the State School Fund to \$6.75 billion. Although this is an improved funding level it comes with carve-outs to fund the Network of Quality Teaching and Learning and there are still uncertainties facing ESDs.

Major Initiatives

The District continues to participate in the Shared Service Cooperative Model with three neighboring ESDs: Columbia Gorge, Northwest Regional, and Willamette. Together these agencies have agreed to allow resolution and general fund dollars from the combined 53 school districts to flow to reciprocal ESDs for services not provided to them by their own ESD. This opens up opportunities for districts to receive needed services from five ESD partners rather than just one.

The Cascade Technology Alliance (CTA) was formed in February 2011 by combining the Technology Services departments from four agencies with the intent to provide a greater number of services to districts while lowering the cost of participation where possible. Participating agencies are the

Multnomah, Columbia Gorge, Northwest Regional, and Willamette ESDs. In 2012, despite ESD funding reductions by the Oregon legislature, the newly formed CTA was able to provide the same or better service levels for their component school districts. This was accomplished while implementing a new student information system for 26 of 53 component school districts, expanding data warehouse services and more than doubling Internet bandwidth. During the same period staff was reduced from 98.8 to 81.9 FTE and several services were reduced in costs. To find further efficiencies CTA is removing redundant services where appropriate including moving current Subfinder customers to SmartFind Express for substitute calling services. The CTA currently services 10 counties, 53 school districts, and 267,750 students. More information about the Cascade Technology Alliance can be found at www.cascadetech.org.

Other significant initiatives include: 1) the expansion of the contract with the Department of Human Services (DHS) for an online referral, tracking, and billing system used to facilitate the delivery of services by local support providers to families at risk of having children removed from the home and put into the foster care system; 2) the development of an online system being used by 5 ESDs statewide to provide verification of completion of teacher professional development unit requirements and licensure. Using the on-line system the ESD Human Resource departments can verify successful completion of the appropriate number of PDUs to Oregon's Teachers Standards and Practices Commission (TSPC) which will issue the license; and 3) the writing of an application to facilitate Medicaid Billing Services to replace an outdated and unsupported vendor product. The federal Medicaid program matches public school dollars spent on certain services provided by medically-licensed professionals in the school setting. This system is used by districts across the state to manage the process of reimbursement.

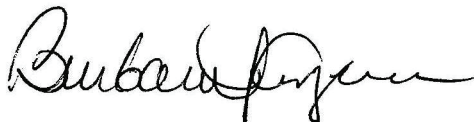
Projected Enrollment

Enrollment for districts within the county is estimated to remain relatively stable over the next few years.

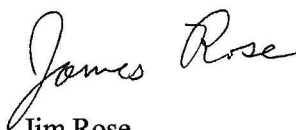
ACKNOWLEDGEMENTS

We would like to express our appreciation to the staff of the Business Services Department and members of other MESD departments who assisted in the preparation of this Comprehensive Annual Financial Report. We further extend our appreciation to the members of the Board of Directors, employees of the District, and the citizens of Multnomah County whose continued cooperation, support, and assistance have contributed greatly to the achievements of the Multnomah Education Service District.

Respectfully submitted,



Barbara Jorgensen
Superintendent



Jim Rose
Chief Operating Officer

Multnomah Education Service District**BOARD OF DIRECTORS****June 30, 2013**

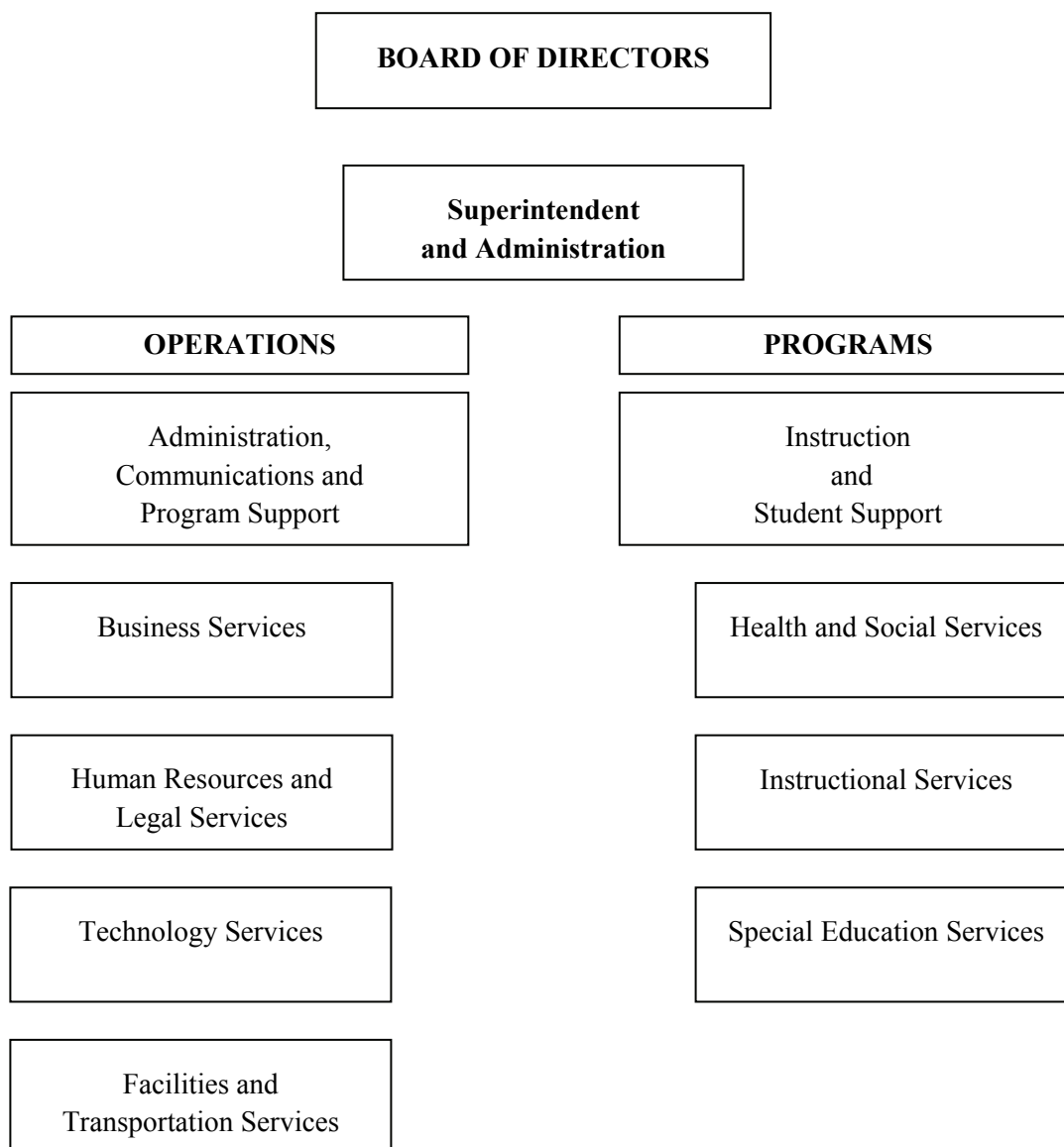
<u>Position</u>	<u>Board Member</u>	<u>Represented Zone</u>	<u>Term Ends</u>
One	Bernie Giusto	East Multnomah County	6/30/2013*
Two	Sean Schafer, Vice Chair	At Large	6/30/2013*
Three	Harry Ainsworth, Chair	Central Portland	6/30/2013*
Four	Jean Haliski	Mid-Multnomah County	6/30/2013*
Five	Gary Hollands	N/NE Portland	6/30/2015
Six	Doug Montgomery	At Large	6/30/2015
Seven	Kevin Spellman	SE/SW Portland	6/30/2015

*On May 21, 2013, the following Directors were elected for terms beginning on July 1, 2013.

<u>Position</u>	<u>Board Member</u>	<u>Represented Zone</u>	<u>Term Ends</u>
One	Bernie Giusto	East Multnomah County	6/30/2017
Two	Nels Johnson	At Large	6/30/2017
Three	Erica Thatcher	Central Portland	6/30/2017
Four	Francisco (Frank) Acosta Jr.	Mid-Multnomah County	6/30/2017

ADMINISTRATION

Barbara Jorgensen	Superintendent
Jim Rose	Chief Operating Officer, and Director, Technology Services
Heyke Nickerson	Director, Human Resource Services/Legal Services
Mark Skolnick	Public Information Officer
Don Hicks	Risk Management

Multnomah Education Service District**ORGANIZATIONAL STRUCTURE****JUNE 30, 2013**

FINANCIAL SECTION





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& Warwick, LLP**

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& Consultants

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INDEPENDENT AUDITOR'S REPORT

December 17, 2013

Board of Directors
Multnomah Education Service District
Portland, Oregon

REPORT ON THE FINANCIAL STATEMENTS

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, Portland, Oregon, (the District) as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express 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 from material misstatement.

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

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

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MCGGLADREY ALLIANCE



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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Board of Directors
Multnomah Education Service District
December 17, 2013
Page 2

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, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the Schedule of Funding Progress – Other Post-Employment Benefits be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 budgetary comparison information for the General Fund, Resolution Services Fund, and Contracted Services Fund, as listed in the Table of Contents as Required Supplementary Information, is not a required part of the basic financial statements and is presented for purposes of additional analysis, as required by the Governmental Accounting Standards Board, who considers it to be an essential part of basic financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this Required Supplementary Information is fairly stated in all material respects in relation to the basic financial statements 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 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. The Other Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Board of Directors
Multnomah Education Service District
December 17, 2013
Page 3

OTHER MATTERS (Continued)

certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Other Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

REPORTS ON OTHER LEGAL AND REGULATORY REQUIREMENTS***Other Information as Required by the Oregon Department of Education***

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 other information as required by the Oregon Department of Education, as listed in the Table of Contents, is not a required part of the basic financial statements and is presented for purposes of additional analysis, as required by the Oregon Department of Education. We have applied certain limited procedures to this other information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Other Reporting Required by Oregon Minimum Standards

In accordance with *Minimum Standards for Audits of Oregon Municipal Corporations*, we have also issued our report dated December 17, 2013, on our consideration of the District's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

TALBOT, KORVOLA & WARWICK, LLP
Certified Public Accountants

By 
Timothy R. Gillette, Partner

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Multnomah Education Service District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2013.

Financial Highlights

- In the government-wide statements, the assets of the District exceeded its liabilities at June 30, 2013 by \$11.3 million. Of this amount, \$7.7 million represents the District's nonspendable investment in capital assets net of related debt, \$2.1 million is restricted, and \$1.5 million is available to meet the District's ongoing obligations to citizens and creditors.
- The District's total net position decreased by \$2.9 million, primarily due to the one-time distribution of fund balance to component districts for Functional Living Skills (FLS) and Medicaid services.
- The District's governmental funds report combined ending fund balance of \$14.5 million, a decrease of \$2.5 million. Approximately 40 percent of this total amount, \$5.9 million, is assigned to help support future program services provided to component school districts and approximately 28 percent, \$4.0 million, is available for the District's operating needs. The remaining amount is either unspendable inventory, restricted by grants and resolution funding, or is assigned for future facilities projects.

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. The *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.

The *Statement of Net Position* presents information on all of the assets and liabilities of the District at year-end, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the net position of the District changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods.

In both statements, the District's activities are shown in one category as *governmental activities*. The governmental activities of the District include services related to K-12 education. These activities are primarily supported through property taxes, the Oregon's State School Fund, and other intergovernmental revenues.

The government-wide financial statements begin on page 15 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The MESD maintains six individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, the Resolution Services Fund, and the Contracted Services Fund which are all considered major funds. For reporting purposes, the General Fund is a combination of the operating fund and the risk management reserve fund. Data from the remaining two funds is also combined into a single, aggregated presentation. Individual fund data for the General Fund and the nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The MESD adopts an annual appropriated budget for each of its governmental funds. A budgetary comparison statement has been provided for each fund individually in either required or supplementary information to demonstrate compliance with the fund level budgets.

The basic governmental fund financial statements begin on page 17 of this report.

Fiduciary Funds. *Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the MESD's own programs. The MESD maintains one fiduciary fund which reports resources held by the District in a custodial capacity for component districts and for the Oregon Association of Education Service Districts (OAESD) as fiscal agent.

The basic fiduciary fund financial statement is on page 21 of this report.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 23 of this report.

Other information. *Required Supplementary Information (RSI)* is located directly after the notes to the basic financial statements and represents the required comparison of the budget and actual results on the District's budgetary basis for the General Fund, the Resolution Services Fund and the Contracted Services Fund. In addition the RSI discloses the actuarial estimate of funding progress of the District's other post-employment healthcare benefits obligations (OPEB). This information begins on page 41 of this report.

Other Supplementary Information (OSI) includes combining statements for the general and nonmajor governmental funds, budgetary comparison schedules for the general and nonmajor governmental funds, and other financial schedules. Other supplementary information begins on page 47 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the MESD, assets exceeded liabilities by \$11.3 million at the close of the most recent fiscal year.

Multnomah Education Service District's Comparative Statement of Net Position

	June 30, 2013	June 30, 2012	Increase (Decrease)
Assets			
Current and other assets	\$ 23,492,046	\$ 26,458,563	\$ (2,966,517)
Prepaid pension cost, net of amortization	19,716,219	21,124,520	(1,408,301)
Net capital assets	9,651,813	10,079,616	(427,803)
Total assets	52,860,078	57,662,699	(4,802,621)
Liabilities			
Long-term liabilities outstanding	32,655,000	33,880,015	(1,225,015)
Other liabilities	8,930,179	9,592,470	(662,291)
Total liabilities	41,585,179	43,472,485	(1,887,306)
Net position:			
Net investment in capital assets	7,691,813	7,518,499	173,314
Restricted	2,102,018	1,410,941	691,077
Unrestricted	1,481,068	5,260,774	(3,779,706)
Total net position	<u>\$ 11,274,899</u>	<u>\$ 14,190,214</u>	<u>\$ (2,915,315)</u>

A large portion of the MESD's net position (68%) reflects its investment in capital assets (e.g. buildings, vehicles, and equipment.) The MESD uses the capital assets to provide services to students and other District residents; consequently these assets are not available for future spending. Although the MESD'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 next category of the MESD's net position (19%) represents resources that are subject to external restrictions on how they may be used. Restricted assets are mostly composed of remaining resolution and grant funding. The remaining balance of \$1.5 million is unrestricted and may be used to meet the government's ongoing obligations to citizen's and creditors.

There was a significant decrease of \$3.0 million reported in current and other assets. This can be attributed to a one-time distribution of \$3.5 million of restricted cash balance in the Functional Living Skills (FLS) program to the MESD's component districts.

