

Multnomah Education Service District
Multnomah County, Oregon

Comprehensive Annual Financial Report

For the Year Ended June 30, 2012

Multnomah Education Service District

Multnomah County, Oregon

Comprehensive Annual Financial Report

For the Year Ended June 30, 2012

Prepared by the Business Services Department

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INTRODUCTORY SECTION





December 18, 2012

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, 2012 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 unqualified ("clean") opinion on the MESD's financial statements for the year ended June 30, 2012. 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 2011-12, 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	11	6,422	Parkrose	6	3,426
Corbett	3	912	Portland	90	47,400
David Douglas	16	10,330	Reynolds	19	11,077
Gresham-Barlow	20	12,219	Riverdale	2	552

Source: MESD Accountability Report 2010-2011

Within these districts are 167 schools with 92,338 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, and 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 dental 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 consists of three programs: Public Information, Printing and Graphic Services and the E2 Foundation. Public information provides internal and external communications media and community relations, support for the District's publications and websites, and coordinates agency events throughout the year. Printing and Graphic Services provides graphic design, high speed and color copying, bindery and document finishing and full color digital imaging for internal and external customers. The E2 Foundation is the affiliated nonprofit corporation that raises money for the District's programs, creates community partnerships, builds awareness of the District's programs and assists staff in grant writing and proposal development.

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

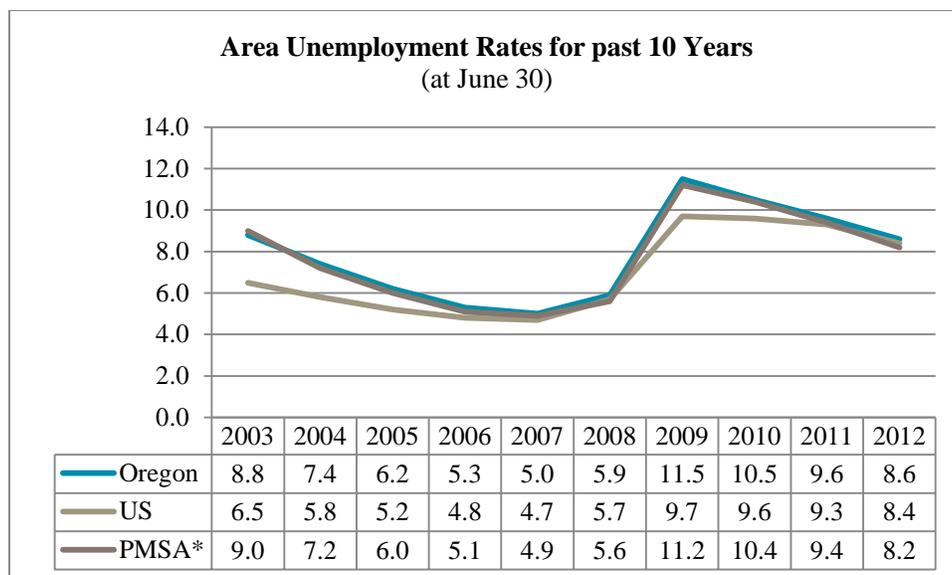
The Portland metropolitan area is the financial, trade, transportation and service center for Oregon, southwest Washington State and the Columbia River basin. Its manufacturing base includes electronics, machinery, transportation equipment, and fabricated metals. Between June 2011 and June 2012, area employment increased by 20,400 jobs, or 2.1 percent.

Nonfarm Payroll Employment (not seasonally adjusted)				
	June 2012	June 2011	Change	Percent
Construction	50,800	47,300	3,500	7.4%
Manufacturing	114,000	111,300	2,700	2.4%
Trade, Trans., & Utilities	195,500	190,600	4,900	2.6%
Information	22,400	22,400	0	0.0%
Financial Activities	62,200	61,700	500	0.8%
Professional & Bus. Svc	135,800	132,700	3,100	2.3%
Educ. & Health Services	142,300	140,300	2,000	1.4%
Leisure & Hospitality	103,500	98,600	4,900	5.0%
Government	148,300	148,500	-200	-0.1%
Mining and Logging	1,100	1,100	0	0.0%
Other Services	34,300	35,300	-1,000	-2.8%
Total Nonfarm Payroll	1,010,200	989,800	20,400	2.1%

Source: Oregon Employment Dept.: WorkSource Oregon Portland Metro Labor Trends (August 2012)

During the past four years, the area's unemployment rate has made a gradual decrease. As of June 30, 2012 the Portland-Vancouver-Hillsboro MSA unemployment rate was at 8.2%, down from 9.4% a year

ago, but still much higher than the 4.9% in 2007. The unemployment rate for the area is slightly better than the State of Oregon (8.6%) and the national average (8.4%). 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 continues to project declining revenues, budgets may be reduced statewide. MESD continues to monitor the State’s economic condition and legislative actions. The 2011-12 budget was reduced in anticipation of lower funding levels for the next several years.

Major Initiatives

The District continues to participate in the Shared Service Cooperative Model with four neighboring ESDs: Clackamas, Columbia Gorge, Northwest Regional, and Willamette. Together these agencies have agreed to allow resolution and general fund dollars from the combined 63 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

MESD Comprehensive Annual Financial Report

Year Ended June 30, 2012

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 nine of fifty-two component school districts, expanding data warehouse services and more than doubling Internet bandwidth. During the same period staff was reduced from 95.5 to 83.7 FTE and several services were reduced in costs. The CTA currently services 10 counties, 53 school districts, and 267,983 students. More information about the Cascade Technology Alliance can be found at www.cascadetech.org.

Projected Enrollment

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

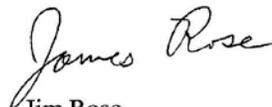
ACKNOWLEDGEMENTS

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, 2012**

<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

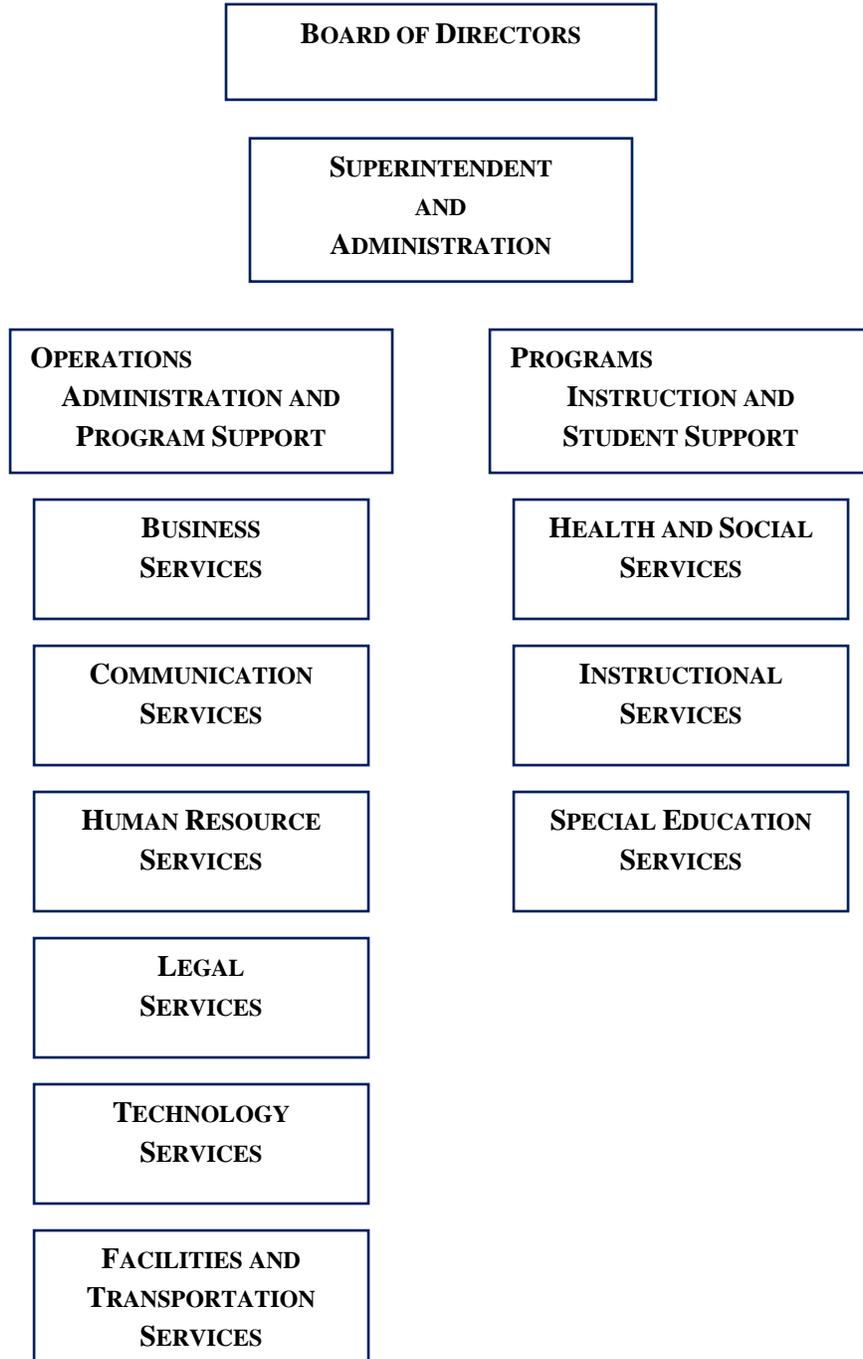
ADMINISTRATION

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, 2012



FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

December 18, 2012

Board of Directors
Multnomah Education Service District
Portland, Oregon



**Talbot, Korvola
& Warwick, LLP**

Certified Public Accountants
& Consultants

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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 (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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, as listed in the Table of Contents, 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

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INDEPENDENT AUDITOR'S REPORT (Continued)

Board of Directors
Multnomah Education Service District
December 18, 2012

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 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, the 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 accompanying Schedule of Expenditures of Federal Awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Combining and individual fund statements, schedules and other schedules, collectively presented as Other Supplementary Information, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards and 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 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, the accompanying Schedule of Expenditures of Federal Awards and Other 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 Introductory and Statistical Sections, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements by us or other auditors, and accordingly, we do not express an opinion or provide any assurance on it.