Changes in net position. Governmental activities decreased the MESD's net position by \$2.9 million for the fiscal year 2012-2013. Key elements of this decrease are as follows:

Multnomah Education Service District's Comparative Statement of Activities

	June 30, 2013	June 30, 2012	Increase (Decrease)
Revenues			
Program revenues			
Charges for services	\$ 10,776,757	\$ 10,268,887	\$ 507,870
Operating grants & contributions	24,018,999	20,066,049	3,952,950
General revenues			
Property taxes	26,195,536	25,980,967	214,569
State School Fund	5,315,956	4,657,196	658,760
Federal stimulus	299,974	895,484	(595,510)
Earnings on investments	79,693	100,886	(21,193)
Miscellaneous revenues	3,079,530	3,055,618	23,912
Total revenues	69,766,445	65,025,087	4,741,358
Expenses			
Instruction	17,718,338	19,126,964	(1,408,626)
Support services	35,535,887	35,744,950	(209,063)
Enterprise and community services	3,624,992	3,086,517	538,475
Facilities repairs and maintenance	110,488	45,672	64,816
Apportionment of funds by the ESD	13,555,146	10,065,731	3,489,415
Unallocated depreciation	294,277	293,828	449
Interest on long-term debt	1,842,632	1,877,434	(34,802)
Total expenses	72,681,760	70,241,096	2,440,664
Change in Net Position	(2,915,315)	(5,216,009)	2,300,694
Net Position - Beginning	14,190,214	19,406,223	(5,216,009)
Net Position - Ending	\$ 11,274,899	\$ 14,190,214	\$ (2,915,315)

- Due to the nature of grants, fluctuations in operating grants and contributions revenue is common. The fiscal year 2012-13 saw the first full year of the Oregon Department of Human Services In-Home Safety and Reunification Services (ISRS) contract. This resulted in a revenue increase of \$2.7 million.
- One time distribution of FLS and Medicaid funding resulted in an increase of \$3.1 million of MESD apportionment of funds. Increased transit requests from our component districts also contributed to the higher expense in this category.

Financial Analysis of the District's Major Funds

As noted earlier, the MESD uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the MESD's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in

assessing the MESD's financial requirements. In particular, unassigned fund balance may serve as a useful measure of the MESD's net resources available for spending at the end of the fiscal year.

General Fund. The General Fund is the chief operating fund of the District and is supported by transfers from the resolution services fund. During the 2012-13 fiscal year, the fund balance increased by \$433 thousand. This increase is primarily a result of dividend and retroactive insurance premium adjustments paid by SAIF and lower than anticipated expenditures.

Resolution Services 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 remain in the fund and are restricted for use by the MESD's eight component school districts while the remaining 10% are transferred to the General Fund to be used to fund supporting operations. During the 2012-13 fiscal year, the fund balance increased by approximately \$850 thousand due to less than projected expenditures.

Contracted Services Fund. The Contracted Services Fund accounts only for revenues from grants, state contracts, and revenues from the MESD's component school districts for additional services beyond those purchased through the resolution services fund. During the 2012-13 fiscal year, the fund balance decreased by \$3.6 million. This decrease is primarily due to the distribution of \$3.5 million of FLS and Medicaid existing fund balance to the District's component school districts.

General Fund Budgetary Highlights

The MESD continues to implement several efficiency and cost-cutting measures to reduce the operating expenses of the District. This resulted in approximately \$1.1 million positive variance in expenditures from the budget. More than half of this variance (\$581 thousand) is the remaining balance of contingency appropriation not used during the fiscal 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, 2013 the District had invested \$9,651,813 in capital assets, net of depreciation. Additional information on the District's capital assets can be found in Note 4 to the financial statements.

Long-Term Debt. At the end of the current fiscal year, the District had two bond issues with a total debt outstanding of \$33,780,000. The OSBA Limited Tax Pension Obligations, Series 2004 bonds had a remaining balance of \$31,820,000 at June 30, 2013. 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 \$1,960,000 at June 30, 2013. 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 Budgets and Rates

The current recession has reduced revenues which, coupled with increased associated payroll costs, have 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.

Beginning in July 2011, the District's contribution to PERS increased significantly due to an updated actuarial valuation that reflects the economic recession and resulting loss of investment income. The rates increased to 11.72 percent for PERS employees and 10.21 percent for OPSRP general employees. These rates were in effect until June 2013. PERS contributions totaled approximately \$3.0 million during the fiscal year ended June 30, 2013. In 2013-14, the District's initial PERS rates increased even further to 18.25 percent and 13.85 percent respectively. Legislation was passed to address rising PERS costs resulting in a 4.4 percent decrease in the preliminary rates partially offsetting the increase. Additional legislation is being proposed to further address rising PERS rates, however, the final outcome and long term impact is not known.

As of the July 1, 2013, the District will no longer provide Early Intervention/Early Childhood (EI/ECSE) grant services. This will result in a revenue reduction of approximately \$16.5 million as well as a reduction of the approximately 200 related FTE in FY 2014. The District continues to seek other opportunities to serve our partners and was recently awarded a \$15 million contract with the Department of Human Services for the In Home Safety and Reunification program.

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 address to:

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

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Basic Financial Statements



Multnomah Education Service District
Statement of Net Position
June 30, 2013

	Governmental Activities
Assets	
Cash and Cash Equivalents	\$ 12,253,325
Property Taxes Receivable	1,826,573
Accounts Receivable	9,222,522
Inventory	24,600
Prepaid Items	19,944
Prepaid Pension Costs, Net of Amortization	19,716,219
Bond Issuance Costs, Net of Amortization	145,082
Capital Assets, Net of Depreciation	9,651,813
Total Assets	52,860,078
Liabilities	
Accounts Payable	2,821,681
Accrued Payroll & Withholdings	3,945,178
Accrued Compensated Absences	151,029
Other Post Employment Benefits	887,291
Non-Current Liabilities:	
Due Within One Year	1,125,000
Due in More Than One Year	32,655,000
Total Liabilities	41,585,179
Net Position	
Net Investment in Capital Assets	7,691,813
Restricted	2,102,018
Unrestricted	1,481,068
Total Net Position	\$ 11,274,899

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

Multnomah Education Service District
Statement of Activities
For the Year Ended June 30, 2013

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Instruction				
Regular Programs	\$ 574,168	\$ 1,660,501	\$ 2,190	\$ 1,088,523
Special Programs	17,144,170	3,856,373	8,850,686	(4,437,111)
Support Services				
Student Services	20,618,817	3,957,997	7,884,921	(8,775,899)
Instructional Staff Services	1,805,206	11,500	824,015	(969,691)
General Administration	568,671	-	-	(568,671)
School Administration	1,102,038	-	261,062	(840,976)
Business Services	5,045,197	367,765	180,312	(4,497,120)
Central Activities	6,395,958	922,621	50,000	(5,423,337)
Enterprise and Community Services				
Food Services	483,358	-	178,881	(304,477)
Community Services	3,141,634	-	4,268,948	1,127,314
Facilities Repairs and Maintenance	110,488	-	-	(110,488)
Apportionment of Funds by the ESD	13,555,146	-	1,517,984	(12,037,162)
Unallocated Depreciation	294,277	-	-	(294,277)
Interest on Long-Term Debt	1,842,632	-	-	(1,842,632)
Total Governmental Activities	\$ 72,681,760	\$ 10,776,757	\$ 24,018,999	(37,886,004)
General Revenues				
				26,195,536
Property Taxes, Levied for General Purposes				5,315,956
State School Fund- General Support				299,974
Federal Stimulus				79,693
Earnings on Investments				3,079,530
Miscellaneous Revenues				
Total General Revenues				34,970,689
		Change in Net Position		(2,915,315)
		Net Position - Beginning		14,190,214
		Net Position - Ending		\$ 11,274,899

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

Multnomah Education Service District
Balance Sheet
Governmental Funds
June 30, 2013

	General	Resolution Services	Contracted Services	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and Cash Equivalents	\$ 8,941,448	\$ 1,025,364	\$ 457,548	\$ 1,828,965	\$ 12,253,325
Property Taxes Receivable	-	1,826,573	-	-	1,826,573
Accounts Receivable	67,522	41,087	9,113,913	-	9,222,522
Inventory	24,600	-	-	-	24,600
Prepaid Items	19,944	-	-	-	19,944
Total Assets	\$ 9,053,514	\$ 2,893,024	\$ 9,571,461	\$ 1,828,965	\$ 23,346,964
Liabilities					
Accounts Payable	\$ 281,361	\$ 301,045	\$ 2,210,264	\$ 29,011	\$ 2,821,681
Accrued Payroll & Withholdings	3,945,178	-	-	-	3,945,178
Unavailable Tax Revenue	-	1,528,926	-	-	1,528,926
Unavailable Contractual Revenue	-	-	506,675	-	506,675
Total Liabilities	4,226,539	1,829,971	2,716,939	29,011	8,802,460
Fund Balances					
Nonspendable					
Inventory	24,600	-	-	-	24,600
Prepaid Items	19,944	-	-	-	19,944
Total Nonspendable Funds	44,544	-	-	-	44,544
Restricted	-	1,063,053	994,401	20	2,057,474
Committed	777,333	-	-	-	777,333
Assigned	877,867	-	5,860,121	1,799,934	8,537,922
Unassigned	3,127,231	-	-	-	3,127,231
Total Fund Balances	4,826,975	1,063,053	6,854,522	1,799,954	14,544,504
Total Liabilities and Fund Balances	\$ 9,053,514	\$ 2,893,024	\$ 9,571,461	\$ 1,828,965	\$ 23,346,964

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

Multnomah Education Service District
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2013

Total Fund Balances - Governmental Funds	\$ 14,544,504
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are not financial resources and therefore are not reported in the governmental funds.	9,651,813
Prepaid pension expense, net of accumulated amortization	19,716,219
A portion of the District's contractual revenue will not be available soon enough to pay for the current year's operations, and therefore is reported as unavailable revenue in the governmental funds.	506,675
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 is not reported as revenue in the governmental funds.	1,528,926
Unamortized Bond Issuance Costs not reported in the governmental funds.	145,082
Accrued compensated absences are not reported in the governmental funds.	(151,029)
Long-term liabilities not payable in the current year are not reported as governmental fund liabilities.	
These liabilities consist of:	
GO Bonds Payable	(1,960,000)
OSBA Bonds Payable	(31,820,000)
Other Post employment Benefits	<u>(887,291)</u>
Net Position	<u><u>\$ 11,274,899</u></u>

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

Multnomah Education Service District
Statement of Revenue, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2013

	General	Resolution Services	Contracted Services	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$ -	\$ 26,181,577	\$ -	\$ -	\$ 26,181,577
State School Fund	-	5,315,956	-	-	5,315,956
Local Sources	(2,359)	120,034	8,177,506	20,349	8,315,530
State Sources	-	-	19,079,846	-	19,079,846
Federal Sources	-	-	6,699,687	-	6,699,687
Investment Earnings	78,158	-	1,535	-	79,693
Sales of Goods & Services	17,349	-	5,554	-	22,903
Other Revenues	681,060	(1,381)	477,220	2,266,511	3,423,410
Charges for Services	-	-	2,557,141	-	2,557,141
Total Revenues	774,208	31,616,186	36,998,489	2,286,860	71,675,743
Expenditures					
Instruction	-	7,193,582	11,477,377	-	18,670,959
Support Services	2,817,908	12,655,035	19,740,118	128,031	35,341,092
Enterprise and Community Svcs.	-	5,027	3,685,679	-	3,690,706
Facilities Acquisitions/Constr.	-	-	-	110,488	110,488
Debt Service	-	-	-	2,807,632	2,807,632
Total Expenditures	2,817,908	19,853,644	34,903,174	3,046,151	60,620,877
Excess of Revenues Over (Under) Expenditures	(2,043,700)	11,762,542	2,095,315	(759,291)	11,054,866
Other Financing Sources (Uses)					
Apportionment of Funds	-	(8,457,036)	(5,098,110)	-	(13,555,146)
Transfers In	3,795,694	770,980	-	627,530	5,194,204
Transfers Out	(1,318,510)	(3,229,753)	(645,941)	-	(5,194,204)
Total Other Financing Sources (Uses)	2,477,184	(10,915,809)	(5,744,051)	627,530	(13,555,146)
Net Change in Fund Balance	433,484	846,733	(3,648,736)	(131,761)	(2,500,280)
Beginning Fund Balances	4,393,491	216,320	10,503,258	1,931,715	17,044,784
Ending Fund Balances	\$ 4,826,975	\$ 1,063,053	\$ 6,854,522	\$ 1,799,954	\$ 14,544,504

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

Multnomah Education Service District
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2013

Total Net Changes in Fund Balances – Governmental Funds	\$ (2,500,280)
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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	83,000
Depreciation Expense	(510,220)
Loss on Disposal of Capital Assets	(583)

The repayment of debt principal is an expenditure in the governmental funds but reduces the liability in the Statement of Net Position	983,907
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Discontinuing Capital Lease reduces the liability in the Statement of Net Position	127,209
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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	(10,364)
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	13,958
Intergovernmental Receivables	506,675

Other post employment benefits expenses are reported in the Statement of Activities but they are not reported as expenditures in the governmental funds.	(179,244)
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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.	(21,072)
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Change in Position of Governmental Activities	<u>\$ (2,915,315)</u>
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The notes to the basic financial statements are an integral part of this statement.

Multnomah Education Service District
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the Year Ended June 30, 2013

	Balance July 1	Additions	Deletions	Balance June 30
Assets				
Cash and Cash Equivalents	\$ -	\$ 374,515	\$ 374,515	\$ -
Accounts Receivable	-	73,239	-	73,239
Total Assets	<u>\$ -</u>	<u>\$ 447,754</u>	<u>\$ 374,515</u>	<u>\$ 73,239</u>
Liabilities				
Accounts Payable	\$ -	\$ 710,461	\$ 710,461	\$ -
Due to Other Fund	-	14,832	-	14,832
Held in Trust	-	58,407	-	58,407
Total Liabilities	<u>\$ -</u>	<u>\$ 783,700</u>	<u>\$ 710,461</u>	<u>\$ 73,239</u>

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

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Notes to the Basic Financial Statements



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 Position 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 Position 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.

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 position 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.

The District reports the following major governmental fund types:

General Fund - accounts for the general operating costs of the District and provides supports services to other funds. The principal revenue source comes from the 10% transfer from the Resolution Services Fund. Risk Management Reserves used to account for commercial insurance premiums and other risk costs are also included in this fund.

Special Revenue Funds – these funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The MESD has two special revenue funds and both are separately reported as major funds in the governmental financial statements:

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 maintains 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 lease.

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.

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 Position 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 Position.

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.