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 statement this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012.

Financial Highlights

- In the government-wide statements, the assets of the District exceeded its liabilities at June 30, 2012 by \$14.2 million. Of this amount, \$7.5 million represents the District's nonspendable investment in capital assets net of related debt, \$1.4 is restricted, and \$5.3 is available to meet the District's ongoing obligations to citizens and creditors.
- The District's total net assets decreased by \$5.2 million, primarily due to the use of existing cash balances to maintain program stability and staffing levels, decreased ARRA funding, and increased percentage of direct transit dollars available to component districts.
- The District's governmental funds report combined ending fund balance of \$17 million, a decrease of \$4.5 million. Approximately 55 percent of this total amount, \$9.4 million, is assigned to help support future program services provided to component school districts and approximately 24 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 Assets* presents information on all of the assets and liabilities of the District at year-end. *Net assets* are those remaining after the liabilities have been recognized. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the net assets of the District changed by tracking revenues, expenses, and other transactions that increase or reduce net assets. All changes in net assets 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 in this statement 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 14 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. 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 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 16 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 basic fiduciary fund financial statement is on page 20 of this report.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 22 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. This information begins on page 40 of this report.

Other Supplementary Information (OSI) includes combining statements for the nonmajor governmental funds, budgetary comparison schedules for nonmajor and other funds, and other financial schedules. Other supplementary information begins on page 46 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the MESD, assets exceeded liabilities by \$14.2 million at the close of the most recent fiscal year.

Multnomah Education Service District's Comparative Statement of Net Assets

	June 30, 2012	June 30, 2011 Restated	Increase (Decrease)
Assets			
Current and other assets	\$ 26,458,563	\$ 31,626,014	\$ (5,167,451)
Prepaid pension cost, net of amortization	21,124,520	22,532,822	(1,408,302)
Net capital assets	10,079,616	10,562,297	(482,681)
Total assets	<u>57,662,699</u>	<u>64,721,133</u>	<u>(7,058,434)</u>
Liabilities			
Long-term liabilities outstanding	33,880,015	35,418,666	(1,538,651)
Other liabilities	9,592,470	9,896,244	(303,774)
Total liabilities	<u>43,472,485</u>	<u>45,314,910</u>	<u>(1,842,425)</u>
Net assets:			
Invested in capital assets, net of related debt	7,518,499	7,517,473	1,026
Restricted	1,410,941	4,157,275	(2,746,334)
Unrestricted	5,260,774	7,731,475	(2,470,701)
Total net assets	<u>\$ 14,190,214</u>	<u>\$ 19,406,223</u>	<u>\$ (5,216,009)</u>

A large portion of the MESD's net assets (53%) 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 smallest portion of the MESD's net assets (10%) 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 *unrestricted net assets* (\$5.3 million) may be used to meet the government's ongoing obligations to citizen's and creditors.

There was a significant decrease of \$5.2 million in current assets reported. The majority of this decrease (\$5 million) is in reduced cash, accounts receivable, and inventory balances. This variance is a result of management's directive to use existing cash balances to maintain program stability and sustain staffing levels in 2011-12, component district's use of existing cash balances to fund services, decreased ARRA funding, and the closing of the CO-OP Warehouse in December 2011.

Changes in net assets. Governmental activities decreased the MESD's net assets by \$5.2 million for the fiscal year 2011-2012. Key elements of this decrease are as follows:

Multnomah Education Service District's Comparative Statement of Activities

	June 30, 2012	June 30, 2011	Increase (Decrease)
Revenues			
Program revenues			
Charges for services	\$ 10,268,887	\$ 12,999,332	\$ (2,730,445)
Operating grants & contributions	20,066,049	20,140,915	(74,866)
General revenues			
Property taxes	25,980,967	25,075,966	905,001
State School Fund	4,657,196	4,222,969	434,227
Federal stimulus	895,484	2,550,138	(1,654,654)
Earnings on investments	100,886	108,512	(7,626)
Miscellaneous revenues	3,055,618	3,314,562	(258,944)
Total revenues	<u>65,025,087</u>	<u>68,412,394</u>	<u>(3,387,307)</u>
Expenses			
Instruction	19,126,964	17,569,453	1,557,511
Support services	35,744,950	37,152,822	(1,407,872)
Enterprise and community services	3,086,517	3,524,849	(438,332)
Facilities repairs and maintenance	45,672	2,685	42,987
Apportionment of funds by the ESD	10,065,731	8,916,168	1,149,563
Unallocated depreciation	293,828	286,200	7,628
Interest on long-term debt	1,877,434	1,903,338	(25,904)
Total expenses	<u>70,241,096</u>	<u>69,355,515</u>	<u>885,581</u>
Change in Net Assets	(5,216,009)	(943,121)	(4,272,888)
Net Assets - Beginning	<u>19,406,223</u>	<u>20,349,344</u>	<u>(943,121)</u>
Net Assets - Ending	<u>\$ 14,190,214</u>	<u>\$ 19,406,223</u>	<u>\$ (5,216,009)</u>

- Charges for services saw decreased revenues as component district's used their available cash balances held at MESD in 2011-2012 to pay for contracted services.
- Due to the nature of grants, fluctuations in operating grants and contributions revenue is common.
- Federal stimulus dollars also decreased due to the end of ARRA funding.
- Component districts are allowed to receive a portion of their resolution funding allocation directly from the MESD instead of using it to purchase program services. For the 2011-12 school year, the Superintendents agreed to increase the amount available from 6%-11% to 25%. This along with a reduction in ARRA funding passed-thru to districts resulted in a net additional \$1.1 million of MESD apportionment of funds.

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 2011-12 fiscal year, the fund balance decreased by \$2.7 million. This decrease was anticipated and budgeted for in the adopted budget and represents use of working cash balance to maintain program stability, sustain staffing levels, and provide opportunities for future growth.

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 are restricted for use by the MESD's eight component school districts while the remaining 10% may be used to fund supporting operations. During the 2011-12 fiscal year, the fund balance decreased by approximately \$1.0 million and represents a use of carryover funds by the MESD's component school districts.

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 2011-12 fiscal year, the fund balance decreased by \$1.6 million. The main uses of the funds derived from these sources are to lower costs for future services provided to our component school districts.

General Fund Budgetary Highlights

During the fiscal year several efficiency and cost-cutting measures were implemented to reduce the operating expenses of the District. Through attrition several positions were eliminated in the Business Services, Human Resources, Communication and Technology Services departments. Also, many positions were moved to the Contracted Services fund to better account for actual costs for those services. This resulted in the approximately \$840,000 positive variance in expenditures from the budget. As a consequence of the severe economic downturn the District saw continued depressed sales volumes for the

cooperative purchasing program. In September 2011 the District made the decision to close its cooperative purchasing and warehousing service effective the end of the calendar year.

Capital Asset and Debt Administration

Capital Assets. The District's investment in capital assets includes buildings and improvements, site improvements, vehicles and equipment, and construction in progress. As of June 30, 2012 the District had invested \$10,079,616 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 \$34,745,000. The OSBA Limited Tax Pension Obligations, Series 2004 bonds had a remaining balance of \$32,330,000 at June 30, 2012. These bonds were sold to fund the District's Public Employees Retirement System unfunded actuarial liability. The source of funding to repay this debt is derived from charges to payroll which reduces the District's PERS contributions.

The second issue is the 2004 Refunding of 1997 full faith credit obligations, which had a remaining balance of \$2,415,000 at June 30, 2012. 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 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 as follows: from 3.79 percent to 11.72 percent for PERS employees and from 4.31 percent to 10.21 percent for OPSRP general employees. PERS contributions totaled approximately \$3.1 million during the fiscal year ended June 30, 2012 and are projected to increase to \$5 million annually over the next two years.

Request for Information

This financial report is designed to provide a general overview of the Multnomah Education Service District's finances. Questions concerning any of the information provided in the report or requests for additional financial information should be 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 Assets
June 30, 2012

	Governmental Activities
Assets	
Cash and Cash Equivalents	\$ 17,456,964
Property Taxes Receivable	1,817,881
Accounts Receivable	6,911,998
Inventory	58,630
Prepaid Items	57,644
Prepaid Pension Costs, Net of Amortization	21,124,520
Bond Issuance Costs, Net of Amortization	155,446
Capital Assets, Net of Depreciation	10,079,616
Total Assets	57,662,699
 Liabilities	
Accounts Payable	3,818,050
Accrued Payroll & Withholdings	3,925,315
Accrued Compensated Absences	129,957
Other Post Employment Benefits	708,047
Non-Current Liabilities:	
Due Within One Year	1,011,101
Due in More Than One Year	33,880,015
Total Liabilities	43,472,485
 Net Assets	
Invested in Capital Assets, Net of Related Debt	7,518,499
Restricted	1,410,941
Unrestricted	5,260,774
Total Net Assets	\$ 14,190,214

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

Multnomah Education Service District
Statement of Activities
June 30, 2012

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Instruction				
Regular Programs	\$ 634,768	\$ 909,581	\$ 308,854	\$ 583,667
Special Programs	18,492,196	3,654,612	8,589,194	(6,248,390)
Support Services				
Student Services	21,552,136	4,014,695	7,226,067	(10,311,374)
Instructional Staff Services	583,646	36,931	399,240	(147,475)
General Administration	744,041	-	-	(744,041)
School Administration	418,206	-	237,723	(180,483)
Business Services	6,924,450	1,164,742	60,747	(5,698,961)
Central Activities	5,522,471	488,326	-	(5,034,145)
Enterprise and Community Services				
Food Services	497,533	-	166,447	(331,086)
Community Services	2,588,406	-	1,612,164	(976,242)
Custody and Care of Children	578	-	-	(578)
Facilities Repairs and Maintenance	45,672	-	-	(45,672)
Apportionment of Funds by the ESD	10,065,731	-	1,465,613	(8,600,118)
Unallocated Depreciation	293,828	-	-	(293,828)
Interest on Long-Term Debt	1,877,434	-	-	(1,877,434)
Total Governmental Activities	\$ 70,241,096	\$ 10,268,887	\$ 20,066,049	(39,906,160)

General Revenues

Property Taxes, Levied for General Purposes	25,980,967
State School Fund- General Support	4,657,196
Federal Stimulus	895,484
Earnings on Investments	100,886
Miscellaneous Revenues	3,055,618

Total General Revenues **34,690,151**

Change in Net Assets **(5,216,009)**

Net Assets - Beginning **19,406,223**

Net Assets - Ending **\$ 14,190,214**

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

Multnomah Education Service District
Balance Sheet
Governmental Funds
June 30, 2012

	General	Resolution Services	Contracted Services	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and Cash Equivalents	\$ 8,324,060	\$ 2,188,453	\$ 5,012,736	\$ 1,931,715	\$ 17,456,964
Property Taxes Receivable	-	1,817,881	-	-	1,817,881
Accounts Receivable	152,247	143,628	6,616,123	-	6,911,998
Inventory	58,630	-	-	-	58,630
Prepaid Items	57,644	-	-	-	57,644
Total Assets	\$ 8,592,581	\$ 4,149,962	\$ 11,628,859	\$ 1,931,715	\$ 26,303,117
Liabilities					
Accounts Payable	\$ 273,775	\$ 2,418,674	\$ 1,125,601	\$ -	\$ 3,818,050
Accrued Payroll & Withholdings	3,925,315	-	-	-	3,925,315
Deferred Tax Revenue	-	1,514,968	-	-	1,514,968
Total Liabilities	4,199,090	3,933,642	1,125,601	-	9,258,333
Fund Balances					
Nonspendable					
Inventory	58,630	-	-	-	58,630
Prepaid Items	57,644	-	-	-	57,644
Total Nonspendable Funds	116,274	-	-	-	116,274
Restricted	-	216,320	1,078,336	11	1,294,667
Committed	613,018	-	-	-	613,018
Assigned	260,487	-	9,424,922	1,931,704	11,617,113
Unassigned	3,403,712	-	-	-	3,403,712
Total Fund Balances	4,393,491	216,320	10,503,258	1,931,715	17,044,784
Total Liabilities and Fund Balances	\$ 8,592,581	\$ 4,149,962	\$ 11,628,859	\$ 1,931,715	\$ 26,303,117

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 Assets
June 30, 2012

Total Fund Balances - Governmental Funds	\$ 17,044,784
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.	10,079,616
Prepaid pension expense, net of accumulated amortization	21,124,520
A portion of the District's property taxes are collected after year-end but are not available soon enough to pay for the current years' operations, and therefore are not reported as revenue in the governmental funds.	1,514,968
Unamortized Bond Issuance Costs not reported in the governmental funds.	155,446
Accrued compensated absences are not reported in the governmental funds.	(129,957)
Long-term liabilities not payable in the current year are not reported as governmental fund liabilities.	
These liabilities consist of:	
GO Bonds Payable	(2,415,000)
OSBA Bonds Payable	(32,330,000)
Capital Lease Payable	(146,116)
Other Post employment Benefits	(708,047)
	(35,605,163)
Net Assets	\$ 14,190,214

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, 2012

	General	Resolution Services	Contracted Services	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$ -	\$ 25,504,874	\$ -	\$ -	\$ 25,504,874
State School Fund	-	4,657,196	-	-	4,657,196
Local Sources	29,184	77,000	7,424,524	35,405	7,566,113
State Sources	-	-	15,750,967	-	15,750,967
Federal Sources	4,744	228,012	5,906,228	-	6,138,984
Investment Earnings	97,889	-	2,997	-	100,886
Sales of Goods & Services	249,111	-	972,018	-	1,221,129
Other Revenues	617,157	649,835	152,233	2,189,620	3,608,845
Charges for Services	-	-	2,101,237	-	2,101,237
Total Revenues	998,085	31,116,917	32,310,204	2,225,025	66,650,231
Expenditures					
Instruction	-	7,407,117	12,621,618	-	20,028,735
Support Services	5,576,330	13,384,630	16,148,991	-	35,109,951
Enterprise and Community Svcs.	-	7,497	3,143,832	-	3,151,329
Facilities Acquisitions/Constr.	-	-	-	85,759	85,759
Debt Service	-	-	-	2,692,434	2,692,434
Total Expenditures	5,576,330	20,799,244	31,914,441	2,778,193	61,068,208
Excess of Revenues Over (Under) Expenditures	(4,578,245)	10,317,673	395,763	(553,168)	5,582,023
Other Financing Sources (Uses)					
Apportionment of Funds	-	(8,114,548)	(1,951,183)	-	(10,065,731)
Transfers In	3,092,286	-	3,813	1,279,130	4,375,229
Transfers Out	(1,202,943)	(3,172,286)	-	-	(4,375,229)
Total Other Financing Sources (Uses)	1,889,343	(11,286,834)	(1,947,370)	1,279,130	(10,065,731)
Net Change in Fund Balance	(2,688,902)	(969,161)	(1,551,607)	725,962	(4,483,708)
Beginning Fund Balances	7,082,393	1,185,481	12,054,865	1,205,753	21,528,492
Ending Fund Balances	\$ 4,393,491	\$ 216,320	\$ 10,503,258	\$ 1,931,715	\$ 17,044,784

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, 2012

Total Net Changes in Fund Balances – Governmental Funds	\$ (4,483,708)
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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	163,166
Depreciation Expense	(521,625)
Loss on Disposal of Capital Assets	(124,223)

The Statement of Net Assets repayment of principal is an expenditure in the governmental funds but reduces the liability in the Statement of Net Assets	858,679
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Governmental funds report the effect of issuance costs, premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities

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

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

Property Taxes	476,094
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Other post employment benefits expenses are reported in the Statement of Activities but they are not reported as expenditures in the governmental funds.	(180,497)
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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.	14,769
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Change in Net Assets of Governmental Activities	\$ (5,216,009)
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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 Assets & Liabilities
Fiduciary Fund
For the Year Ended June 30, 2012**

	<u>Balance July 1</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30</u>
Assets				
Cash and Cash Equivalents	\$ 4,852,732	\$ 486,975	\$ 5,339,707	\$ -
Accounts Receivable	100,235	-	100,235	-
Total Assets	\$ 4,952,967	\$ 486,975	\$ 5,439,942	\$ -
Liabilities				
Held in Trust	\$ 4,952,967	\$ 486,975	\$ 5,439,942	\$ -
Total Liabilities	\$ 4,952,967	\$ 486,975	\$ 5,439,942	\$ -

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

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

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

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

B. Fund Financial Statements

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

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

Government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District receives value without giving equal value in exchange, include property taxes, grants, entitlements and donations. On the accrual basis of accounting, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

Governmental funds are used to account for the District's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period (60 days). Expenditures are recorded when the liability is incurred, except for unmatured interest on long-term debt which is recognized when due, claims and judgments and compensated absences, which are recognized when expended.

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

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 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 reports the following fund types:

Debt Service Fund- These funds account for the payment and interest on the Limited Tax Pension Obligation bonds, the general obligation bonds and the capital 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 Assets and the Balance Sheet as receivables. Uncollected taxes are deemed to be substantially collectible or recoverable through liens, therefore no allowance for uncollectible taxes has been established. All property taxes receivable are due from property owners within the District.

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

F. Grants

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

G. Inventories

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

H. Capital Assets

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

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	40 years
Equipment	5 to 20 years
Vehicles	5 to 10 years
Site improvements	15 years

I. Compensated Absences

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

J. Long-Term Obligations

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

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

K. Prepaid Pension Costs

As a result of the issuance of the Limited Tax Pension Obligation Bonds the District has reported a prepaid PERS asset in the Statement of Net Assets. The prepaid asset is equal to the initial \$32,897,919 payment made to PERS from the bond proceeds, less accumulated amortization at June 30, 2012 of \$11,773,399. Annual amortization has been calculated on the straight line basis.

L. Other Post-Employment Benefits Obligations

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

M. Net Assets in the Government-wide Financial Statements

Net assets are classified into the following categories:

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

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

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

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

N. Fund Balances in Fund Financial Statements

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

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

O. Estimates

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

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 expenditures for Instruction over budget by \$241,736. Total expenditures in the fund are under budgeted amounts by more than \$633 thousand. Expenditures within categories fluctuated depending on services ordered from other districts. Contracted Services Fund shows expenditures in other uses over budget by \$446,484. Revenues exceeded expenditures in the fund by more than \$677 thousand. Apportionment of Funds (transits) exceeded budget due to a one time pass-thru of dollars from Special Education to David Douglas School District.

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, 2012, (recorded at fair value) consisted of:

Cash on Hand	\$ 6,405
Demand Deposits	3,173,823
Local Government Investment Pool	<u>14,276,736</u>
Total	<u>\$ 17,456,964</u>

Investments

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

Amounts in the State Treasurer's Local Government Investment Pool are not required to be collateralized. There is no material difference between the fair value of the District's position in the State Treasurer's Local Government Investment Pool and the value of the pool shares at June 30, 2012.

Custodial Credit Risk

Deposits with financial institutions are comprised of bank demand deposits. The combined total bank balance at June 30, 2012 was \$3,657,024 (carrying amount \$3,173,823). As required by Oregon Revised Statutes, deposits were held at a qualified depository for public funds. All qualified depositories for public funds are included in the multiple financial institution collateral pool that is maintained by and in the name of the Office of the State Treasurer.

Interest Rate Risk

Oregon Revised Statutes require investments to not exceed a maturity of 18 months, except when the local government has adopted a written investment policy that was submitted to and reviewed by the OSTFB. The District does not have any investments that have a maturity date greater than 18 months.