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. Unavailable Contractual Revenues

The District has entered into contracts with two of its component districts to help pay for a new student information system. The contracts allow the component districts to pay the District for the system over a three year period. Based on the payment schedules, \$506,675 of the amount reported in Contracted Services Fund is *unavailable contractual revenues* because it applies to future periods.

J. Compensated Absences

It is the District's policy to permit employees to accumulate earned unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the District.

K. Long-Term Obligations

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

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

L. Prepaid Pension Costs

As a result of the issuance of the Limited Tax Pension Obligation Bonds the District has reported a prepaid PERS asset in the Statement of Net Position. The prepaid asset is equal to the initial \$32,897,919 payment made to PERS from the bond proceeds, less accumulated amortization at June 30, 2013 of \$13,181,700. Annual amortization has been calculated on the straight line basis.

M. 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.

N. Net Position in the Government-wide Financial Statements

Net position is classified into the following categories:

Net Investment in capital assets – 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 position – consists of net position 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 position – consists of all other net position that is 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.

O. Fund Balances in Fund Financial Statements

Governmental fund equity is classified as fund balance. 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 non-spendable as they are not expected to be converted to cash.

Restricted: This classification includes amounts for which constraints have been placed on the use of resources are either:

1. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or
2. 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 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.

P. Estimates

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

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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

The District begins its budgeting process by appointing Budget Committee members. 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, facilities, 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 transfers out over budget by \$4,108. This overage was a result of higher than anticipated State School Fund revenues of which 10% is transferred to the Operating Fund.

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

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, 2013, (recorded at fair value) consisted of:

Cash on Hand	\$ 300
Demand Deposits	939,053
Local Government Investment Pool	11,299,140
	<u>12,238,493</u>
Due from Fiduciary Fund	14,832
Total	<u>\$ 12,253,325</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 (OSTFB), which establish diversification percentages and specify the types and maturities of investments. The portfolio guidelines permit securities lending transactions as well as investments in repurchase agreements and reverse repurchase agreements.

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, 2013.

Custodial Credit Risk

Deposits with financial institutions are comprised of bank demand deposits. The combined total bank balance at June 30, 2013 was \$4,078,147 (carrying amount \$939,053). 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, bankers 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.

NOTE 4 – CAPITAL ASSETS

The changes in capital assets for the year ended June 30, 2013 are as follows:

	Balance June 30, 2012	Additions	Transfers and Dispositions	Balance June 30, 2013
Non-depreciable capital assets				
Land	\$ 1,935,748	\$ -	\$ -	\$ 1,935,748
Depreciable capital assets				
Buildings & improvements	10,963,052	-	-	10,963,052
Site improvements	844,532	-	-	844,532
Equipment and furniture	1,614,779	83,000	(494,848)	1,202,931
Vehicles	378,370	-	(72,746)	305,624
	13,800,733	83,000	(567,594)	13,316,139
Less: accumulated depreciation				
Buildings & improvements	3,738,796	318,596	-	4,057,392
Site improvements	277,866	56,302	-	334,168
Equipment and furniture	1,298,592	112,196	(494,265)	916,523
Vehicles	341,611	23,126	(72,746)	291,991
	5,656,865	510,220	(567,011)	5,600,074
Total depreciable capital assets, net	8,143,868	(427,220)	(583)	7,716,065
Total capital assets, net	\$ 10,079,616	\$ (427,220)	\$ (583)	\$ 9,651,813

Depreciation expense for the year ended June 30, 2013 was allocated to the functions as follows:

Regular programs	\$ 2,428
Special programs	7,169
Student services	54,184
Instructional staff services	396
General administration	3,187
Business services	102,879
Central services	44,241
Community services	1,459
Unallocated depreciation	294,277
	<u>\$ 510,220</u>

NOTE 5 – LONG-TERM DEBT AND CAPITAL LEASES

The changes in long-term debt, for the year ended June 30, 2013 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, 2012	\$ 32,330,000	\$ 2,415,000	\$ 146,116	\$ 34,891,116
Payments	(510,000)	(455,000)	(18,907)	(983,907)
Cancelled lease October 31, 2012	-	-	(127,209)	(127,209)
Balance at June 30, 2013	<u>\$ 31,820,000</u>	<u>\$ 1,960,000</u>	<u>\$ -</u>	<u>\$ 33,780,000</u>

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

Beginning July 1,	Ending June 30,	OSBA Pension Bond	2004 GO Bonds	Total	Interest
2013	2014	\$ 655,000	\$ 470,000	\$ 1,125,000	\$ 1,802,373
2014	2015	810,000	490,000	1,300,000	1,751,004
2015	2016	985,000	500,000	1,485,000	1,692,998
2016	2017	1,170,000	500,000	1,670,000	1,624,521
2017	2018	1,375,000	-	1,375,000	1,545,082
2018	2023	10,580,000	-	10,580,000	6,373,732
2023	2028	16,245,000	-	16,245,000	2,618,890
TOTAL		<u>\$ 31,820,000</u>	<u>\$ 1,960,000</u>	<u>\$ 33,780,000</u>	<u>\$ 17,408,600</u>

At the end of the current fiscal year, the District had two bond issues with a total debt outstanding of \$33,780,000. The OSBA Limited Tax Pension Obligations, Series 2004 bonds had a remaining balance of \$31,820,000 at June 30, 2013. 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.

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

Total principal and interest paid on the two bonds during the year ended June 30, 2013 was \$2,807,632.

The District entered into a lease agreement in June 2008 as lessee for financing the acquisition of a Digital Offset Press. The MESD Board approved in the 2012-13 budget to discontinue the MESD Printing and Graphic Department as of August 1, 2012, and to pay the lease through October 2012. The District canceled the lease as of October 31, 2012 and has returned the machine to the vendor. The district has no further capital lease obligations.

NOTE 6 – OPERATING LEASES

The District leases building space at various locations and copy machines. Total payments in 2012-13 were approximately \$677,385.

Future minimum rental commitments at June 30, 2013 are as follows:

For the Year Ending June 30,	Equipment	Facilities	Total
2014	\$ 22,222	\$ 641,383	\$ 663,605
2015	18,492	656,636	675,128
2016	14,675	575,870	590,545
2017	4,542	600,227	604,769
2018	-	384,198	384,198
2019-2023	-	1,364,107	1,364,107
Total minimum future lease payments	<u>\$ 59,931</u>	<u>\$ 4,222,421</u>	<u>\$ 4,282,352</u>

All 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, 2013 is as follows:

Transfers In	Transfers Out			Total
	Resolution Services	General Fund	Contracted Services	
General Fund	\$ 3,149,753	\$ -	\$ 645,941	\$ 3,795,694
Resolution Services	-	770,980	-	770,980
Other Governmental Funds	80,000	547,530	-	627,530
Total	<u>\$ 3,229,753</u>	<u>\$ 1,318,510</u>	<u>\$ 645,941</u>	<u>\$ 5,194,204</u>

- The Resolution Services Fund transferred \$3,149,753 to the General Fund in order to fund the District's indirect and support service functions.
- The Resolution Services Fund transferred \$80,000 to other governmental funds to fund capital expenditures.
- The General Fund transferred \$547,530 to other governmental funds to cover debt service principal and interest payments and \$770,980 fund Local Service Plan services.
- The Contracted Services Fund transferred \$645,941 to the General Fund to cover the indirect costs associated with the administration of grants and contracts.

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. The District uses the Risk Management Reserve Fund to account for the payment of workers' compensation, general liability, and property damage insurance premiums. Settled claims have not exceeded this commercial coverage for any of the past three years.

NOTE 9 – RETIREMENT PLAN**Plan Description**

The District contributes to the Oregon Public Employees Retirement System (PERS) and to the Oregon Public Service Retirement Plan (OPSRP). PERS is a cost sharing multi-employer defined benefit public employee retirement system. OPSRP is a hybrid retirement plan with two components: the pension program (defined benefit; established and maintained as a tax-qualified governmental defined benefit plan) and the individual account program (defined contribution; established and maintained as a tax-qualified governmental defined contribution plan).

A defined benefit plan is benefit-based and uses predictable criteria such as a pension determined by salary multiplied by length of service multiplied by a factor. A defined contribution plan has no guarantee. OPSRP is administered by PERS. PERS acts as a common investment and administrative agent for political subdivisions in the State of Oregon.

The 2003 Oregon Legislature established OPSRP. Public employees hired on or after August 29, 2003, become part of OPSRP, unless membership was previously established in PERS. The 1995 Oregon

Legislature established a different level of benefits for employees who began their six month waiting period on or before January 1, 1996 called Tier Two.

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

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

Funding Policy

The rate of employer contributions to PERS is determined periodically by PERS based on actuarial valuations performed at least every two years. Members of PERS and OPSRP are required to contribute 6 percent of their salary covered under the plan. The District is required by ORS 238.225 to contribute at an actuarially determined rate. Contribution rates for the past two biennial periods are shown below. The contribution requirements for plan members and the District are established by ORS Chapter 238 and may be amended by an act of the Oregon Legislature.

MESD Net Employer Contribution Rates

Contribution Period	PERS (Tier I/II)	OPSRP General	OPSRP Police & Fire
7-1-11 to 6-30-13	11.72%	10.21%	12.92%
7-1-09 to 6-30-11	3.79%	4.31%	7.02%

The District's contribution to the plan for the years ending June 30, 2013, 2012, and 2011 were approximately \$3.0 million, \$3.1 million, and \$1.2 million, 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, 2013, the District's annual debt service for the limited tax pension bonds included \$510,000 of principal, and \$1,750,110 of interest. Total debt service payments for the years 2013, 2012 and 2011 were \$2.3 million, \$2.1 million, and \$2.0 million, respectively.

Limited Tax Pension Bonds

In February 2004, Multnomah ESD participated as one of twenty Oregon school districts and education service districts in issuing limited tax pension bonds. The proceeds were used to finance a portion of the estimated unfunded actuarial liability of each participating school district with the Oregon Public Employees Retirement System ("Oregon PERS"). The Oregon School Boards Association ("OSBA") sponsored this pooled limited tax pension bond program. The OSBA does not have a financial obligation in connection with the bonds issued under the program. Except for the payment of its pension bond payments and additional charges when due, each participating school district has no obligation or liability

to any other participating school district's pension bonds or liabilities to Oregon PERS. The District recorded the proceeds of the debt to Oregon PERS as prepaid pension costs and amortizes it as a pension expense over the life of the bonds. 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.

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, 2013, 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, 2012. The following table shows the components of the District's annual OPEB cost (APC) for the last three fiscal years, amounts actually contributed to the plan, and changes in the District's OPEB obligation to the plan.

Annual OPEB Cost and Net OPEB Obligation

	June 30, 2013	June 30, 2012	June 30, 2011
Annual required contribution	\$ 268,072	\$ 320,401	\$ 309,567
Interest on net OPEB obligation	28,322	21,102	13,165
Adjustment to annual required contribution	(25,287)	(18,841)	(11,756)
Annual OPEB Cost (APC)	271,107	322,662	310,976
Contributions made	(91,863)	(142,165)	(112,552)
Increase in net OPEB obligation	179,244	180,497	198,424
Net OPEB obligation - beginning of year	708,047	527,550	329,126
Net OPEB obligation - end of year	<u>\$ 887,291</u>	<u>\$ 708,047</u>	<u>\$ 527,550</u>
Percentage of APC contributed	34%	44%	36%

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, 2012, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.0 percent interest rate for discounting future liabilities and an annual healthcare cost trend rate of 8.0 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.

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 0.59% for PERS and 0.50% for OPSRP of annual covered payroll. The OPERS board of Trustees sets the employer contribution rates based on the annual required contribution of the employers (ARC), an 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, 2013 are included in the PERS annual pension amount.

NOTE 11 – PROPERTY TAX LIMITATIONS

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

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

NOTE 12 – 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.

On November 26, 2012, the District received notification from the Substance Abuse and Mental Health Services Administration (SAMHSA) of a potential liability resulting from MESD's audit for the year ended June 30, 2011. The District is contesting the action and provided documentation to SAMHSA that supports MESD's position. The District is still waiting for a response from SAMHSA. The potential liability is indeterminable at this time, but the District believes the amount will be less than SAMHSA's estimate. If the District is required to pay back any grant funds already collected the amount will come from the General Fund.

The District is a defendant in one lawsuit. The likely outcome of this legal action is not determinable at this time; however, the District's management intends to defend this legal action vigorously and believes the likely outcome will not have a material adverse effect on the District's basic financial statements. The lawsuit does not 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 an unfavorable opinion by a court.

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Required Supplementary Information



Multnomah Education Service District
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
General Fund
For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance to Final Budget Positive (Negative)
Revenues				
Local Sources	\$ 330,500	\$ 10,500	\$ (2,359)	\$ (12,859)
Investment Earnings	100,000	75,000	78,158	3,158
Sales of Goods & Services	195,000	18,000	17,349	(651)
Other Revenues	393,600	391,000	681,060	290,060
Total Revenues	1,019,100	494,500	774,208	279,708
Expenditures				
Support Services	3,300,005	3,302,878	2,817,908	484,970
Contingencies	625,000	580,686	-	580,686
Total Expenditures	3,925,005	3,883,564	2,817,908	1,065,656
Excess of Revenues Over (Under) Expenditures	(2,905,905)	(3,389,064)	(2,043,700)	1,345,364
Other Financing Sources (Uses)				
Transfers In*	3,035,700	3,923,213	3,795,694	(127,519)
Transfers Out*	(390,582)	(1,318,510)	(1,318,510)	-
Total Other Financing Sources (Uses)	2,645,118	2,604,703	2,477,184	(127,519)
Net Change in Fund Balance	(260,787)	(784,361)	433,484	1,217,845
Beginning Fund Balance	4,539,797	4,393,492	4,393,491	(1)
Ending Fund Balance	\$ 4,279,010	\$ 3,609,131	\$ 4,826,975	\$ 1,217,844

* Intrafund transfer between Operating and Risk Management Reserve funds has been eliminated

Multnomah Education Service District
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
Resolution Services Fund
For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance to Final Budget Positive (Negative)
Revenues				
Property Taxes	\$ 25,468,000	\$ 26,183,937	\$ 26,181,577	\$ (2,360)
State School Fund	4,889,000	5,272,512	5,315,956	43,444
Local Sources	-	62,640	120,034	57,394
Other Revenues	-	(1,651)	(1,381)	270
Total Revenues	30,357,000	31,517,438	31,616,186	98,748
Expenditures				
Instruction	6,857,075	7,306,406	7,193,582	112,824
Support Services	13,076,097	12,869,927	12,655,035	214,892
Enterprise and Community Services	7,577	9,320	5,027	4,293
Contingencies	673,724	370,321	-	370,321
Total Expenditures	20,614,473	20,555,974	19,853,644	702,330
Excess of Revenues Over (Under) Expenditures	9,742,527	10,961,464	11,762,542	801,078
Other Financing Sources (Uses)				
Apportionment of Funds	(7,582,041)	(8,723,119)	(8,457,036)	266,083
Transfers In	-	770,980	770,980	-
Transfers Out	(3,115,700)	(3,225,645)	(3,229,753)	(4,108)
Total Other Financing Sources (Uses)	(10,697,741)	(11,177,784)	(10,915,809)	261,975
Net Change in Fund Balance	(955,214)	(216,320)	846,733	1,063,053
Beginning Fund Balance	955,214	216,320	216,320	-
Ending Fund Balance	\$ -	\$ -	\$ 1,063,053	\$ 1,063,053