Credit Risk

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

NOTE 4 – CAPITAL ASSETS

The changes in capital assets for the year ended June 30, 2012 are as follows:

	Balance June 30, 2011	Additions	Transfers and Dispositions	Balance June 30, 2012
Non-depreciable capital assets				
Land	\$ 1,935,748	\$ -	\$ -	\$ 1,935,748
Construction in progress	15,792	-	(15,792)	-
	<u>1,951,540</u>	<u>-</u>	<u>(15,792)</u>	<u>1,935,748</u>
Depreciable capital assets				
Buildings & improvements	11,389,593	38,789	(465,330)	10,963,052
Site improvements	828,792	15,740	-	844,532
Equipment and furniture	1,951,528	124,039	(460,788)	1,614,779
Vehicles	389,091	-	(10,721)	378,370
	<u>14,559,004</u>	<u>178,568</u>	<u>(936,839)</u>	<u>13,800,733</u>
Less: accumulated depreciation				
Buildings & improvements	3,795,253	318,317	(374,774)	3,738,796
Site improvements	221,735	56,131	-	277,866
Equipment and furniture	1,624,332	101,773	(427,513)	1,298,592
Vehicles	306,927	45,404	(10,720)	341,611
	<u>5,948,247</u>	<u>521,625</u>	<u>(813,007)</u>	<u>5,656,865</u>
Total depreciable capital assets, net	<u>8,610,757</u>	<u>(343,057)</u>	<u>(123,832)</u>	<u>8,143,868</u>
Total capital assets, net	<u>\$ 10,562,297</u>	<u>\$ (343,057)</u>	<u>\$ (139,624)</u>	<u>\$ 10,079,616</u>

Depreciation expense for the year ended June 30, 2012 was allocated to the functions as follows:

Regular programs	\$ 3,501
Special programs	21,285
Student services	54,184
Instructional staff services	396
General administration	3,187
Business services	115,479
Central services	28,264
Community services	1,501
Unallocated depreciation	293,828
	<u>\$ 521,625</u>

NOTE 5 – LONG-TERM DEBT AND CAPITAL LEASES

The changes in long-term debt, for the year ended June 30, 2012 are as follows:

	OSBA Pension Bonds	2004 GO Bonds	Capital Lease	Total
Original Amount	\$ 33,140,000	\$ 4,570,000	\$ 307,952	\$ 38,017,952
Balance at June 30, 2011	\$ 32,705,000	\$ 2,855,000	\$ 189,795	\$ 35,749,795
Payments	(375,000)	(440,000)	(43,679)	(858,679)
Balance at June 30, 2012	\$ 32,330,000	\$ 2,415,000	\$ 146,116	\$ 34,891,116

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	Capital Lease	Total	Interest
2012	2013	\$ 510,000	\$ 455,000	\$ 46,101	\$ 1,011,101	\$ 1,849,414
2013	2014	655,000	470,000	48,658	1,173,658	1,806,589
2014	2015	810,000	490,000	51,357	1,351,357	1,752,522
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	2022	9,275,000	-	-	9,275,000	6,872,640
2022	2027	16,990,000	-	-	16,990,000	3,558,097
2027	2028	1,935,000	-	-	1,935,000	106,967
TOTAL		\$ 32,330,000	\$ 2,415,000	\$ 146,116	\$ 34,891,116	\$ 19,263,748

At the end of the current fiscal year, the District had two bond issues with a total debt outstanding of \$34,745,000. The OSBA Limited Tax Pension Obligations, Series 2004 bonds had a remaining balance of \$32,330,000 at June 30, 2012. 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 Resolution Services Fund to the Debt Service Fund each year to pay the annual debt service. Proceeds from the original issue were used to construct Alpha High School and Arata Creek School.

Total principal and interest paid on the two bonds during the year ended June 30, 2012 was \$2,692,446.

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

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2012, were as follows:

For the Year Ending June 30,		
2013	\$	52,874
2014		52,874
2015		52,874
Total minimum lease payments		<u>158,622</u>
Less: amount representing interest		<u>(12,506)</u>
Total minimum future lease payments	\$	<u><u>146,116</u></u>
Machinery and Equipment	\$	307,952
Less: accumulated depreciation		<u>(307,952)</u>
Total equipment acquired under lease agreement	\$	<u><u>-</u></u>

NOTE 6 – OPERATING LEASES

The District leases building space at various locations and an IKON copier. Total payments in 2011-12 were approximately \$740,372.

Future minimum rental commitments at June 30, 2012 are as follow

For the Year Ending June 30,	<u>Equipment</u>	<u>Facilities</u>	<u>Total</u>
2013	\$ 40,680	\$ 616,935	\$ 657,615
2014	40,680	419,249	459,929
2015	40,680	433,898	474,578
2016	40,680	451,304	491,984
2017	10,170	469,432	479,602
2018-2021	-	814,169	814,169
Total minimum future rental payments	<u>\$ 172,890</u>	<u>\$ 3,204,987</u>	<u>\$ 3,377,877</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, 2012 is as follows:

Transfers In	Transfers Out		Total
	Resolution Services	General Fund	
General Fund	\$ 3,092,286	\$ -	\$ 3,092,286
Contracted Services Fund	-	3,813	3,813
Other Governmental Funds	80,000	1,199,130	1,279,130
Total	<u>\$ 3,172,286</u>	<u>\$ 1,202,943</u>	<u>\$ 4,375,229</u>

- The Resolution Services Fund transferred \$3,092,286 to the General Fund in order to fund the District’s indirect and support service functions.
- The Resolution Services Fund and the General Fund transferred \$80,000 and \$649,000, respectively, to other governmental funds to fund capital expenditures.
- The General Fund transferred \$550,130 to other governmental funds to cover debt service principal and interest payments.
- The General Fund transferred \$3,813 to the Contracted Services Fund to reimburse the fund for services originally funded by the Contracted Services Fund.

NOTE 8 – RISK MANAGEMENT

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

NOTE 9 – 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. Beginning July 1, 2011, the District's rate increased from 3.79 percent for PERS, and 4.31 percent for OPSRP – general employees to 11.72 percent for PERS, and 10.21 percent for OPSRP – general employees. The contribution requirements for plan members and the Districts are established by ORS Chapter 238 and may be amended by an act of the Oregon Legislature.

The District's contribution to the plan for the years ending June 30, 2012, 2011, and 2010 were approximately \$3.1 million, \$1.2 million, and \$1.3 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, 2012, the District's annual debt service for the limited tax pension bonds included \$375,000 of principal, and \$1,767,316 of interest. Total debt service payments for the years 2012, 2011 and 2010 were \$2.1 million, \$2.0 million, and \$1.9 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, 2012, the District retirees paid 100 percent of their insurance premium costs.

Annual OPEB Cost and Net OPEB Obligation

The District’s annual other post-employment benefit cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of 30 years.

The District’s most recent actuarial valuation date was July 1, 2010. 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

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Annual required contribution	\$ 320,401	\$ 309,567	\$ 329,876
Interest on net OPEB obligation	21,102	13,165	6,642
Adjustment to annual required contribution	<u>(18,841)</u>	<u>(11,756)</u>	<u>(6,121)</u>
Annual OPEB Cost (APC)	322,662	310,976	330,397
Contributions made	<u>(142,165)</u>	<u>(112,552)</u>	<u>(167,338)</u>
Increase in net OPEB obligation	180,497	198,424	163,059
Net OPEB obligation - beginning of year	<u>527,550</u>	<u>329,126</u>	<u>166,067</u>
Net OPEB obligation - end of year	<u>\$ 708,047</u>	<u>\$ 527,550</u>	<u>\$ 329,126</u>
Percentage of APC contributed	44%	36%	51%

Actuarial Methods and Assumptions

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

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

In the most recent actuarial valuation as of July 1, 2010, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10.0 percent initially, and then declining over the next twenty-nine years until 5 percent is reached. The projected annual rate of wage inflation is 3.5 percent compounded annually and the UAAL is being amortized over a closed period of thirty years.

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% 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 an 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, 2012 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. With the exception noted below, 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 is providing documentation to SAMHSA that supports MESD's position. The potential liability is indeterminable at this time, but the District believes the amount will be substantially 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.

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, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance to Final Budget Positive (Negative)</u>
Revenues				
Local Sources	\$ 10,500	\$ 10,500	\$ 29,184	\$ 18,684
Federal Sources	-	-	4,744	4,744
Investment Earnings	140,000	140,000	97,889	(42,111)
Sales of Goods & Services	295,000	295,000	249,111	(45,889)
Other Revenues	167,900	467,900	617,157	149,257
Total Revenues	613,400	913,400	998,085	84,685
Expenditures				
Support Services	5,688,802	6,065,304	5,576,330	488,974
Contingencies	351,383	351,383	-	351,383
Total Expenditures	6,040,185	6,416,687	5,576,330	840,357
Excess of Revenues Over (Under) Expenditures	(5,426,785)	(5,503,287)	(4,578,245)	925,042
Other Financing Sources (Uses)				
Transfers In*	3,243,208	3,243,208	3,092,286	(150,922)
Transfers Out*	(1,199,130)	(1,202,943)	(1,202,943)	-
Total Other Financing Sources (Uses)	2,044,078	2,040,265	1,889,343	(150,922)
Net Change in Fund Balance	(3,382,707)	(3,463,022)	(2,688,902)	774,120
Beginning Fund Balance	6,246,345	6,246,345	7,082,393	836,048
Ending Fund Balance	\$ 2,863,638	\$ 2,783,323	\$ 4,393,491	\$ 1,610,168