Multnomah Education Service District
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
Contracted Services Fund
For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance to Final Budget Positive (Negative)
Revenues				
Local Sources	\$ 9,606,887	\$ 8,385,378	\$ 8,177,506	\$ (207,872)
State Sources	18,602,550	18,653,793	19,079,846	426,053
Federal Sources	5,994,395	8,322,754	6,699,687	(1,623,067)
Investment Earnings	-	-	1,535	1,535
Sales of Goods & Services	8,872	9,372	5,554	(3,818)
Other Revenues	128,056	391,836	477,220	85,384
Charges for Services	2,468,406	2,791,132	2,557,141	(233,991)
Total Revenues	36,809,166	38,554,265	36,998,489	(1,555,776)
Expenditures				
Instruction	13,604,118	12,202,047	11,477,377	724,670
Support Services	19,381,593	21,386,679	19,740,118	1,646,561
Enterprise and Community Services	4,228,385	4,189,537	3,685,679	503,858
Contingencies	525,000	525,000	-	525,000
Total Expenditures	37,739,096	38,303,263	34,903,174	3,400,089
Excess of Revenues Over (Under) Expenditures	(929,930)	251,002	2,095,315	1,844,313
Other Financing Sources (Uses)				
Apportionment of Funds	(1,465,613)	(5,098,110)	(5,098,110)	-
Transfers Out	-	(777,568)	(645,941)	131,627
Total Other Financing Sources (Uses)	(1,465,613)	(5,875,678)	(5,744,051)	131,627
Net Change in Fund Balance	(2,395,543)	(5,624,676)	(3,648,736)	1,975,940
Beginning Fund Balance	9,176,231	10,503,258	10,503,258	-
Ending Fund Balance	\$ 6,780,688	\$ 4,878,582	\$ 6,854,522	\$ 1,975,940

Multnomah Education Service District
Other Post-Employment Benefits
Schedule of Funding Progress
June 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a) / c]
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%
July 1, 2012	-	2,232,402	2,232,402	0.0%	n/a	n/a

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
Combining Balance Sheet
General Fund
June 30, 2013

	Operating	Risk Management Reserve	Total
Assets			
Cash and Cash Equivalents	\$ 8,130,057	\$ 811,391	\$ 8,941,448
Accounts Receivable	67,522	-	67,522
Inventory	24,600	-	24,600
Prepaid Items	19,944	-	19,944
Total Assets	\$ 8,242,123	\$ 811,391	\$ 9,053,514
Liabilities			
Accounts Payable	\$ 247,303	\$ 34,058	\$ 281,361
Accrued Payroll & Withholdings	3,945,178	-	3,945,178
Total Liabilities	4,192,481	34,058	4,226,539
Fund Balances			
Nonspendable			
Inventory	24,600	-	24,600
Prepaid Items	19,944	-	19,944
Total Nonspendable Funds	44,544	-	44,544
Committed	-	777,333	777,333
Assigned	877,867	-	877,867
Unassigned	3,127,231	-	3,127,231
Total Fund Balances	4,049,642	777,333	4,826,975
Total Liabilities and Fund Balances	\$ 8,242,123	\$ 811,391	\$ 9,053,514

Multnomah Education Service District
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
General Fund
For the Year Ended June 30, 2013

	Operating	Risk Management Reserve	Eliminations *	Total
Revenues				
Local Sources	\$ (2,359)	\$ -	\$ -	\$ (2,359)
Investment Earnings	78,158	-	-	78,158
Sales of Goods & Services	17,349	-	-	17,349
Other Revenues	72,257	608,803	-	681,060
Total Revenues	165,405	608,803	-	774,208
Expenditures				
Support Services	2,194,922	622,986	-	2,817,908
Total Expenditures	2,194,922	622,986	-	2,817,908
Excess of Revenues Over (Under) Expenditures	(2,029,517)	(14,183)	-	(2,043,700)
Other Financing Sources (Uses)				
Transfers In	3,917,196	300,000	(421,502)	3,795,694
Transfers Out	(1,618,510)	(121,502)	421,502	(1,318,510)
Total Other Financing Sources (Uses)	2,298,686	178,498	-	2,477,184
Net Change in Fund Balance	269,169	164,315	-	433,484
Beginning Fund Balances	3,780,473	613,018	-	4,393,491
Ending Fund Balances	\$ 4,049,642	\$ 777,333	\$ -	\$ 4,826,975

* Intrafund transfer between Operating and Risk Management Reserve funds has been excluded

Multnomah Education Service District
Schedule of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual
Operating Fund
For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance to Final Budget Positive (Negative)
Revenues				
Local Sources	\$ 330,500	\$ 10,500	\$ (2,359)	\$ (12,859)
Investment Earnings	100,000	75,000	78,158	3,158
Sales of Goods & Services	195,000	18,000	17,349	(651)
Other Revenues	28,600	26,000	72,257	46,257
Total Revenues	654,100	129,500	165,405	35,905
Expenditures				
Support Services	2,599,942	2,602,815	2,194,922	407,893
Contingencies	625,000	580,686	-	580,686
Total Expenditures	3,224,942	3,183,501	2,194,922	988,579
Excess of Revenues Over (Under) Expenditures	(2,570,842)	(3,054,001)	(2,029,517)	1,024,484
Other Financing Sources (Uses)				
Transfers In	3,157,202	4,044,715	3,917,196	(127,519)
Transfers Out	(690,582)	(1,618,510)	(1,618,510)	-
Total Other Financing Sources (Uses)	2,466,620	2,426,205	2,298,686	(127,519)
Net Change in Fund Balance	(104,222)	(627,796)	269,169	896,965
Beginning Fund Balance	4,043,572	3,780,474	3,780,473	(1)
Ending Fund Balance	\$ 3,939,350	\$ 3,152,678	\$ 4,049,642	\$ 896,964

Multnomah Education Service District
Schedule of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual
Risk Management Reserve Fund
For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance to Final Budget Positive (Negative)
Revenues				
Other Revenues	\$ 365,000	\$ 365,000	\$ 608,803	\$ 243,803
Total Revenues	365,000	365,000	608,803	243,803
Expenditures				
Support Services	700,063	700,063	622,986	77,077
Total Expenditures	700,063	700,063	622,986	77,077
Excess of Revenues Over (Under) Expenditures	(335,063)	(335,063)	(14,183)	320,880
Other Financing Sources (Uses)				
Transfers In	300,000	300,000	300,000	-
Transfers Out	(121,502)	(121,502)	(121,502)	-
Total Other Financing Sources (Uses)	178,498	178,498	178,498	-
Net Change in Fund Balance	(156,565)	(156,565)	164,315	320,880
Beginning Fund Balance	496,225	613,018	613,018	-
Ending Fund Balance	\$ 339,660	\$ 456,453	\$ 777,333	\$ 320,880

Multnomah Education Service District
Combining Balance Sheet
Nonmajor Funds
June 30, 2013

	Debt Service	Facilities Acquisition and Improvements	Total
Assets			
Cash and Cash Equivalents	\$ 20	\$ 1,828,945	\$ 1,828,965
Total Assets	\$ 20	\$ 1,828,945	\$ 1,828,965
Liabilities			
Accounts Payable	\$ -	\$ 29,011	\$ 29,011
Total Liabilities	-	29,011	29,011
Fund Balances			
Restricted	20	-	20
Assigned	-	1,799,934	1,799,934
Total Fund Balances	20	1,799,934	1,799,954
Total Liabilities and Fund Balances	\$ 20	\$ 1,828,945	\$ 1,828,965

Multnomah Education Service District
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Funds
For the Year Ended June 30, 2013

	Debt Service	Facilities Acquisition and Improvements	Total
Revenues			
Local Sources	\$ -	\$ 20,349	\$ 20,349
Other Revenues	2,260,111	6,400	2,266,511
Total Revenues	2,260,111	26,749	2,286,860
Expenditures			
Support Services	-	128,031	128,031
Facilities Acquisitions/Construction	-	110,488	110,488
Debt Service	2,807,632	-	2,807,632
Total Expenditures	2,807,632	238,519	3,046,151
Excess of Revenues Over (Under) Expenditures	(547,521)	(211,770)	(759,291)
Other Financing Sources (Uses)			
Transfers In	547,530	80,000	627,530
Total Other Financing Sources (Uses)	547,530	80,000	627,530
Net Change in Fund Balance	9	(131,770)	(131,761)
Beginning Fund Balances	11	1,931,704	1,931,715
Ending Fund Balances	\$ 20	\$ 1,799,934	\$ 1,799,954

Multnomah Education Service District
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual
Debt Service Fund
For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance to Final Budget Positive (Negative)
Revenues				
Other Revenues	\$ 2,417,059	\$ 2,260,111	\$ 2,260,111	\$ -
Total Revenues	2,417,059	2,260,111	2,260,111	-
Expenditures				
Debt Service	2,807,641	2,807,641	2,807,632	9
Total Expenditures	2,807,641	2,807,641	2,807,632	9
Excess of Revenues Over (Under) Expenditures	(390,582)	(547,530)	(547,521)	9
Other Financing Sources (Uses)				
Transfers In	390,582	547,530	547,530	-
Total Other Financing Sources (Uses)	390,582	547,530	547,530	-
Net Change in Fund Balance	-	-	9	9
Beginning Fund Balance	-	11	11	-
Ending Fund Balance	\$ -	\$ 11	\$ 20	\$ 9

Multnomah Education Service District
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual
Facilities Acquisition and Improvements Fund
For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance to Final Budget Positive (Negative)
Revenues				
Local Sources	\$ -	\$ -	\$ 20,349	\$ 20,349
Other Revenues	1,220	1,220	6,400	5,180
Total Revenues	1,220	1,220	26,749	25,529
Expenditures				
Support Services	295,000	295,000	128,031	166,969
Facilities Acquisitions/Construction	450,000	450,000	110,488	339,512
Total Expenditures	745,000	745,000	238,519	506,481
Excess of Revenues Over (Under) Expenditures	(743,780)	(743,780)	(211,770)	532,010
Other Financing Sources (Uses)				
Transfers In	80,000	80,000	80,000	-
Total Other Financing Sources (Uses)	80,000	80,000	80,000	-
Net Change in Fund Balance	(663,780)	(663,780)	(131,770)	532,010
Beginning Fund Balance	1,317,943	1,931,704	1,931,704	-
Ending Fund Balance	\$ 654,163	\$ 1,267,924	\$ 1,799,934	\$ 532,010

Multnomah Education Service District
Schedule of Property Tax Transactions
Resolution Fund
For the Year Ended June 30, 2013

	Tax Year	Current Levy & Taxes Uncollected June 30, 2012	Discounts Allowed	Adjustments	Interest	Cash Collection by County Treasurer	Taxes Uncollected June 30, 2013
Multnomah County							
Current Yr	2012-2013	\$ 26,275,966	\$ (663,403)	\$ (88,304)	\$ 11,176	\$ (24,816,774)	\$ 718,661
Prior Years	2011-2012	801,953	732	(37,473)	27,053	(357,295)	434,970
	2010-2011	408,962	209	(10,562)	29,081	(165,730)	261,960
	2009-2010	269,083	33	(3,403)	36,840	(141,687)	160,866
	2008-2009	73,524	31	(2,691)	24,746	(82,221)	13,389
	5+ yrs prior	50,883	32	(16,156)	7,484	(16,277)	25,967
Total Multnomah County		27,880,371	(662,365)	(158,589)	136,380	(25,579,984)	1,615,812
Clackamas County							
Current Yr	2012-2013	482,300	(12,050)	(1,348)	244	(454,889)	14,257
Prior Years	2011-2012	15,804	14	(606)	635	(7,709)	8,138
	2010-2011	8,034	8	(420)	592	(3,030)	5,184
	2009-2010	5,237	1	(63)	761	(3,037)	2,899
	2008-2009	1,612	-	(31)	380	(1,440)	521
	5+ yrs prior	868	-	(46)	(60)	(83)	679
Total Clackamas County		513,855	(12,027)	(2,514)	2,552	(470,188)	31,678
Washington County							
Current Yr	2012-2013	128,770	(3,346)	180	40	(122,953)	2,691
Prior Years	2011-2012	3,137	7	(1,005)	104	(872)	1,371
	2010-2011	1,770	6	(461)	95	(393)	1,017
	2009-2010	1,006	-	(13)	120	(503)	610
	2008-2009	176	-	(6)	42	(150)	62
	5+ yrs prior	145	-	(5)	22	(54)	108
Total Washington County		135,004	(3,333)	(1,310)	423	(124,925)	5,859
All Counties Combined							
Current Yr	2012-2013	26,887,036	(678,799)	(89,472)	11,460	(25,394,616)	735,609
Prior Years	2011-2012	820,894	753	(39,084)	27,792	(365,876)	444,479
	2010-2011	418,766	223	(11,443)	29,768	(169,153)	268,161
	2009-2010	275,326	34	(3,479)	37,721	(145,227)	164,375
	2008-2009	75,312	31	(2,728)	25,168	(83,811)	13,972
	5+ yrs prior	51,896	32	(16,207)	7,446	(16,414)	26,753
Total All Counties Combined		\$ 28,529,230	\$ (677,725)	\$ (162,413)	\$ 139,355	\$ (26,175,097)	\$ 1,653,349

Reconciliation to financial statements

Property tax collections for the year ended June 30, 2013	\$ 26,175,097	
Uncollected property taxes at June 30, 2013		\$ 1,653,349
Property taxes held with County at June 30, 2013		173,224
Total property tax receivable - Resolution Fund		1,826,573
Non-levied tax revenue received for the year ended June 30, 2013	9,283	
Uncollected property taxes susceptible to accrual at June 30, 2013	124,424	(297,647)
Property taxes susceptible to accrual at June 30, 2012; collected during the year ended June 30, 2013	(127,227)	
Total property taxes - Resolution Fund	\$ 26,181,577	
Total unavailable tax revenue - Resolution Fund		\$ 1,528,926

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STATISTICAL SECTION

This part of the Multnomah ESD's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required and other supplementary information says about the ESD's overall financial health.