* 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, 2012

	Original Budget	Final Budget	Actual	Variance to Final Budget Positive (Negative)
Revenues				
Property Taxes	\$ 25,797,737	\$ 25,797,737	\$ 25,504,874	\$ (292,863)
State School Fund	7,332,344	7,332,344	4,657,196	(2,675,148)
Local Sources	-	-	77,000	77,000
Federal Sources	-	-	228,012	228,012
Other Revenues	-	-	649,835	649,835
Total Revenues	33,130,081	33,130,081	31,116,917	(2,013,164)
Expenditures				
Instruction	7,112,781	7,165,381	7,407,117	(241,736)
Support Services	13,885,097	13,885,097	13,384,630	500,467
Enterprise and Community Services	434,777	382,177	7,497	374,680
Total Expenditures	21,432,655	21,432,655	20,799,244	633,411
Excess of Revenues Over (Under) Expenditures	11,697,426	11,697,426	10,317,673	(1,379,753)
Other Financing Sources (Uses)				
Apportionment of Funds	(9,907,527)	(9,907,527)	(8,114,548)	1,792,979
Transfers Out	(3,323,208)	(3,323,208)	(3,172,286)	150,922
Total Other Financing Sources (Uses)	(13,230,735)	(13,230,735)	(11,286,834)	1,943,901
Net Change in Fund Balance	(1,533,309)	(1,533,309)	(969,161)	564,148
Beginning Fund Balance	1,533,309	1,533,309	1,185,481	(347,828)
Ending Fund Balance	\$ -	\$ -	\$ 216,320	\$ 216,320

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, 2012

	Original Budget	Final Budget	Actual	Variance to Final Budget Positive (Negative)
Revenues				
Local Sources	\$ 8,308,174	\$ 8,807,381	\$ 7,424,524	\$ (1,382,857)
State Sources	14,011,863	16,511,863	15,750,967	(760,896)
Federal Sources	6,767,775	7,375,732	5,906,228	(1,469,504)
Investment Earnings	-	-	2,997	2,997
Sales of Goods & Services	1,391,530	1,391,530	972,018	(419,512)
Other Revenues	331,857	331,857	152,233	(179,624)
Charges for Services	2,188,197	2,188,197	2,101,237	(86,960)
Total Revenues	32,999,396	36,606,560	32,310,204	(4,296,356)
Expenditures				
Instruction	11,688,291	13,527,123	12,621,618	905,505
Support Services	17,042,278	18,180,774	16,148,991	2,031,783
Enterprise and Community Services	949,582	4,117,027	3,143,832	973,195
Contingencies	1,505,893	1,505,893	-	1,505,893
Total Expenditures	31,186,044	37,330,817	31,914,441	5,416,376
Excess of Revenues Over (Under) Expenditures	1,813,352	(724,257)	395,763	1,120,020
Other Financing Sources (Uses)				
Apportionment of Funds	(1,504,699)	(1,504,699)	(1,951,183)	(446,484)
Transfers In	-	-	3,813	3,813
Transfers Out	(2,188,197)	-	-	-
Total Other Financing Sources (Uses)	(3,692,896)	(1,504,699)	(1,947,370)	(442,671)
Net Change in Fund Balance	(1,879,544)	(2,228,956)	(1,551,607)	677,349
Beginning Fund Balance	7,957,838	7,957,838	12,054,865	4,097,027
Ending Fund Balance	\$ 6,078,294	\$ 5,728,882	\$ 10,503,258	\$ 4,774,376

**Multnomah Education Service District
Other Post-Employment Benefits
Schedule of Funding Progress
June 30, 2012**

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%

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, 2012

	<u>Operating</u>	<u>Risk Management Reserve</u>	<u>Total</u>
Assets			
Cash and Cash Equivalents	\$ 7,655,055	\$ 669,005	\$ 8,324,060
Accounts Receivable	152,247	-	152,247
Inventory	58,630	-	58,630
Prepaid Items	57,644	-	57,644
Total Assets	\$ 7,923,576	\$ 669,005	\$ 8,592,581
Liabilities			
Accounts Payable	\$ 217,788	\$ 55,987	\$ 273,775
Accrued Payroll & Withholdings	3,925,315	-	3,925,315
Total Liabilities	4,143,103	55,987	4,199,090
Fund Balances			
Nonspendable			
Inventory	58,630	-	58,630
Prepaid Items	57,644	-	57,644
Total Nonspendable Funds	116,274	-	116,274
Committed	-	613,018	613,018
Assigned	260,487	-	260,487
Unassigned	3,403,712	-	3,403,712
Total Fund Balances	3,780,473	613,018	4,393,491
Total Liabilities and Fund Balances	\$ 7,923,576	\$ 669,005	\$ 8,592,581

Multnomah Education Service District
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
General Fund
For the Year Ended June 30, 2012

	<u>Operating</u>	<u>Risk Management Reserve</u>	<u>Eliminations *</u>	<u>Total</u>
Revenues				
Local Sources	\$ 29,184	\$ -	\$ -	\$ 29,184
Federal Sources	4,744	-	-	4,744
Investment Earnings	97,889	-	-	97,889
Sales of Goods & Services	249,111	-	-	249,111
Other Revenues	46,557	570,600	-	617,157
Total Revenues	427,485	570,600	-	998,085
Expenditures				
Support Services	4,905,583	670,747	-	5,576,330
Total Expenditures	4,905,583	670,747	-	5,576,330
Excess of Revenues Over (Under) Expenditures	(4,478,098)	(100,147)	-	(4,578,245)
Other Financing Sources (Uses)				
Transfers In	3,248,057	295,000	(450,771)	3,092,286
Transfers Out	(1,497,943)	(155,771)	450,771	(1,202,943)
Total Other Financing Sources (Uses)	1,750,114	139,229	-	1,889,343
Net Change in Fund Balance	(2,727,984)	39,082	-	(2,688,902)
Beginning Fund Balances	6,508,457	573,936	-	7,082,393
Ending Fund Balances	\$ 3,780,473	\$ 613,018	\$ -	\$ 4,393,491

* 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, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance to Final Budget Positive (Negative)</u>
Revenues				
Local Sources	\$ 10,500	\$ 10,500	\$ 29,184	\$ 18,684
Federal Sources	-	-	4,744	4,744
Investment Earnings	140,000	140,000	97,889	(42,111)
Sales of Goods & Services	295,000	295,000	249,111	(45,889)
Other Revenues	42,900	42,900	46,557	3,657
Total Revenues	488,400	488,400	427,485	(60,915)
Expenditures				
Support Services	5,385,626	5,414,878	4,905,583	509,295
Contingencies	351,383	351,383	-	351,383
Total Expenditures	5,737,009	5,766,261	4,905,583	860,678
Excess of Revenues Over (Under) Expenditures	(5,248,609)	(5,277,861)	(4,478,098)	799,763
Other Financing Sources (Uses)				
Transfers In	3,398,979	3,398,979	3,248,057	(150,922)
Transfers Out	(1,494,130)	(1,497,943)	(1,497,943)	-
Total Other Financing Sources (Uses)	1,904,849	1,901,036	1,750,114	(150,922)
Net Change in Fund Balance	(3,343,760)	(3,376,825)	(2,727,984)	648,841
Beginning Fund Balance	5,909,200	5,909,200	6,508,457	599,257
Ending Fund Balance	\$ 2,565,440	\$ 2,532,375	\$ 3,780,473	\$ 1,248,098

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, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance to Final Budget Positive (Negative)</u>
Revenues				
Other Revenues	\$ 125,000	\$ 425,000	\$ 570,600	\$ 145,600
Total Revenues	125,000	425,000	570,600	145,600
Expenditures				
Support Services	303,176	650,426	670,747	(20,321)
Total Expenditures	303,176	650,426	670,747	(20,321)
Excess of Revenues Over (Under) Expenditures	(178,176)	(225,426)	(100,147)	125,279
Other Financing Sources (Uses)				
Transfers In	295,000	295,000	295,000	-
Transfers Out	(155,771)	(155,771)	(155,771)	-
Total Other Financing Sources (Uses)	139,229	139,229	139,229	-
Net Change in Fund Balance	(38,947)	(86,197)	39,082	125,279
Beginning Fund Balance	337,145	337,145	573,936	236,791
Ending Fund Balance	\$ 298,198	\$ 250,948	\$ 613,018	\$ 362,070

**Multnomah Education Service District
Combining Balance Sheet
Nonmajor Funds
June 30, 2012**

	Debt Service	Facilities Acquisition and Improvements	Total
Assets			
Cash and Cash Equivalents	\$ 11	\$ 1,931,704	\$ 1,931,715
Total Assets	\$ 11	\$ 1,931,704	\$ 1,931,715
Fund Balances			
Restricted	\$ 11	\$ -	\$ 11
Assigned	-	1,931,704	1,931,704
Total Fund Balances	11	1,931,704	1,931,715
Total Liabilities and Fund Balances	\$ 11	\$ 1,931,704	\$ 1,931,715

Multnomah Education Service District
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Funds
For the Year Ended June 30, 2012

	Debt Service	Facilities Acquisition and Improvements	Total
Revenues			
Local Sources	\$ -	\$ 35,405	\$ 35,405
Other Revenues	2,139,287	50,333	2,189,620
Total Revenues	2,139,287	85,738	2,225,025
Expenditures			
Facilities Acquisitions/Construction	-	85,759	85,759
Debt Service	2,692,434	-	2,692,434
Total Expenditures	2,692,434	85,759	2,778,193
Excess of Revenues Over (Under) Expenditures	(553,147)	(21)	(553,168)
Other Financing Sources (Uses)			
Transfers In	550,130	729,000	1,279,130
Total Other Financing Sources (Uses)	550,130	729,000	1,279,130
Net Change in Fund Balance	(3,017)	728,979	725,962
Beginning Fund Balances	3,028	1,202,725	1,205,753
Ending Fund Balances	\$ 11	\$ 1,931,704	\$ 1,931,715

Multnomah Education Service District
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual
Debt Services Fund
For the Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance to Final Budget Positive (Negative)</u>
Revenues				
Other Revenues	\$ -	\$ 2,142,316	\$ 2,139,287	\$ (3,029)
Total Revenues	-	2,142,316	2,139,287	(3,029)
Expenditures				
Debt Service	550,130	2,692,446	2,692,434	12
Total Expenditures	550,130	2,692,446	2,692,434	12
Excess of Revenues Over (Under) Expenditures	(550,130)	(550,130)	(553,147)	(3,017)
Other Financing Sources (Uses)				
Transfers In	550,130	550,130	550,130	-
Total Other Financing Sources (Uses)	550,130	550,130	550,130	-
Net Change in Fund Balance	-	-	(3,017)	(3,017)
Beginning Fund Balance	-	-	3,028	3,028
Ending Fund Balance	\$ -	\$ -	\$ 11	\$ 11