<u>Contents</u>	<u>Page</u>
Financial Trends	60
These schedules contain trend information to help the reader understand how the MESD's financial performance and well-being have changed over time	
Revenue Capacity	66
These schedules contain information to help the reader assess the MESD's most significant local revenue source, the property tax.	
Debt Capacity	70
These schedules present information to help the reader assess the affordability of the MESD's current levels of outstanding debt and the MESD's ability to issue additional debt in the future.	
Demographic and Economic Information	72
These schedules offer demographic and economic indicators to help the reader understand the environment within which the MESD's financial activities take place.	
Operating Information	74
These schedules contain services and infrastructure data to help the reader understand how the information in the MESD's financial report relates to the services it provides and the activities it performs.	

Multnomah Education Service District
Statement of Net Position
Last 10 Years

	2004	2005	2006	2007
Assets				
Cash and Cash Equivalents	\$ 21,920,481	\$ 26,440,485	\$ 26,590,257	\$ 29,707,115
Cash with County Treasurer	-	170,844	158,410	159,276
Property Tax Receivable	1,071,167	1,008,347	969,462	953,107
Accounts Receivable	11,167,740	6,482,316	10,146,720	6,466,338
Inventory	1,340,224	1,562,752	820,344	1,129,707
Prepaid Items	3,000	200,313	183,577	230,784
Prepaid Pension Cost, Net of Amortization	32,391,100	30,982,696	29,574,391	28,166,087
Bond Issuance Costs, Net of Amortization	182,267	174,673	168,851	159,484
Capital Assets, Net of Depreciation	11,397,968	11,077,221	10,809,387	10,505,582
Total Assets	79,473,947	78,099,647	79,421,399	77,477,480
Liabilities				
Book Overdraft	1,968,238	-	-	-
Accounts Payable	15,742,257	12,759,984	11,259,709	7,509,638
Accrued Payroll, Taxes and Withholdings	3,962,455	5,177,631	1,871,926	2,156,724
Deferred Revenue	963,100	-	97,193	79,280
Accrued Compensated Absences Payables	168,416	164,756	170,464	158,572
Other Post Employment Benefits	-	-	-	-
Accrued Interest Payable	22,286	14,814	-	-
Long-term Debt:				
Due Within One Year	295,000	350,000	370,000	390,000
Due in More than One Year	37,887,061	37,985,000	37,615,000	37,225,000
Total Liabilities	61,008,813	56,452,185	51,384,292	47,519,214
Net position:				
Net investment in Capital Assets	6,182,968	5,882,221	5,964,387	6,030,582
Unrestricted	12,282,166	15,765,241	22,072,720	25,855,076
Restricted	***	***	***	***
TOTAL NET POSITION	\$ 18,465,134	\$ 21,647,462	\$ 28,037,107	\$ 31,885,658

*** Restictions not presented these years

Multnomah Education Service District
Statement of Net Position (continued)
Last 10 Years

2008	2009	2010	2011	2012	2013
\$ 29,010,637	\$ 25,052,367	\$ 20,699,809	\$ 20,546,394	\$ 17,456,964	\$ 12,253,325
166,993	-	-	-	-	-
1,172,720	1,385,301	1,401,273	1,335,975	1,817,881	1,826,573
4,332,536	7,928,544	8,578,790	8,760,115	6,911,998	9,222,522
1,054,156	1,029,202	982,728	788,838	58,630	24,600
319,333	63,881	13,580	28,883	57,644	19,944
26,757,783	25,349,424	23,941,123	22,532,822	21,124,520	19,716,219
151,889	186,535	176,172	165,809	155,446	145,082
10,825,967	11,179,845	11,046,679	10,562,297	10,079,616	9,651,813
73,792,014	72,175,099	66,840,154	64,721,133	57,662,699	52,860,078
-	-	-	-	-	-
684,144	7,630,175	5,839,512	5,304,091	3,818,050	2,821,681
3,671,940	2,719,152	3,685,714	3,588,748	3,925,315	3,945,178
-	-	-	-	-	-
159,481	173,731	170,310	144,726	129,957	151,029
-	166,067	329,126	527,550	708,047	887,291
-	-	-	-	-	-
440,000	589,386	716,353	858,679	1,011,101	1,125,000
36,785,000	36,462,815	35,749,795	34,891,116	33,880,015	32,655,000
41,740,565	47,741,326	46,490,810	45,314,910	43,472,485	41,585,179
6,740,967	7,227,643	7,540,531	7,517,473	7,518,499	7,691,813
20,865,036	17,206,130	3,162,530	3,664,511	1,410,941	2,102,018
***	***	9,646,283	8,224,239	5,260,774	1,481,068
\$ 27,606,003	\$ 24,433,773	\$ 20,349,344	\$ 19,406,223	\$ 14,190,214	\$ 11,274,899

Multnomah Education Service District
Changes in Net Position
Last 10 Years

	2004	2005	2006	2007
Revenues:				
Program Revenues:				
Charges for Services	\$ 8,778,442	\$ 12,464,061	\$ 14,241,676	\$ 13,340,380
Operating Grants and Contributions	14,825,457	14,722,381	15,909,272	17,964,347
General Revenues:				
Property Taxes	19,351,746	19,874,295	20,915,840	21,683,597
State School Fund - General Support	16,801,230	15,032,933	9,288,345	8,862,678
Earnings on Investments	258,838	-	-	-
Federal Stimulus	-	-	-	-
Loss on disposition of Capital Assets	-	-	-	-
Miscellaneous	2,468,957	3,398,645	5,085,536	7,988,961
Total Revenues	62,484,670	65,492,315	65,440,669	69,839,963
Expenses:				
Instruction	26,182,031	17,107,374	15,167,098	16,471,265
Support Services	31,607,962	34,279,738	34,862,274	38,722,555
Enterprise and Community Services	664,030	704,042	46,870	1,419,024
Facilities Repairs and Maintenance	-	-	-	-
Apportionment of Funds	-	8,090,257	7,256,141	9,340,305
Unallocated Depreciation	-	-	-	-
Interest on Long-Term Debt	590,540	2,128,576	1,718,641	1,965,638
Total Expenses	59,044,563	62,309,987	59,051,024	67,918,787
CHANGE IN NET POSITION	3,440,107	3,182,328	6,389,645	1,921,176
NET POSITION , beginning of year	15,025,027	18,465,134	21,647,462	29,964,482
NET POSITION , end of year	\$ 18,465,134	\$ 21,647,462	\$ 28,037,107	\$ 31,885,658

* Restated

Multnomah Education Service District
Changes in Net Position (continued)
Last 10 Years

2008	2009	2010	2011	2012	2013
\$ 8,251,120	\$ 13,205,946	\$ 8,092,199	\$ 12,999,332	\$ 10,268,887	\$ 10,776,757
19,192,550	19,407,801	18,785,136	20,140,915	20,066,049	24,018,999
22,940,470	23,561,749	24,505,818	25,075,966	25,980,967	26,195,536
10,692,471	8,298,709	8,033,770	4,222,969	4,657,196	5,315,956
1,407,155	576,777	171,510	108,512	100,886	79,693
-	907,566	2,601,970	2,550,138	895,484	299,974
778	-	-	-	-	-
5,707,678	1,422,965	2,566,822	3,314,562	3,055,618	3,079,530
68,192,222	67,381,513	64,757,225	68,412,394	65,025,087	69,302,346
16,977,374	15,083,185	16,371,149	17,569,453	19,126,964	17,718,338
37,284,143	40,395,972	37,705,025	37,152,822	35,744,950	35,535,887
2,315,736	2,651,994	2,782,432	3,524,849	3,086,517	3,624,992
-	-	489,409	2,685	45,672	110,488
9,492,872	10,218,146	9,297,814	8,916,168	10,065,731	13,555,146
-	267,711	273,357	286,200	293,828	294,277
1,956,306	1,936,735	1,922,468	1,903,338	1,877,434	1,842,632
68,026,431	70,553,743	68,841,654	69,355,515	70,241,096	72,681,760
165,791	(3,172,230)	(4,084,429)	(943,121)	(5,216,009)	(2,915,315)
27,440,212 *	27,606,003	24,433,773	20,349,344	19,406,223	14,190,214
\$ 27,606,003	\$ 24,433,773	\$ 20,349,344	\$ 19,406,223	\$ 14,190,214	\$ 11,274,899

Multnomah Education Service District
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
Last 10 Years

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Revenues				
Property Taxes	\$ 19,417,296	\$ 19,935,475	\$ 20,942,497	\$ 21,737,147
State School Fund	16,803,880	15,036,281	9,288,344	8,865,992
Local Sources	9,618,760	11,750,330	14,976,739	13,192,511
State Sources	8,472,655	10,960,049	11,014,059	12,142,608
School Improvement Fund	-	-	-	-
Federal Sources	5,060,892	4,362,055	5,230,819	7,449,302
Investment Earnings	258,838	585,213	1,166,597	1,821,211
Debt Proceeds	32,963,381	-	-	-
Sales of Goods & Services	2,153,496	2,089,159	2,393,970	786,743
SB1149 Proceeds	-	-	-	4,188,737
Other Revenues	2,645,424	2,236,246	7,301,614	2,301,973
Overhead Revenues	635,641	713,225	832,854	1,853,178
Total Revenues	98,030,263	67,668,033	73,147,493	74,339,402
Expenditures				
Instruction	16,358,050	16,321,874	16,328,176	16,899,030
Support Services	33,500,452	35,415,145	38,921,915	41,040,462
Enterprise & Community Services	628,003	674,541	778,322	1,415,832
Facilities Repairs and Maintenance	-	-	-	-
Other Uses	-	(10)	-	-
Debt Service	33,988,754	1,975,515	2,077,633	2,338,163
Contingencies	-	68,657	-	-
Total Expenditures	84,475,259	54,455,722	58,106,046	61,693,487
Excess of Revenues Over Expenditures	13,555,032	13,212,311	15,041,478	12,645,938
Other Financing Sources (Uses)				
Apportionment of Funds	(9,453,566)	(8,090,267)	(7,256,141)	(9,340,305)
Transfers In	780,592	808,000	1,358,648	-
Transfers Out	(780,592)	(808,000)	(1,359,285)	-
Capital Leases	-	-	-	-
Total Other Financing Sources (Uses)	(9,453,566)	(8,090,267)	(7,256,778)	(9,340,305)
Net Change in Fund Balances	4,101,466	5,122,044	7,784,700	3,305,633
Beginning Fund Balances	7,747,340 *	11,848,804 *	16,970,859 *	24,755,559
Ending Fund Balances	\$ 11,848,807	\$ 16,970,849	\$ 24,755,559	\$ 28,061,192

* Restated

Debt service as a percentage of
noncapital expenditures

40.25%

3.64%

3.59%

3.80%

Multnomah Education Service District
Statement of Revenues, Expenditures, and Changes in Fund Balance (continued)
Governmental Funds
Last 10 Years

2008	2009	2010	2011	2012	2013
\$ 22,879,494	\$ 23,219,411	\$ 24,511,191	\$ 25,097,989	\$ 25,504,874	\$ 26,181,577
10,695,867	8,298,709	8,033,770	4,222,969	4,657,196	5,315,956
10,066,970	10,670,438	5,767,805	9,366,606	7,566,113	8,315,530
14,072,950	12,591,487	12,676,732	14,543,993	15,750,967	19,079,846
-	965,201	-	-	-	-
5,818,759	7,627,019	9,568,636	9,973,707	6,138,984	6,699,687
1,407,154	576,777	171,510	108,512	100,886	79,693
-	-	-	-	-	-
3,436,068	1,884,560	1,435,170	1,472,190	1,221,129	22,903
1,558,547	-	-	-	-	-
2,033,310	2,940,078	527,323	3,401,405	3,608,845	3,423,410
381,504	8,520,656	2,070,415	2,205,840	2,101,237	2,557,141
72,350,623	77,294,336	64,762,552	70,393,211	66,650,231	71,675,743
16,882,596	16,400,599	16,126,163	18,207,142	20,028,735	18,670,959
40,572,157	48,105,823	36,733,405	36,388,922	35,109,951	35,341,092
2,294,594	2,812,317	2,766,457	3,547,993	3,151,329	3,690,706
25,237	-	489,409	145,903	85,759	110,488
-	-	-	-	-	-
2,338,711	2,376,735	2,473,268	2,578,338	2,692,434	2,807,632
-	-	-	-	-	-
62,113,295	69,695,474	58,588,702	60,868,298	61,068,208	60,620,877
10,237,359	7,598,876	6,173,850	9,524,913	5,582,023	11,054,866
(9,492,872)	(10,218,146)	(9,297,814)	(8,916,168)	(10,065,731)	(13,555,146)
1,370,000	10,242,125	4,358,687	5,036,526	4,375,229	5,194,204
(1,371,500)	(10,242,125)	(4,358,687)	(5,036,526)	(4,375,229)	(5,194,204)
-	307,952	-	-	-	-
(9,494,372)	(9,910,194)	(9,297,814)	(8,916,168)	(10,065,731)	(13,555,146)
742,987	(2,311,317)	(3,123,964)	608,745	(4,483,708)	(2,500,280)
30,129,223 *	26,355,028 *	24,043,711	20,919,747	21,528,492	17,044,784
\$ 30,872,211	\$ 24,043,711	\$ 20,919,747	\$ 21,528,492	\$ 17,044,784	\$ 14,544,504

3.82%

3.45%

4.26%

4.25%

4.42%

4.64%

Multnomah Education Service District
Assessed Values of Taxable Property within District Boundaries (thousands of dollars)
Last Ten Fiscal Years

Fiscal Year Ending June 30,	Assessed Value (not including exempt property)						Total Net Assessed Value	Total Direct Tax Rate	Taxes Imposed (Net Levy)
	Real Property	Personal Property	Manufactured Structures	Public Utility	Total Assessed Value	Add: Non- Profit Housing	Less: Urban Renewal Excess		
2004					\$ 46,232,775			0.4576	\$ 19,920
2005	\$ 42,935,479	\$ 2,384,696	\$ 96,531	\$ 2,627,158	48,043,864	\$ 21,235	\$ 2,403,448	0.4576	20,550
2006	45,080,733	2,389,420	92,999	2,413,134	49,976,286	26,050	2,836,380	0.4576	21,461
2007	47,126,391	2,461,536	96,283	2,547,753	52,231,963	27,852	3,206,807	0.4576	22,181
2008	49,940,771	2,481,730	177,495	2,538,071	55,138,068	29,084	3,631,632	0.4576	23,334
2009	52,500,741	2,541,965	179,815	2,593,085	57,815,606	34,623	4,144,209	0.4576	24,340
2010	54,717,026	2,491,331	194,671	2,785,933	60,188,961	35,662	4,751,822	0.4576	25,157
2011	56,411,274	2,538,168	178,194	2,819,071	61,946,707	31,781	5,039,772	0.4576	25,799
2012	58,201,602	2,270,495	173,117	2,902,392	63,547,607	31,340	5,151,161	0.4576	26,334
2013	59,740,638	2,282,583	91,700	2,858,576	64,973,497	32,280	5,323,183	0.4576	26,794

Notes:

1. Property taxes are based on an assessed value which is defined as the lower of "maximum assessed value" or "real market value". Assessed values are limited to 3 percent annual increases.
2. The net levy is the actual imposed tax after adjustments and constitutional property tax limitations due to the passing of Measure 5 in 1990 and Measure 50 in 1997.

Sources:

FY 2005-2013: Oregon Property Tax Statistics Supplement for the appropriate fiscal year. Values are the combined total for the taxing district, "Multnomah ESD", in Multnomah, Clackamas, and Washington counties.
FY 2004: Multnomah, Clackamas, and Washington counties Assessment and Taxation offices, "County 4a" tables and the TSCC 2004-05 Annual Report

Multnomah Education Service District
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years

District	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
MESD Direct Rate	0.4576	0.4576	0.4576	0.4576	0.4576	0.4576	0.4576	0.4576	0.4576	0.4576
<u>Overlapping Districts Permanent Rates Extended</u>										
Multnomah County	4.3434	4.3434	4.3434	4.3434	4.3434	4.3434	4.3434	4.3434	4.3434	4.3434
Regional Districts										
Metro	0.0966	0.0966	0.0966	0.0966	0.0966	0.0966	0.0966	0.0966	0.0966	0.0966
Port of Portland	0.0701	0.0701	0.0701	0.0701	0.0701	0.0701	0.0701	0.0701	0.0701	0.0701
East Multnomah SWCD	0.1000	0.1000	0.1000	0.1000	0.0877	0.0715	0.0326	0.0413	n/a	n/a
West Multnomah SWCD	0.0750	0.0732	0.0469	0.0391	0.0369	0.0378	n/a	n/a	n/a	n/a
Average Rate	0.0854	0.0850	0.0784	0.0765	0.0728	0.0690	0.0664	0.0693	0.0834	0.0834
Cities										
Portland	4.5770	4.5770	4.5770	4.5770	4.5770	4.5770	4.5770	4.5770	4.5770	4.5770
Fairview	3.4902	3.4902	3.4902	3.4902	3.4902	3.4902	3.4902	3.4902	3.4902	3.4902
Gresham	3.6129	3.6129	3.6129	3.6129	3.6129	3.6129	3.6129	3.6129	3.6129	3.6129
Maywood Park	1.7504	1.9500	1.5055	0.8468	0.4053	0.6502	0.4563	0.2448	0.0090	0.0598
Troutdale	3.7652	3.7652	3.7652	3.7652	3.7652	3.7652	3.7652	3.7652	3.7652	3.7652
Wood Village	3.1262	3.1262	3.1262	3.1262	3.1262	3.1262	3.1262	3.1262	3.1262	3.1262
Average Rate	3.3870	3.4203	3.3462	3.2364	3.1628	3.2036	3.1713	3.1361	3.0968	3.1052
Education Districts										
Centennial SD No. 28J	4.7448	4.7448	4.7448	4.7448	4.7448	4.7448	4.7448	4.7448	4.7448	4.7448
Corbett SD No. 39	4.5941	4.5941	4.5941	4.5941	4.5941	4.5941	4.5941	4.5941	4.5941	4.5941
David Douglas SD No. 40	4.6394	4.6394	4.6394	4.6394	4.6394	4.6394	4.6394	4.6394	4.6394	4.6394
GreshamBarlow SD No.10J	4.5268	4.5268	4.5268	4.5268	4.5268	4.5268	4.5268	4.5268	4.5268	4.5268
Parkrose SD No. 3	4.8906	4.8906	4.8906	4.8906	4.8906	4.8906	4.8906	4.8906	4.8906	4.8906
Portland SD No. 1J	5.2781	5.2781	5.2781	5.2781	5.2781	5.2781	5.2781	4.7743	5.2781	5.1910
Reynolds SD No. 7	4.4626	4.4626	4.4626	4.4626	4.4626	4.4626	4.4626	4.4626	4.4626	4.4626
Riverdale SD No. 51J	3.8149	3.8149	3.8149	3.8149	3.8149	3.8149	3.8149	3.8149	3.8149	3.8149
Mt. Hood Comm. College	0.4917	0.4917	0.4917	0.4917	0.4917	0.4917	0.4917	0.4917	0.4917	0.4917
Portland Comm. College	0.2828	0.2828	0.2828	0.2828	0.2828	0.2828	0.2828	0.2828	0.2828	0.2828
Average Rate	3.7726	3.7726	3.7726	3.7726	3.7726	3.7726	3.7726	3.7222	3.7726	3.7639
Rural Fire Protection Services										
Multnomah RFPD No. 10	2.7500	2.7500	2.7500	2.7500	2.7500	2.7500	2.8527	2.8527	2.8527	2.8527
Riverdale RFPD No. 11J	1.2361	1.2361	1.2361	1.2361	1.2361	1.2361	1.2361	1.2361	1.2361	1.2361
Multnomah RFPD No. 14	1.2624	1.2624	1.2624	1.2624	1.2624	1.2624	1.2624	1.2624	1.2624	1.2624
Average Rate	1.7495	1.7495	1.7495	1.7495	1.7495	1.7495	1.7837	1.7837	1.7837	1.7837
Water Districts										
Alto Park	1.5985	1.5985	1.5985	1.5985	1.5985	1.5985	1.5985	1.5985	1.5985	1.5985
Burlington	3.4269	3.4269	3.4269	3.4269	3.4269	3.4269	3.4269	3.4269	3.4269	3.4269
Corbett	0.5781	0.5781	0.5781	0.5781	0.5781	0.5781	0.5781	0.5781	0.5781	0.5781
Lusted	0.2423	0.2423	0.2423	0.2423	0.2423	0.2423	0.2423	0.2423	0.2423	0.2423
Valley View	1.2380	1.0408	1.0243	1.0558	1.0408	0.8478	0.4448	0.4778	0.4977	0.5186
Average Rate	1.4168	1.3773	1.3740	1.3803	1.3773	1.3387	1.2581	1.2647	1.2687	1.2729
Total Direct and Average Overlapping Rate	15.2122	15.2056	15.1217	15.0162	14.9360	14.9344	14.8532	14.7770	14.8061	14.8101

*Permanent tax rates are the primary factor in determining tax burdens. Districts can opt to extend rates lower than their permanent rate. This schedule reports the actual tax rate extended for operations.

Source: Tax Supervising & Conservation Commission (TSCC) Annual Reports (tscmultco.com)

Multnomah Education Service District
Principal Property Taxpayers in Multnomah County
Taxing District: 304 Multnomah ESD
Current Year and Nine Years Prior

Ten Largest Taxpayers	Tax Year 2012-2013			Tax Year 2003-2004		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Port of Portland	\$ 512,747,500	1	0.88%			
Portland General Electric Co.	425,574,917	2	0.73	\$ 335,492,880	2	0.78%
Comcast Corporation	375,683,500	3	0.64			
PacificCorp (PP&L)	332,377,000	4	0.57	271,934,000	3	0.63
Weston Investment Co LLC	251,667,430	5	0.43			
Evraz Inc NA	217,362,464	6	0.37			
LC Portland LLC	178,597,560	7	0.31	130,196,970	9	0.30
Boeing Co	178,208,580	8	0.31	143,485,820	6	0.33
Alaska Airlines, Inc	173,934,000	9	0.30			
Fred Meyer Stores Inc	167,172,621	10	0.29	115,006,530	10	0.27
Qwest Wireless				440,484,457	1	1.02
Wacker Siltronic Corp				211,842,450	4	0.49
Northwest Natural Gas Co				149,564,820	5	0.35
Oregon Steel Mills Inc				135,060,590	7	0.31
Freightliner Corporation				131,602,990	8	0.31
All Other Taxpayers	55,483,259,299		95.17	41,056,818,310		95.21
Total Assessed Value	<u>\$ 58,296,584,871</u>			<u>\$ 43,121,489,817</u>		

Source: Multnomah County Department of Assessment and Taxation

Multnomah Education Service District
Property Tax Levies and Collections by County
Last Ten 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, 2013	
		Amount	Percentage of Levy	Amount	Percentage Collected
Multnomah County					
2004	\$ 19,464,912	\$ 599,331	3.08%	\$ 1,659	99.99%
2005	20,120,523	582,329	2.89	2,011	99.99
2006	21,025,449	588,764	2.80	2,414	99.99
2007	21,703,981	588,236	2.71	3,192	99.99
2008	22,859,897	670,534	2.93	6,113	99.97
2009	23,825,482	851,090	3.57	13,388	99.94
2010	24,606,025	775,848	3.15	160,866	99.35
2011	25,234,019	700,321	2.78	261,960	98.96
2012	25,824,749	801,853	3.10	434,971	98.32
2013	26,275,966	718,661	2.74	718,661	97.26
Clackamas County					
2004	\$ 359,331	\$ 11,075	3.08%	\$ 46	99.99%
2005	373,658	9,967	2.67	63	99.98
2006	394,275	9,516	2.41	75	99.98
2007	409,330	11,151	2.72	115	99.97
2008	425,219	14,634	3.44	203	99.95
2009	444,187	19,067	4.29	523	99.88
2010	457,997	17,009	3.71	2,899	99.37
2011	471,706	15,150	3.21	5,183	98.90
2012	483,368	15,804	3.27	8,138	98.32
2013	482,300	14,257	2.96	14,257	97.04
Washington County					
2004	\$ 95,622	*	*	*	*
2005	100,691	*	*	*	*
2006	104,856	*	*	*	*
2007	108,287	*	*	*	*
2008	112,437	\$ 2,732	2.43%	\$ 31	99.97%
2009	116,251	3,553	3.06	62	99.95
2010	120,106	3,348	2.79	610	99.49
2011	123,384	2,916	2.36	1,017	99.18
2012	126,167	3,137	2.49	1,371	98.91
2013	128,770	2,691	2.09	2,691	97.91

* Information not provided at this time.

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

Multnomah Education Service District
Ratios of Outstanding Debt
Last Ten Fiscal Years

Fiscal Year Ending June 30	Governmental Activities Debt				Percentage of Personal Income	Personal Income All Counties (thousands)	Per Capita	Population All Counties
	2004 G.O. Refunding COP Bonds	OSBA Limited Tax Pension Obligations	Capital Lease	Total Outstanding Debt				
2004	\$ 4,905,001	\$ 33,140,000		\$ 38,045,001	0.07%	\$ 55,001,028	\$ 25	1,508,491
2005	4,560,000	33,140,000		37,700,000	0.07	57,498,426	25	1,524,943
2006	4,520,000	33,140,000		37,660,000	0.06	62,274,430	24	1,549,501
2007	4,475,000	33,140,000		37,615,000	0.06	65,510,580	24	1,573,449
2008	4,085,000	33,140,000	\$ 307,952	37,532,952	0.05	68,793,788	23	1,599,907
2009	3,685,000	33,100,000	270,389	37,055,389	0.06	65,045,525	23	1,626,505
2010	3,275,000	32,960,000	231,179	36,466,179	0.05	67,483,379	22	1,646,043
2011	2,855,000	32,705,000	189,796	35,749,796	0.05	71,660,928	21	1,668,648
2012	2,415,000	32,330,000	146,117	34,891,117	-	*	21	1,672,970
2013	1,960,000	31,820,000	-	33,780,000	-	*	-	*

* Information not provided at this time.

Notes:

- 1) Details regarding the District's outstanding debt can be found in the notes to the basic financial statements
- 2) See the Demographics and Economic Statistics schedule for population and income data for Multnomah, Clackamas, and Washington counties.

Multnomah Education Service District
Direct and Overlapping Debt
As of June 30, 2013

Overlapping District Name	Outstanding Net Property Tax Backed Debt ¹	Percent Overlapping ²	Net Overlapping Debt ²
City of Beaverton	\$ -	1.62%	\$ -
City of Fairview	-	100.00	-
City of Gresham	19,415,268	100.00	19,415,268
City of Happy Valley	4,170,000	1.28	53,230
City of Lake Oswego	31,726,913	5.47	1,736,795
City of Milwaukie	-	1.00	-
City of Portland	125,555,000	99.64	125,106,894
City of Troutdale	13,000,000	100.00	13,000,000
Clackamas Community College	27,365,000	0.00	958
Clackamas County	108,260,000	3.31	3,587,845
Clackamas Cty RFPD 1	1,790,000	0.56	9,954
Clackamas Cty SD 7J (Lake Oswego)	102,979,109	0.01	14,211
Lusted Water District	850,000	100.00	850,000
Metro	248,275,000	51.42	127,655,060
Mt Hood Community College	26,100,000	88.18	23,014,014
Multnomah County	201,275,000	99.47	200,204,016
Multnomah Cty Drainage District 1	110,000	100.00	110,000
Multnomah Cty SD 10J (Gresham-Barlow)	92,204,188	100.00	92,204,188
Multnomah Cty SD 1J (Portland)	587,997,948	100.00	587,997,948
Multnomah Cty SD 28J (Centennial)	31,001,858	100.00	31,001,858
Multnomah Cty SD 3 (Parkrose)	61,450,000	100.00	61,450,000
Multnomah Cty SD 39 (Corbett)	2,420,000	100.00	2,420,000
Multnomah Cty SD 40 (David Douglas)	105,987,481	100.00	105,987,481
Multnomah Cty SD 51J (Riverdale)	26,523,197	100.00	26,523,197
Multnomah Cty SD 7 (Reynolds)	133,986,549	100.00	133,986,549
North Clackamas Parks & Rec District	-	0.20	-
Pleasant Home Water District	1,875,000	100.00	1,875,000
Port of Portland	-	47.57	-
Portland Community College	176,450,000	48.07	84,827,102
Rockwood Water PUD	-	100.00	-
Tualatin Hills Park & Rec District	101,682,100	1.21	1,226,896
Tualatin Valley Fire & Rescue District	45,050,000	1.95	879,826
Washington County	26,765,000	0.61	163,641
Subtotal, overlapping debt	\$ 2,304,264,611		1,645,301,931
Direct District net property tax backed debt			-
Total direct and overlapping debt			<u>\$ 1,645,301,931</u>

¹ "Net Property Tax Backed Debt" is Gross Property Tax Backed Debt less Self-supporting Unlimited Tax GO and less Self-Supporting Full Faith & Credit debt.

² Percent Overlapping and Net Overlapping Debt is calculated by the Oregon State Treasury, Debt Management Division.