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, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance to Final Budget Positive (Negative)</u>
Revenues				
Local Sources	\$ -	\$ -	\$ 35,405	\$ 35,405
Other Revenues	-	-	50,333	50,333
Total Revenues	-	-	85,738	85,738
Expenditures				
Support Services	165,000	165,000	-	165,000
Facilities Acquisitions/Construction	475,000	475,000	85,759	389,241
Total Expenditures	640,000	640,000	85,759	554,241
Excess of Revenues Over (Under) Expenditures	(640,000)	(640,000)	(21)	639,979
Other Financing Sources (Uses)				
Transfers In	729,000	729,000	729,000	-
Total Other Financing Sources (Uses)	729,000	729,000	729,000	-
Net Change in Fund Balance	89,000	89,000	728,979	639,979
Beginning Fund Balance	420,212	420,212	1,202,725	782,513
Ending Fund Balance	\$ 509,212	\$ 509,212	\$ 1,931,704	\$ 1,422,492

Multnomah Education Service District
Schedule of Property Tax Transactions
Resolution Fund
For the Year Ended June 30, 2012

		Current Levy & Taxes	Discounts	Adjustments	Interest	Cash Collection by County Treasurer	Taxes Uncollected June 30, 2012
Tax Year		Uncollected June 30, 2011	Allowed				
Multnomah County							
Current Year	2011-2012	\$ 25,824,749	\$ (646,099)	\$ (131,794)	\$ 11,181	\$ (24,256,083)	\$ 801,953
Prior Years	2010-2011	700,321	4,062	(50,927)	27,721	(272,215)	408,962
	2009-2010	323,313	3,043	(16,610)	27,934	(68,598)	269,083
	2008-2009	176,950	40	(2,125)	35,047	(136,389)	73,524
	2007-2008	59,825	37	(1,924)	18,818	(63,668)	13,087
	5+ yrs prior	45,352	0	(618)	5,705	(12,643)	37,796
Total Multnomah County		27,130,510	(638,917)	(203,997)	126,405	(24,809,595)	1,604,406
Clackamas County							
Current Year	2011-2012	483,368	(11,855)	(1,575)	226	(454,359)	15,804
Prior Years	2010-2011	15,150	58	1,050	688	(8,911)	8,034
	2009-2010	6,687	52	(150)	591	(1,943)	5,237
	2008-2009	3,569	0	(64)	653	(2,546)	1,612
	2007-2008	1,030	0	(26)	289	(990)	304
	5+ yrs prior	802	0	(37)	75	(277)	564
Total Clackamas County		510,607	(11,745)	(803)	2,523	(469,026)	31,556
Washington County							
Current Year	2011-2012	126,167	(3,234)	191	43	(120,030)	3,137
Prior Years	2010-2011	2,916	21	(137)	136	(1,166)	1,770
	2009-2010	1,215	13	(71)	113	(264)	1,006
	2008-2009	608	0	(20)	126	(539)	176
	2007-2008	159	0	(7)	40	(142)	50
	5+ yrs prior	124	0	(17)	13	(25)	95
Total Washington County		131,190	(3,200)	(61)	472	(122,167)	6,234
All Counties Combined							
Current Year	2011-2012	26,434,283	(661,188)	(133,178)	11,450	(24,830,472)	820,895
Prior Years	2010-2011	718,388	4,140	(50,014)	28,545	(282,292)	418,767
	2009-2010	331,216	3,108	(16,831)	28,638	(70,805)	275,327
	2008-2009	181,128	40	(2,208)	35,826	(139,474)	75,312
	2007-2008	61,014	37	(1,958)	19,147	(64,800)	13,441
	5+ yrs prior	46,278	0	(672)	5,793	(12,945)	38,455
Total All Counties Combined		\$ 27,772,307	\$ (653,863)	\$ (204,861)	\$ 129,400	\$ (25,400,788)	\$ 1,642,195
Reconciliation to financial statements							
Property tax collections for the year ended June 30, 2012						\$ 25,400,788	
Uncollected property taxes at June 30, 2012							\$ 1,642,195
Property taxes held with County at June 30, 2012							175,686
Total property tax receivable - Resolution Fund							1,817,881
Non-levied tax revenue received for the year ended June 30, 2012						98,637	
Uncollected property taxes susceptible to accrual at June 30, 2012						127,227	(302,913)
Property taxes susceptible to accrual at June 30, 2011; collected during the year ended June 30, 2012						(121,779)	
Total property taxes - Resolution Fund						<u>\$ 25,504,874</u>	
Total deferred revenues - Resolution Fund							<u>\$ 1,514,968</u>

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

Office of Finance and Administration
 School Finance Unit

SUPPLEMENTAL INFORMATION, 2011-2012

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	\$ 300,148
Function 2550	None

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

None

Exclude these functions:

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

STATISTICAL SECTION

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	59
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	65
These schedules contain information to help the reader assess the MESD's most significant local revenue source, the property tax.	
Debt Capacity	69
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	71
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	73
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 the city provides and the activities it performs.	

Multnomah Education Service District
Statement of Net Assets
Last 10 Years

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Assets				
Cash and Cash Equivalents	\$ 16,601,314	\$ 21,920,481	\$ 26,440,485	\$ 26,590,257
Cash with County Treasurer	-	-	170,844	158,410
Property Tax Receivable	1,138,415	1,071,167	1,008,347	969,462
Accounts Receivable	5,543,708	11,167,740	6,482,316	10,146,720
Inventory	799,458	1,340,224	1,562,752	820,344
Prepaid Items	193,015	3,000	200,313	183,577
Prepaid Pension Cost, Net of Amortization		32,391,100	30,982,696	29,574,391
Bond Issuance Costs, Net of Amortization		182,267	174,673	168,851
Capital Assets, Net of Depreciation	11,874,126	11,397,968	11,077,221	10,809,387
Total Assets	<u>36,150,036</u>	<u>79,473,947</u>	<u>78,099,647</u>	<u>79,421,399</u>
Liabilities				
Book Overdraft	4,644,564	1,968,238	-	-
Accounts Payable	8,373,204	15,742,257	12,759,984	11,259,709
Accrued Payroll, Taxes and Withholdings	2,337,409	3,962,455	5,177,631	1,871,926
Deferred Revenue	88,181	963,100	-	97,193
Accrued Compensated Absences Payables	163,268	168,416	164,756	170,464
Other Post Employment Benefits	-	-	-	-
Accrued Interest Payable	23,383	22,286	14,814	-
Long-term Debt:				
Due Within One Year	280,000	295,000	350,000	370,000
Due in More than One Year	5,215,000	37,887,061	37,985,000	37,615,000
Total Liabilities	<u>21,125,009</u>	<u>61,008,813</u>	<u>56,452,185</u>	<u>51,384,292</u>
Net assets:				
Capital Assets,				
Net of Related Debt	6,379,126	6,182,968	5,882,221	5,964,387
Unrestricted	8,645,901	12,282,166	15,765,241	22,072,720
Restricted	**	**	**	**
TOTAL NET ASSETS	<u>\$ 15,025,027</u>	<u>\$ 18,465,134</u>	<u>\$ 21,647,462</u>	<u>\$ 28,037,107</u>

** Restrictions not presented these years

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

2007	2008	2009	2010	2011	2012
\$ 29,707,115	\$ 29,010,637	\$ 25,052,367	\$ 20,699,809	\$ 20,546,394	\$ 17,456,964
159,276	166,993	-	-	-	-
953,107	1,172,720	1,385,301	1,401,273	1,335,975	1,817,881
6,466,338	4,332,536	7,928,544	8,578,790	8,760,115	6,911,998
1,129,707	1,054,156	1,029,202	982,728	788,838	58,630
230,784	319,333	63,881	13,580	28,883	57,644
28,166,087	26,757,783	25,349,424	23,941,123	22,532,822	21,124,520
159,484	151,889	186,535	176,172	165,809	155,446
10,505,582	10,825,967	11,179,845	11,046,679	10,562,297	10,079,616
77,477,480	73,792,014	72,175,099	66,840,154	64,721,133	57,662,699
-	-	-	-	-	-
7,509,638	684,144	7,630,175	5,839,512	5,304,091	3,818,050
2,156,724	3,671,940	2,719,152	3,685,714	3,588,748	3,925,315
79,280	-	-	-	-	-
158,572	159,481	173,731	170,310	144,726	129,957
-	-	166,067	329,126	527,550	708,047
-	-	-	-	-	-
390,000	440,000	589,386	716,353	858,679	1,011,101
37,225,000	36,785,000	36,462,815	35,749,795	34,891,116	33,880,015
47,519,214	41,740,565	47,741,326	46,490,810	45,314,910	43,472,485
6,030,582	6,740,967	7,227,643	7,540,531	7,517,473	7,518,499
25,855,076	20,865,036	17,206,130	3,162,530	3,664,511	1,410,941
**	**	**	9,646,283	8,224,239	5,260,774
\$ 31,885,658	\$ 27,606,003	\$ 24,433,773	\$ 20,349,344	\$ 19,406,223	\$ 14,190,214