**Multnomah Education Service District
Demographic and Economic Statistics
Last Ten Years**

<u>Year</u>	<u>Population</u>	<u>Personal Income (thousands)</u>	<u>Per Capita Income</u>	<u>Unemployment Rate (June)</u>
<u>Multnomah County</u>				
2004	672,526	\$ 24,484,971	\$ 36,407	7.7%
2005	674,862	25,011,925	37,062	6.2
2006	683,767	27,043,127	39,550	5.2
2007	697,799	28,234,192	40,462	5.0
2008	712,989	29,687,197	41,638	5.6
2009	727,721	28,192,097	38,740	11.3
2010	737,476	29,424,258	39,899	10.0
2011	748,031	31,161,157	41,658	8.9
2012	748,445	*	*	7.9
2013	*	*	*	7.3
<u>Clackamas County</u>				
2004	355,758	\$ 13,876,687	\$ 39,006	7.1%
2005	359,308	14,601,351	40,637	5.7
2006	363,508	15,872,775	43,666	4.9
2007	366,808	16,678,152	45,468	4.6
2008	371,103	17,482,238	47,109	5.3
2009	374,085	16,315,504	43,614	11.0
2010	376,957	16,537,551	43,871	10.2
2011	380,207	17,457,115	45,915	9.2
2012	381,680	*	*	8.1
2013	*	*	*	7.2
<u>Washington County</u>				
2004	480,207	\$ 16,639,370	\$ 34,650	6.5%
2005	490,773	17,885,150	36,443	5.3
2006	502,226	19,358,528	38,545	4.5
2007	508,842	20,598,236	40,481	4.4
2008	515,815	21,624,353	41,923	5.0
2009	524,699	20,537,924	39,142	10.1
2010	531,610	21,521,570	40,484	9.0
2011	540,410	23,042,656	42,639	8.1
2012	542,845	*	*	7.2
2013	*	*	*	6.6

* Data unavailable at time of print.

Sources:

2004-2011 population and income: U.S. Bureau of Economic Analysis report CA1-3 (last updated November 26, 2012) www.bea.gov

2012 population: Portland State College, Population and Research Center 2012 Annual Population Report - Table 3

Unemployment rates: Oregon Employment Department, WorkSource Oregon Labor Force Data (qualityinfo.org) as of Aug 2013

**Multnomah Education Service District
Principal Employers
Portland Metro Area
Current Year and Nine Years Prior**

Top Ten Principal Employers	2013			2004		
	Employees	Rank	Percentage of Total Employment	Employees	Rank	Percentage of Total Employment
Intel Corporation	16,700	1	1.6%	14,363	1	1.4%
Providence Health System	14,132	2	1.4	13,753	2	1.4
Oregon Health and Science University	14,106	3	1.4	11,400	3	1.1
U.S. Government	13,900	4	1.3			0.0
Fred Meyer Stores	10,176	5	1.0	5,300	9	0.5
Kaiser Permanente	9,896	6	1.0	7,433	5	0.7
Legacy Health System	9,835	7	0.9	7,907	4	0.8
City of Portland	9,318	8	0.9	5,355	8	0.5
State of Oregon	7,559	9	0.7			
Nike, Inc.	7,000	10	0.7	5,742	7	0.6
Portland Public Schools				6,700	6	0.7
Safeway, Inc				5,282	10	0.5
All other employers	928,078		89.2	933,793		92.9
Total Employment - PMSA*	1,040,700			1,005,046		

* The Portland-Vancouver-Hillsboro MSA includes all of Clackamas, Columbia, Multnomah, Washington and Yamhill counties in Oregon and Clark and Skamania counties in Washington State.

Sources:

Top Largest Employers: Portland Business Journal Book of Lists (portlandbizjournal.com) July 2013 and 2005 Book of Lists

Total Employment: Oregon Employment Department, WorkSource Oregon (qualityinfo.org)

**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>
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
2012	288	292	44	624
2013	316	299	35	650

Note: Number reflects total headcount of permanent full-time and part-time employees.

Source: Multnomah ESD Human Resources Department

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

<u>Fiscal Year Ending</u>	<u>Special Education Services</u>	<u>Instructional Services</u>	<u>Health & Social Services</u>	<u>Technology & Other Support Services</u>	<u>Total</u>
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
2012	25,092,644	9,531,676	11,230,808	16,924,301	62,779,429
2013	29,465,549	9,741,643	11,704,076	17,431,713	68,342,981

**Multnomah Education Service District
Schools, Sites, and Offices**

Building Name	Square Footage	Owned or Leased	Programs/Services Offered
<u>District Owned/Leased Sites:</u>			
Ainsworth Building 11611 NE Ainsworth Circle, Portland, OR 97220	60,000	Owned	Houses central administration, department and program offices; technology services; facilities services.
Alpha School 876 NE 8th St, Gresham, OR 97030	18,000	Owned	Houses an alternative high school program and an alternative middle school program.
Arata Creek School Edgefield Regional Children's Campus 2408 SW Halsey St, Troutdale, OR 97060	14,000	Owned	Houses four classrooms for students with social/emotional disabilities; one classroom for students with developmental disabilities.
Helensview School 8678 NE Sumner St, Portland, OR 97220	40,000	Leased	Houses programs for students who are pregnant and/or parenting; who have left traditional education or are at risk for dropping out; for students on probation, parole or returning from juvenile or adult correctional facilities.
Thompson School 14030 NE Sacramento St, Portland, OR 97230	40,000	Leased	Houses classrooms and provides services for children, birth - five years of age, who qualify for early intervention and early childhood special education.
Pathways Community School 611 East Powell, Gresham, OR 97030	30,000	Leased	Provides post-secondary education for students with significant disabilities.
<u>Additional Classroom Sites:</u>			
Donald E. Long Program 1401 NE 68th Ave, Portland, OR 97213			Provides educational and social skills for students awaiting trials and hearings.
Wynne Watts School 830 NE 162nd Ave, Portland, OR 97230			Provides educational programs for students with mental health and behavioral challenges.
Ocean Dunes High School 4859 S Jetty Road, Florence, OR 97439			Provides educational services to young men who are incarcerated.
Three Lakes High School 4400 Lochner Road SE, Albany, OR 97322			Provides educational services to young women who are incarcerated.
Yamhill County Juvenile Detention 535 E Fifth St, McMinnville, OR 97128			Provides educational services to youth who are incarcerated.

SINGLE AUDIT SECTION





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**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**

INDEPENDENT AUDITOR'S REPORT

December 17, 2013

Board of Directors
Multnomah Education Service District
Portland, Oregon

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Multnomah Education Service District, Portland, Oregon, (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 17, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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



**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)**

INDEPENDENT AUDITOR'S REPORT (Continued)

INTERNAL CONTROL OVER FINANCIAL REPORTING (Continued)

we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

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

PURPOSE OF THIS REPORT

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

Talbot, Kowala & Warwick LLP

Certified Public Accountants



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**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM; REPORT
ON INTERNAL CONTROL OVER COMPLIANCE IN; AND REPORT ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY
OMB CIRCULAR A-133**

INDEPENDENT AUDITOR'S REPORT

December 17, 2013

Board of Directors
Multnomah Education Service District
Portland, Oregon

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of Multnomah Education Service District, Portland, Oregon, (the District) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each of the major federal programs. However, our audit does not provide a legal determination of the District's compliance.

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REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133 (Continued)

INDEPENDENT AUDITOR'S REPORT (Continued)

OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, the District complied, in all material respects, with the types of 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, 2013.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133 (Continued)

INDEPENDENT AUDITOR'S REPORT (Continued)

REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

We have audited the financial statements of the District as of and for the year ended June 30, 2013, and have issued our report thereon dated December 17, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditure of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Talbot, Korvola & Warwick LLP

Certified Public Accountants

Multnomah Education Service District
Schedule of Expenditures and Federal Awards
For the Year Ended June 30, 2013

FEDERAL GRANTOR	Federal CFDA Number	Grantor or Pass-Thru Number	Grant Period	Grant Award	Fiscal Year Expenditures
Federal Program/Cluster and Program Title					
US DEPARTMENT OF AGRICULTURE					
<i>Passed through Oregon Department of Education</i>					
Child Nutrition Cluster:					
School Breakfast Program	10.553	NA	07/01/12 - 06/30/13	\$ -	\$ 49,880
National School Lunch Program	10.555	NA	07/01/12 - 06/30/13	-	124,961
			Cluster Total	-	174,841
US DEPARTMENT OF AGRICULTURE TOTAL				-	174,841
US DEPARTMENT OF EDUCATION					
TRIO Cluster					
TRIO Talent Search	84.044	P044A070216	09/01/07 - 08/31/12	1,133,000	193,966
		P044A120052	09/01/12 - 08/31/17	1,150,000	26,766
			Cluster Total	2,283,000	220,732
<i>Passed through Oregon Department of Education</i>					
Title I, Part A Cluster (I)					
Title I Grants to Local Educational Agencies (LEAs)	84.010	26205	07/01/12 - 06/30/13	6,329	6,328
		26206	07/01/12 - 06/30/13	38,674	38,674
		26952	09/01/12 - 06/30/13	802,000	801,327
		26386	09/01/12 - 08/31/13	2,101	2,101
			Subtotal	849,104	848,430
Title I Grants to Local Educational Agencies (LEAs), Recovery Act	84.389	24793	05/01/12 - 08/31/12	300,000	299,974
			Cluster Total	1,149,104	1,148,404
Migrant Education - State Grant Program					
	84.011	22185	07/01/11 - 09/30/12	152,914	37
		24751	05/01/12 - 09/30/12	29,399	28,930
		25381	07/01/12 - 09/30/13	236,258	209,739
		25400	07/01/12 - 09/30/13	17,999	17,999
		27286	04/15/13 - 09/30/13	63,446	1,459
			Program Total	500,016	258,164
Title I State Agency Program for Neglected and Delinquent Children and Youth					
	84.013	9141.ND	07/01/11 - 06/30/13	31,569	25,751
Special Education Cluster (IDEA) (I)					
Special Education - Grants to States (IDEA, Part B)	84.027	9088	07/01/11 - 06/30/13	15,871	8,493
		9098.B611	07/01/11 - 06/30/13	3,650,590	1,300,985
		9119	07/01/11 - 06/30/13	41,072	24,665
		9124	07/01/11 - 06/30/13	3,662	3,662
		9141.Fed	07/01/11 - 06/30/13	28,561	12,520
		23851	10/01/11 - 09/30/12	2,652	2,652

Multnomah Education Service District
Schedule of Expenditures and Federal Awards
For the Year Ended June 30, 2013 (continued)

FEDERAL GRANTOR	Federal	Grantor or		Grant	Fiscal Year
Federal Program/Cluster and Program Title	CFDA	Pass-Thru	Grant Period	Award	Expenditures
	Number	Number			
Special Education - Grants to States (IDEA, Part B), continued	84.027	27151	07/01/12 - 06/30/13	\$ 19,659	\$ 19,522
		25820-25826	08/01/12 - 06/30/13	13,034	13,033
		24986	09/01/12 - 06/30/13	4,474	4,474
			Subtotal	3,779,574	1,390,006
Special Education - Preschool Grants (IDEA Preschool)	84.173	9098.B619	07/01/11 - 06/30/13	951,615	197,622
<i>Passed through ODE via Western Oregon University</i>		TRSUB13.19	12/15/12 - 06/30/13	1,000	730
			Cluster Total	4,732,189	1,588,358
Early Intervention Services (IDEA) Cluster (I)					
Special Education - Grants for Infants and Families with Disabilities	84.181	9098.C	07/01/11 - 06/30/13	2,001,391	952,991
		24886	07/01/12 - 06/30/13	900	900
			Cluster Total	2,002,291	953,891
Improving Teacher Quality State Grants	84.367	27257	03/04/13 - 06/30/13	29,000	6,346
			US DEPARTMENT OF EDUCATION TOTAL	10,727,170	4,201,646
US DEPARTMENT OF HEALTH AND HUMAN SERVICES					
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	SM57061	10/01/05 - 09/30/12	9,000,000	81,131
Substance Abuse and Mental Health Services Projects of Regional and National Significance (I)	93.243	SM060214	09/30/10 - 09/29/15	3,250,000	652,016
			US DEPARTMENT OF HEALTH AND HUMAN SERVICES TOTAL	12,250,000	733,147
			FEDERAL FINANCIAL ASSISTANCE GRAND TOTAL	\$ 22,977,170	\$ 5,109,634

(I) Indicates major program

MULTNOMAH EDUCATION SERVICE DISTRICT
Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2013

SECTION 1 – SUMMARY OF INDEPENDENT AUDITORS RESULTS

Financial Statements:

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified not considered to be material weakness(es)?	No
Noncompliance material to financial statements noted?	None reported

Federal Awards:

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

Identification of major programs:

<u>CFDA NUMBER(S)</u>	<u>NAME OF FEDERAL PROGRAM OR CLUSTER</u>
84.010, 84.389	Title I, Part A – Grants to Local Education Agencies
84.027, 84.173	Special Education (IDEA) Cluster
84.181	Early Intervention Services (IDEA) Cluster
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance

MULTNOMAH EDUCATION SERVICE DISTRICT
Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2012

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

None noted.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

MULTNOMAH EDUCATION SERVICE DISTRICT
Portland, Oregon

SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2013

Finding 2012-01:

Audit Finding: The District should develop appropriate internal controls including policies and procedures for recording manual journal entries.

Corrective Action Plan Taken: The District's Business Office discussed the manual journal entry process and reiterated the District's policy and procedure of manager review and approval prior to posting.

Finding 2012-02, 2012-03, 2012-04, 2012-05, 2012-06:

Audit Finding: The District should develop and implement policies and procedures such that time submitted for pay for all federal programs show evidence of review and approval by a responsible party in accordance with OMB Circular A-87.

Corrective Action Plan Taken: Effective July 1, 2012, the District redesigned its system of time capture and certification requirements as per federal and state grant laws and regulations.

Finding 2012-07, 2012-08:

Audit Findings: The District should utilize its contract checklist for approving new contracts as intended.

Corrective Action Plan Taken: The District will provide instruction to staff and issue reminders to ensure that our existing contract checklist process is being followed and the completed checklist is saved in the contract file.