Multnomah Education Service District
Changes in Net Assets
Last 10 Years

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Revenues:				
Program Revenues:				
Charges for Services	\$ 7,426,141	\$ 8,778,442	\$ 12,464,061	\$ 14,241,676
Operating Grants and Contributions	9,150,182	14,825,457	14,722,381	15,909,272
General Revenues:				
Property Taxes	18,981,922	19,351,746	19,874,295	20,915,840
State School Fund - General Support	15,859,660	16,801,230	15,032,933	9,288,345
Earnings on Investments	242,756	258,838	-	-
Federal Stimulus	-	-	-	-
Loss on disposition of Capital Assets	(2,499,761)	-	-	-
Miscellaneous	2,044,459	2,468,957	3,398,645	5,085,536
Total Revenues	<u>51,205,359</u>	<u>62,484,670</u>	<u>65,492,315</u>	<u>65,440,669</u>
Expenses:				
Instruction	24,798,955	26,182,031	17,107,374	15,167,098
Support Services	28,677,004	31,607,962	34,279,738	34,862,274
Enterprise and Community Services	517,158	664,030	704,042	46,870
Facilities Repairs and Maintenance	-	-	-	-
Apportionment of Funds	-	-	8,090,257	7,256,141
Unallocated Depreciation	-	-	-	-
Interest on Long-Term Debt	292,102	590,540	2,128,576	1,718,641
Total Expenses	<u>54,285,219</u>	<u>59,044,563</u>	<u>62,309,987</u>	<u>59,051,024</u>
CHANGE IN NET ASSETS	(3,079,860)	3,440,107	3,182,328	6,389,645
NET ASSETS, beginning of year	<u>18,104,887</u>	<u>15,025,027</u>	<u>18,465,134</u>	<u>21,647,462</u>
NET ASSETS, end of year	<u>\$ 15,025,027</u>	<u>\$ 18,465,134</u>	<u>\$ 21,647,462</u>	<u>\$ 28,037,107</u>

* Restated

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

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$ 13,340,380	\$ 8,251,120	\$ 13,205,946	\$ 8,092,199	\$ 12,999,332	\$ 10,268,887
17,964,347	19,192,550	19,407,801	18,785,136	20,140,915	20,066,049
21,683,597	22,940,470	23,561,749	24,505,818	25,075,966	25,980,967
8,862,678	10,692,471	8,298,709	8,033,770	4,222,969	4,657,196
-	1,407,155	576,777	171,510	108,512	100,886
-	-	907,566	2,601,970	2,550,138	895,484
-	778	-	-	-	-
7,988,961	5,707,678	1,422,965	2,566,822	3,314,562	3,055,618
<u>69,839,963</u>	<u>68,192,222</u>	<u>67,381,513</u>	<u>64,757,225</u>	<u>68,412,394</u>	<u>65,025,087</u>
16,471,265	16,977,374	15,083,185	16,371,149	17,569,453	19,126,964
38,722,555	37,284,143	40,395,972	37,705,025	37,152,822	35,744,950
1,419,024	2,315,736	2,651,994	2,782,432	3,524,849	3,086,517
-	-	-	489,409	2,685	45,672
9,340,305	9,492,872	10,218,146	9,297,814	8,916,168	10,065,731
-	-	267,711	273,357	286,200	293,828
1,965,638	1,956,306	1,936,735	1,922,468	1,903,338	1,877,434
<u>67,918,787</u>	<u>68,026,431</u>	<u>70,553,743</u>	<u>68,841,654</u>	<u>69,355,515</u>	<u>70,241,096</u>
1,921,176	165,791	(3,172,230)	(4,084,429)	(943,121)	(5,216,009)
29,964,482 *	27,440,212 *	27,606,003	24,433,773	20,349,344	19,406,223
<u>\$ 31,885,658</u>	<u>\$ 27,606,003</u>	<u>\$ 24,433,773</u>	<u>\$ 20,349,344</u>	<u>\$ 19,406,223</u>	<u>\$ 14,190,214</u>

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Revenues				
Property Taxes	\$ 18,917,034	\$ 19,417,296	\$ 19,935,475	\$ 20,942,497
State School Fund	15,863,219	16,803,880	15,036,281	9,288,344
Local Sources	8,067,540	9,618,760	11,750,330	14,976,739
State Sources	5,405,302	8,472,655	10,960,049	11,014,059
School Improvement Fund	-	-	-	-
Federal Sources	1,611,949	5,060,892	4,362,055	5,230,819
Investment Earnings	242,756	258,838	585,213	1,166,597
Debt Proceeds	-	32,963,381	-	-
Sales of Goods & Services	2,283,604	2,153,496	2,089,159	2,393,970
SB1149 Proceeds	-	-	-	-
Other Revenues	3,400,161	2,645,424	2,236,246	7,301,614
Overhead Revenues	309,903	635,641	713,225	832,854
Total Revenues	56,101,468	98,030,263	67,668,033	73,147,493
Expenditures				
Instruction	14,189,189	16,358,050	16,321,874	16,328,176
Support Services	31,031,285	33,500,452	35,415,145	38,921,915
Enterprise & Community Services	517,158	628,003	674,541	778,322
Facilities Repairs and Maintenance	-	-	-	-
Other Uses	165,005	-	(10)	-
Debt Service	563,148	33,988,754	1,975,515	2,077,633
Contingencies	-	-	68,657	-
Total Expenditures	46,465,785	84,475,259	54,455,722	58,106,046
Excess of Revenues Over Expenditures	9,635,701	13,555,032	13,212,311	15,041,478
Other Financing Sources (Uses)				
Apportionment of Funds	(10,335,577)	(9,453,566)	(8,090,267)	(7,256,141)
Transfers In	405,879	780,592	808,000	1,358,648
Transfers Out	(405,879)	(780,592)	(808,000)	(1,359,285)
Capital Leases	-	-	-	-
Total Other Financing Sources (Uses)	(10,335,577)	(9,453,566)	(8,090,267)	(7,256,778)
Net Change in Fund Balances	(699,875)	4,101,466	5,122,044	7,784,700
Beginning Fund Balances	8,449,136	7,747,340 *	11,848,804 *	16,970,859 *
Ending Fund Balances	\$ 7,749,261	\$ 11,848,807	\$ 16,970,849	\$ 24,755,559

* Restated

Debt service as a percentage of noncapital expenditures

1.22%	40.25%	3.64%	3.59%
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Multnomah Education Service District
Statement of Revenues, Expenditures, and Changes in Fund Balance (continued)
Governmental Funds
Last 10 Years

<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
\$ 21,737,147	\$ 22,879,494	\$ 23,219,411	\$ 24,511,191	\$ 25,097,989	\$ 25,504,874
8,865,992	10,695,867	8,298,709	8,033,770	4,222,969	4,657,196
13,192,511	10,066,970	10,670,438	5,767,805	9,366,606	7,566,113
12,142,608	14,072,950	12,591,487	12,676,732	14,543,993	15,750,967
-	-	965,201	-	-	-
7,449,302	5,818,759	7,627,019	9,568,636	9,973,707	6,138,984
1,821,211	1,407,154	576,777	171,510	108,512	100,886
-	-	-	-	-	-
786,743	3,436,068	1,884,560	1,435,170	1,472,190	1,221,129
4,188,737	1,558,547	-	-	-	-
2,301,973	2,033,310	2,940,078	527,323	3,401,405	3,608,845
1,853,178	381,504	8,520,656	2,070,415	2,205,840	2,101,237
74,339,402	72,350,623	77,294,336	64,762,552	70,393,211	66,650,231
16,899,030	16,882,596	16,400,599	16,126,163	18,207,142	20,028,735
41,040,462	40,572,157	48,105,823	36,733,405	36,388,922	35,109,951
1,415,832	2,294,594	2,812,317	2,766,457	3,547,993	3,151,329
-	25,237	-	489,409	145,903	85,759
-	-	-	-	-	-
2,338,163	2,338,711	2,376,735	2,473,268	2,578,338	2,692,434
-	-	-	-	-	-
61,693,487	62,113,295	69,695,474	58,588,702	60,868,298	61,068,208
12,645,938	10,237,359	7,598,876	6,173,850	9,524,913	5,582,023
(9,340,305)	(9,492,872)	(10,218,146)	(9,297,814)	(8,916,168)	(10,065,731)
-	1,370,000	10,242,125	4,358,687	5,036,526	4,375,229
-	(1,371,500)	(10,242,125)	(4,358,687)	(5,036,526)	(4,375,229)
-	-	307,952	-	-	-
(9,340,305)	(9,494,372)	(9,910,194)	(9,297,814)	(8,916,168)	(10,065,731)
3,305,633	742,987	(2,311,317)	(3,123,964)	608,745	(4,483,708)
24,755,559	30,129,223 *	26,355,028 *	24,043,711	20,919,747	21,528,492
\$ 28,061,192	\$ 30,872,211	\$ 24,043,711	\$ 20,919,747	\$ 21,528,492	\$ 17,044,784
3.80%	3.82%	3.45%	4.26%	4.25%	4.42%

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

Fiscal Year Ending June 30,	Assessed Value (not including exempt property)										Total Direct Tax Rate	Total Imposed (Net Levy)	
	Real Property	Personal Property	Manufactured Structures	Public Utility	Total Assessed Value	Add: Non- Profit Housing	Less: Urban Renewal Excess	Total Net Assessed Value					
2004					\$ 46,232,775					\$ 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	45,661,651				0.4576	20,550
2006	45,080,733	2,389,420	92,999	2,413,134	49,976,286	26,050	2,836,380	47,165,956				0.4576	21,461
2007	47,126,391	2,461,536	96,283	2,547,753	52,231,963	27,852	3,206,807	49,053,008				0.4576	22,181
2008	49,940,771	2,481,730	177,495	2,538,071	55,138,068	29,084	3,631,632	51,535,520				0.4576	23,334
2009	52,500,741	2,541,965	179,815	2,593,085	57,815,606	34,623	4,144,209	53,706,020				0.4576	24,340
2010	54,717,026	2,491,331	194,671	2,785,933	60,188,961	35,662	4,751,822	55,472,801				0.4576	25,157
2011	56,411,274	2,538,168	178,194	2,819,071	61,946,707	31,781	5,039,772	56,938,716				0.4576	25,799
2012	58,201,602	2,270,495	173,117	2,902,392	63,547,607	31,340	5,151,161	58,427,786				0.4576	26,334

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 2005-2012: 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.