OTHER INFORMATION AS REQUIRED BY THE OREGON DEPARTMENT OF EDUCATION



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

Office of Finance and Administration
School Finance Unit

SUPPLEMENTAL INFORMATION, 2012-2013

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	\$ 273,933
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

**Multnomah Education Service District
Oregon Department of Education
District Audit Summary - Revenues & Other Resources
For the Year Ended June 30, 2013**

ODE Major Object MESD Resource/ODE Resource	100 General Fund**	200 Special Revenue Fund	300 Debt Service Fund	400 Capital Project Fund	700 Trust & Agency Fund	Total
1000 - Local Sources						
<i>Property Taxes</i>						
1110 - Ad Valorem Taxes	\$ 26,173,735	\$ -	\$ -	\$ -	\$ -	\$ 26,173,735
1190 - Penalties & Interest on Taxes	7,843	-	-	-	-	7,843
<i>Local Sources</i>						
1311 - Tuition from Individuals	-	33,370	-	-	-	33,370
1940 - Services to Local Ed Agencies	117,367	8,140,105	-	-	-	8,257,472
1990 - Miscellaneous	308	4,030	-	20,349	-	24,687
<i>Investment Earnings</i>						
1500 - Earnings on Investments	78,158	1,535	-	-	-	79,693
<i>Sales of Goods & Services</i>						
1600 - Food Service	-	3,069	-	-	-	3,069
1940 - Services to Local Ed Agencies	17,349	2,485	-	-	-	19,834
<i>Other Revenues</i>						
1920 - Private Contribution/Donations	-	101,149	-	-	-	101,149
1960 - Recover Prior Yrs Expenditures	13,111	-	-	-	-	13,111
1970 - Services Provided Other Funds	369,377	(24)	2,260,111	-	-	2,629,464
1990 - Miscellaneous	275,326	348,140	-	6,400	144,154	774,020
<i>Overhead Revenues</i>						
1980 - Fees Charged to Grants	-	2,557,141	-	-	-	2,557,141
1000 - Local Sources Total	27,052,574	11,191,000	2,260,111	26,749	144,154	40,674,588
2000 - Intermediate Sources						
<i>Other Revenues</i>						
2200 - Restricted Revenue	-	27,955	-	-	-	27,955
3000 - State Sources						
<i>State School Fund</i>						
3101 - SSF- General Support	5,315,956	-	-	-	-	5,315,956

**Multnomah Education Service District
Oregon Department of Education
District Audit Summary - Revenues & Other Resources (continued)
For the Year Ended June 30, 2013**

ODE Major Object MESD Resource/ODE Resource	100 General Fund*	200 Special Revenue Fund	300 Debt Service Fund	400 Capital Project Fund	700 Trust & Agency Fund	Total
<i>State Sources</i>						
3102 - SSF - School Lunch Match	(2,681)	2,681	-	-	-	-
3299 - Other Restricted Grants Aid	-	19,077,165	-	-	-	19,077,165
3000 - State Sources Total	5,313,275	19,079,846	-	-	-	24,393,121
4000 - Federal Sources						
<i>Federal Sources</i>						
1990 - Miscellaneous	-	1,590,053	-	-	-	1,590,053
4300 - Fed Restricted Revenue	-	220,732	-	-	-	220,732
4500 - Federal Restrict Rev Thru State	-	4,155,026	-	-	-	4,155,026
4700 - Federal Grants-In-Aid Thru Int	-	730	-	-	-	730
4900 - Rev For/On Behalf of Districts	-	733,147	-	-	-	733,147
4000 - Federal Sources Total	-	6,699,688	-	-	-	6,699,688
5000 - Other Sources						
<i>Other Revenues</i>						
5300 - Sale/Comp Loss of Fixed Assets	24,546	-	-	-	-	24,546
<i>Transfers In**</i>						
5200 - Interfund Transfers	4,988,176	-	547,530	80,000	-	5,615,706
<i>Fund Equity</i>						
5400 - Beginning Fund Balance	4,609,811	10,503,258	11	1,931,704	42,531	17,087,315
5000 - Other Sources Total	9,622,533	10,503,258	547,541	2,011,704	42,531	22,727,567
Grand Total	\$ 41,988,382	\$ 47,501,747	\$ 2,807,652	\$ 2,038,453	\$ 186,685	\$ 94,522,919

*ODE General Fund includes the Resolution, Operating, and Risk Management Reserve funds.

*** Transfers In includes transfers within the General Fund between the Resolution, Operating, and Risk Management funds.

Slight differences from other financial statements and schedules may occur due to rounding.

**Multnomah Education Service District
Oregon Department of Education
District Audit Summary - Expenditures & Other Uses
For the Year Ended June 30, 2013**

ODE Fund Major Function/ODE Function	100 Salaries	200 Employee Benefits	300 Purchased Services	400 Supplies & Materials	500 Capital Outlay	600 Other Objects	700 Transfers	Total
ODE General Fund (Resolution Services, Operating, and Risk Management Funds)								
Instruction								
1111 - Primary, K-3	\$ -	\$ -	\$ 3,125	\$ 3,429	\$ -	\$ -	\$ -	\$ 6,554
1121 - Middle/Junior High Prog.	-	-	51,507	15,470	-	-	-	66,977
1220 - Restrictive Prgrms- Disabil.	3,755,951	2,275,163	39,611	70,649	-	1,922	-	6,143,296
1280 - Alternative Education	25,926	6,176	23,548	3,101	-	1,025	-	59,776
1292 - Teen Parent Program	161,871	101,207	15,864	17,929	-	668	-	297,539
1294 - Youth Correction	158,304	91,696	-	-	-	-	-	250,000
1299 - Other Designated Programs	221,940	142,614	67	4,818	-	-	-	369,439
Total Instruction	4,323,992	2,616,856	133,722	115,396	-	3,615	-	7,193,581
Support Services								
2110 - Attendance Services	277,100	140,648	31,375	4,059	-	-	-	453,182
2120 - Guidance Services	-	-	35,000	-	-	-	-	35,000
2130 - Health Services	3,111,259	1,641,302	39,662	90,377	-	3,764	-	4,886,364
2140 - Psychological Services	101,547	45,306	2,342	1,195	-	-	-	150,390
2150 - Speech Pathology & Audiol.	746,610	393,192	60,511	3,973	-	-	-	1,204,286
2160 - Other Student Treatment	472,772	230,224	42,033	2,405	-	-	-	747,434
2190 - Director Student Services	1,077,297	576,819	60,529	28,870	-	10,796	-	1,754,311
2210 - Improvement of Instruction	120,405	62,821	34,414	12,278	-	2,963	-	232,881
2310 - Board of Education	-	-	96,641	2,322	-	22,623	-	121,586
2320 - Executive Administration	244,713	126,113	38,780	11,845	-	6,853	-	428,304
2410 - Office of the Principal	58,459	37,673	6,016	1,133	-	438	-	103,719
2510 - Direction of Business	-	-	8,167	2,032	-	3,440	-	13,639
2520 - Fiscal Services	-	-	93,947	4,495	-	1,208	-	99,650
2540 - Plant Operations & Maint.	55,841	42,214	19,791	21,576	-	18,518	-	157,940
2550 - Student Transportation	-	-	1,900	-	-	-	-	1,900
2570 - Internal Services	183,579	104,991	21,520	5,548	-	489,733	-	805,371
2610 - Central Support	-	-	2,901	2,170	-	-	-	5,071
2630 - Information Services	94,921	48,944	8,964	4,108	-	175	-	157,112
2640 - Staff Services	107,621	157,951	64,436	376	-	-	-	330,384
2660 - Technology Services	1,145,848	580,590	1,664,113	382,950	5,711	3,123	-	3,782,335
2690 - Other Support Systems	-	-	1,195	293	-	597	-	2,085
Total Support Services	7,797,972	4,188,788	2,334,237	582,005	5,711	564,231	-	15,472,944

**Multnomah Education Service District
Oregon Department of Education
District Audit Summary - Expenditures & Other Uses (continued)
For the Year Ended June 30, 2013**

ODE Fund Major Function/ODE Function	100 Salaries	200 Employee Benefits	300 Purchased Services	400 Supplies & Materials	500 Capital Outlay	600 Other Objects	700 Transfers	Total
Enterprise & Community Service								
3100 - Food Services	-	-	-	4,397	-	630	-	5,027
Other Uses								
5300 - ESD Appropriation	-	-	-	-	-	-	8,457,036	8,457,036
Transfers Out*								
5200 - Fund Transfer	-	-	-	-	-	-	4,969,765	4,969,765
Total ODE General Fund	\$ 12,121,964	\$ 6,805,644	\$ 2,467,959	\$ 701,798	\$ 5,711	\$ 568,476	\$ 13,426,801	\$ 36,098,353

ODE Special Revenue Fund (Contracted Services Fund)

Instruction								
1111 - Primary, K-3	\$ 33,754	\$ 7,560	\$ 4,022	\$ 1,076	\$ -	\$ 4,641	\$ -	\$ 51,053
1121 - Middle/Junior High Prog.	238,345	50,447	162,871	134	-	45,180	-	496,977
1220 - Restrictive Prgrms- Disabil.	1,470,315	837,118	80,266	100,952	-	248,839	-	2,737,490
1260 - Early Intervention	3,323,731	1,802,377	464,005	48,114	-	563,833	-	6,202,060
1280 - Alternative Education	53,837	6,896	578	136	-	2,820	-	64,267
1293 - Migrant Education	62,635	31,345	33,294	3,909	-	95	-	131,278
1294 - Youth Correction	526,752	248,513	23,522	35,748	-	85,486	-	920,021
1299 - Other Designated Programs	435,732	264,163	64,797	27,954	-	81,586	-	874,232
Total Instruction	6,145,101	3,248,419	833,355	218,023	-	1,032,480	-	11,477,378
Support Services								
2110 - Attendance Services	226,240	138,254	5,951	208	-	38,688	-	409,341
2120 - Guidance Services	234,168	130,435	10,451	3,231	-	24,813	-	403,098
2130 - Health Services	1,889,759	1,087,016	218,121	63,326	-	325,000	-	3,583,222
2140 - Psychological Services	18,088	6,842	-	-	-	2,493	-	27,423
2150 - Speech Pathology & Audiol.	1,657,116	869,773	623,607	10,237	-	323,697	-	3,484,430
2160 - Other Student Treatment	1,022,431	503,117	169,795	6,807	-	170,262	-	1,872,412
2190 - Director Student Services	1,427,151	689,827	131,599	90,136	-	230,042	-	2,568,755
2210 - Improvement of Instruction	76,501	26,282	53,559	2,085	-	577	-	159,004
2230 - Assessment & Testing	877,930	211,914	258,339	62,450	-	125,921	-	1,536,554
2410 - Office of the Principal	149,741	86,830	758	-	-	23,733	-	261,062
2490 - Other Administrative Supp.	453,267	277,732	20,253	4,616	-	76,181	-	832,049

**Multnomah Education Service District
Oregon Department of Education
District Audit Summary - Expenditures & Other Uses (continued)
For the Year Ended June 30, 2013**

ODE Fund Major Function/ODE Function	100 Salaries	200 Employee Benefits	300 Purchased Services	400 Supplies & Materials	500 Capital Outlay	600 Other Objects	700 Transfers	Total
2510 - Direction of Business	151,267	80,038	50,625	-	-	-	-	281,930
2520 - Fiscal Services	387,610	203,952	(188,822)	867	-	441	-	404,048
2540 - Plant Operations & Maint.	335,008	203,416	1,151,571	25,397	-	83,446	-	1,798,838
2550 - Student Transportation	-	-	57,288	-	-	5,729	-	63,017
2640 - Staff Services	329,416	153,802	36,878	9,449	-	4,933	-	534,478
2660 - Technology Services	553,427	320,185	139,689	454,987	-	52,109	-	1,520,397
2690 - Other Support Systems	-	-	57	-	-	-	-	57
Total Support Services	9,789,120	4,989,415	2,739,719	733,796	-	1,488,065	-	19,740,115
Enterprise & Community Service								
3100 - Food Services	110,513	21,967	42,565	303,286	-	18,292	-	496,623
3300 - Community Services	350,172	75,717	2,709,285	3,354	-	50,528	-	3,189,056
Total Enterprise & Comm. Svc.	460,685	97,684	2,751,850	306,640	-	68,820	-	3,685,679
Other Uses								
5300 - ESD Appropriation	-	-	-	-	-	-	5,098,110	5,098,110
Transfers Out								
5200 - Fund Transfer	-	-	-	-	-	-	645,941	645,941
Total ODE Special Revenue Fund	\$ 16,394,906	\$ 8,335,518	\$ 6,324,924	\$ 1,258,459	\$ -	\$ 2,589,365	\$ 5,744,051	\$ 40,647,223
Debt Service Fund								
Debt Service								
5100 - Debt Service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,807,632	\$ -	\$ 2,807,632
Capital Projects Funds								
Support Services								
2660 - Technology Services	\$ -	\$ -	\$ 83,000	\$ -	\$ 45,031	\$ -	\$ -	\$ 128,031
Facilities Acq. & Construction								
4150 - Building Acquisition Const.	-	-	-	-	110,488	-	-	110,488
Total Capital Project Fund	\$ -	\$ -	\$ 83,000	\$ -	\$ 155,519	\$ -	\$ -	\$ 238,519

**Multnomah Education Service District
Oregon Department of Education
District Audit Summary - Expenditures & Other Uses (continued)
For the Year Ended June 30, 2013**

ODE Fund Major Function/ODE Function	100 Salaries	200 Employee Benefits	300 Purchased Services	400 Supplies & Materials	500 Capital Outlay	600 Other Objects	700 Transfers	Total
Trust & Agency Funds								
Support Services								
2520 - Fiscal Services	\$ 48,000	\$ 4,283	\$ 36,428	\$ 31,178	\$ -	\$ 8,390	\$ -	\$ 128,279

*This report includes transfers within the General Fund between the Resolution, Operating, and Risk Management funds.

Slight differences from other financial statements and schedules may occur due to rounding.

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AUDIT COMMENTS AND DISCLOSURES





**Talbot, Korvola
& Warwick, LLP**

Certified Public Accountants
& Consultants

4800 Meadows Road, Suite 200
Lake Oswego, Oregon 97035-4293

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INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

December 17, 2013

Board of Directors
Multnomah Education Service District
Portland, Oregon

We have audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of Multnomah Education Service District, Portland, Oregon, (the District) as of and for the year ended June 30, 2013, and have issued our report thereon dated December 17, 2013.

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).

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McGLADREY ALLIANCE



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**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 for over expenditures of appropriations as noted below:

<u>Fund/Function</u>	<u>Appropriation</u>	<u>Expenditure</u>	<u>Over Expenditure</u>
Resolutions Fund:			
Transfers out	\$ 3,225,645	\$ 3,229,753	\$ (4,108)

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 on internal control over financial reporting and on compliance and other matters based on an audit of financial statements in accordance with *Government Auditing Standards* is presented elsewhere in this report as listed in the Table of Contents.

RESTRICTIONS ON USE

This report is intended solely for the information and use of the Board of Directors, Oregon Secretary of State, Audits Division, and management and is not intended to be and should not be used by anyone other than these specified parties.

Talbot, Kowala & Warwick LLP

Certified Public Accountants

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