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

<u>District</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
MESD Direct Rate	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
Regional Districts									
Metro	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
East Multnomah SWCD	0.1000	0.1000	0.1000	0.0877	0.0715	0.0326	0.0413	n/a	n/a
West Multnomah SWCD	0.0732	0.0469	0.0391	0.0369	0.0378	n/a	n/a	n/a	n/a
Average Rate	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
Fairview	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
Maywood Park	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
Wood Village	3.1262	3.1262	3.1262	3.1262	3.1262	3.1262	3.1262	3.1262	3.1262
Average Rate	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
Corbett SD No. 39	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
Gresham Barlow SDNo.10J	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
Portland SD No. 1J	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
Riverdale SD No. 51J	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
Portland Comm. College	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	3.7222	3.7726	3.7639
Rural Fire Protection Services									
Multnomah RFPD No. 10	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
Multnomah RFPD No. 14	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	1.7837	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
Burlington	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
Lusted	0.2423	0.2423	0.2423	0.2423	0.2423	0.2423	0.2423	0.2423	0.2423
Valley View	0.7661	1.0558	1.0243	1.0408	0.8478	0.4448	0.4778	0.4977	0.5186
Average Rate	1.3224	1.3803	1.3740	1.3773	1.3387	1.2581	1.2647	1.2687	1.2729
Total Direct and Average Overlapping Rate	15.1507	15.1280	15.0099	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 2011-2012			Tax Year 2002-2003		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Port of Portland	\$ 495,881,660	1	0.87%			
Portland General Electric Co.	398,246,922	2	0.70	\$ 302,533,670	2	0.72%
Comcast Corporation	351,266,300	3	0.62			
PacificCorp (PP&L)	319,636,000	4	0.56	252,030,200	3	0.60
Weston Investment Co LLC	248,199,200	5	0.43			
Qwest Wireless	220,168,700	6	0.39	475,405,066	1	1.13
LC Portland LLC	173,395,750	7	0.30			0.00
Evraz Inc NA	166,298,921	8	0.29			
Fred Meyer Stores Inc	163,368,968	9	0.29	147,486,570	9	0.35
Boeing Co	163,001,200	10	0.29	190,771,020	5	0.45
Wacker Siltronic Corp				204,815,810	4	0.49
Microchip Technology Inc				176,085,730	6	0.42
Alaska Airlines Inc				164,000,000	7	0.39
Oregon Steel Mills Inc				149,337,260	8	0.35
Northwest Natural Gas Co				147,486,570	10	0.35
All Other Taxpayers	54,371,395,831		95.27	39,867,511,251		94.75
Total Assessed Value	<u>\$ 57,070,859,452</u>			<u>\$ 42,077,463,147</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, 2012	
		Amount	Percentage of Levy	Amount	Percentage Collected
Multnomah County					
2003	\$ 18,949,684	\$ 650,554	3.43%	\$ 2,894	99.98%
2004	19,464,912	599,331	3.08	3,823	99.98
2005	20,120,523	582,329	2.89	4,083	99.98
2006	21,025,449	588,764	2.80	2,906	99.99
2007	21,703,981	588,236	2.71	5,345	99.98
2008	22,859,897	670,534	2.93	13,087	99.94
2009	23,825,482	851,090	3.57	73,524	99.69
2010	24,606,025	775,848	3.15	269,083	98.91
2011	25,234,019	700,321	2.78	408,962	98.38
2012	25,824,749	801,853	3.10	801,853	96.90
Clackamas County					
2003	\$ 688,539	\$ 12,155	1.77%	\$ 41	99.99%
2004	359,331	11,075	3.08	52	99.99
2005	373,658	9,967	2.67	70	99.98
2006	394,275	9,516	2.41	83	99.98
2007	409,330	11,151	2.72	162	99.96
2008	425,219	14,634	3.44	304	99.93
2009	444,187	19,067	4.29	1,612	99.64
2010	457,997	17,009	3.71	5,237	98.86
2011	471,706	15,150	3.21	8,034	98.30
2012	483,368	15,804	3.27	15,804	96.73
Washington County					
2003	\$ 95,622	*	*	*	*
2004	95,622	*	*	*	*
2005	100,691	*	*	*	*
2006	104,856	*	*	*	*
2007	108,287	\$ 2,249	2.08%	\$ 33	99.97%
2008	112,437	2,732	2.43	50	99.96
2009	116,251	3,553	3.06	176	99.85
2010	120,106	3,348	2.79	1,006	99.16
2011	123,384	2,916	2.36	1,770	98.57
2012	126,167	3,137	2.49	3,137	97.51

* 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				
2003	\$ 5,200,001			\$ 5,200,001	0.01%	\$ 52,941,140	\$ 3	1,505,716
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	65,722,505	23	1,626,505
2010	3,275,000	32,960,000	231,179	36,466,179	0.05	67,990,765	22	1,646,043
2011	2,855,000	32,705,000	189,796	35,749,796		*	22	1,656,775
2012	2,415,000	32,330,000	146,117	34,891,117		*		*

* 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, 2012

<u>Overlapping District Name</u>	Outstanding Net Property Tax Backed Debt ¹	Percent Overlapping ²	Net Overlapping Debt ²
City of Gresham	\$ 20,981,202	100.00%	\$ 20,981,202
City of Happy Valley	4,365,000	1.44	62,852
City of Lake Oswego	35,266,913	5.44	1,916,827
City of Portland	149,410,000	99.50	148,665,789
City of Troutdale	14,165,000	100.00	14,165,000
Clackamas Community College	30,100,000	0.00	1,114
Clackamas County	72,910,000	2.84	2,068,457
Clackamas Cty RFPD 1	2,655,000	0.54	14,265
Clackamas Cty SD 7J (Lake Oswego)	110,703,506	0.01	14,724
Lusted Water District	875,000	100.00	875,000
Metro	273,485,000	51.16	139,925,592
Mt Hood Community College	22,330,000	87.78	19,601,430
Multnomah County	89,000,000	99.34	88,411,888
Multnomah Cty Drainage District 1	125,000	100.00	125,000
Multnomah Cty SD 10J (Gresham-Barlow)	95,452,585	100.00	95,452,585
Multnomah Cty SD 1J (Portland)	460,455,126	100.00	460,455,126
Multnomah Cty SD 28J (Centennial)	32,935,434	100.00	32,935,434
Multnomah Cty SD 3 (Parkrose)	62,475,000	100.00	62,475,000
Multnomah Cty SD 39 (Corbett)	2,550,000	100.00	2,550,000
Multnomah Cty SD 40 (David Douglas)	60,360,000	100.00	60,360,000
Multnomah Cty SD 51J (Riverdale)	27,728,267	100.00	27,728,267
Multnomah Cty SD 7 (Reynolds)	142,368,579	100.00	142,368,579
Portland Community College	188,165,000	47.82	89,982,385
Sunrise Water Authority	125,000	100.00	125,000
Tri-Met	240,000	50.93	122,235
Tualatin Hills Park & Rec District	105,790,000	1.24	1,306,612
Tualatin Valley Fire & Rescue District	47,470,000	2.00	947,596
Washington County	14,050,000	0.62	86,604
Subtotal, overlapping debt	2,066,536,612		1,413,724,563
Direct District net property tax back debt			-
Total direct and overlapping debt			<u>\$ 1,413,724,563</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.

Source: Oregon State Treasury, Debt Management Division

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

Year	Population	Personal Income (thousands)	Per Capita Income	Unemployment Rate (June)
<u>Multnomah County</u>				
2003	679,348	\$ 23,890,048	\$ 35,166	9.2%
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	28,440,292	39,081	11.2
2010	737,476	29,458,183	39,945	9.9
2011	741,925	*	*	8.8
2012	*	*	*	7.7
<u>Clackamas County</u>				
2003	352,032	\$ 13,132,736	\$ 37,306	8.3%
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	16,494,857	44,094	11.0
2010	376,957	16,945,867	44,954	10.1
2011	378,480	*	*	9.0
2012	*	*	*	7.8
<u>Washington County</u>				
2003	474,336	\$ 15,918,356	\$ 33,559	8.6%
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	20,787,356	39,618	10.1
2010	531,610	21,586,715	40,606	8.9
2011	536,370	*	*	8.0
2012	*	*	*	7.0

* Data unavailable at time of print.

Sources:

2003-2010 population and income: U.S. Bureau of Economic Analysis report CA1-3 (last updated April 25, 2012) www.bea.gov

2011 population: Portland State College, Population and Research Center 2011 Annual Population Report - Table 3

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

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

Top Ten Principal Employers	2012			2003		
	Employees	Rank	Percentage of Total Employment	Employees	Rank	Percentage of Total Employment
Intel Corporation	16,250	1	1.6%	14,363	1	1.4%
Providence Health System	14,389	2	1.4	13,753	2	1.4
U.S. Government	13,900	3	1.4			
Oregon Health and Science University	13,733	4	1.4	11,400	3	1.1
Fred Meyer Stores	10,389	5	1.0	5,300	9	0.5
Legacy Health System	9,662	6	1.0	7,907	4	0.8
Kaiser Permanente	9,195	7	0.9	7,433	5	0.7
City of Portland	8,951	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	899,172		89.0	920,898		92.8
Total Employment - PMSA*	1,010,200			992,151		

* 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)

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

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

Fiscal Year Ending	Licensed	Classified	Administration	Total
2003	284	428	45	757
2004	293	414	44	751
2005	291	394	45	730
2006	288	371	46	705
2007	296	378	49	723
2008	331	348	49	728
2009	277	356	50	683
2010	281	341	48	670
2011	289	313	45	647
2012	288	292	44	624

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

Fiscal Year Ending	Special Education Services	Instructional Services	Health & Social Services	Technology & Other Support Services	Total
2003	\$ 22,446,385	\$ 12,550,994	\$ 7,596,948	\$ 11,432,168	\$ 54,026,495
2004	23,502,456	15,804,543	8,330,410	43,791,559	91,428,968
2005	23,708,875	15,634,597	9,450,314	10,893,591	59,687,377
2006	22,899,919	16,680,305	10,680,387	9,804,769	60,065,380
2007	25,003,833	18,538,848	11,885,582	10,313,749	65,742,012
2008	23,813,868	18,407,083	13,244,344	9,246,210	64,711,505
2009	26,356,512	19,949,756	13,986,022	12,651,890	72,944,180
2010	24,115,053	17,241,767	13,246,418	3,531,239	58,134,477
2011	24,273,554	16,569,950	12,791,521	4,731,591	58,366,616
2012	25,092,644	9,531,676	11,230,808	16,924,301	62,779,429

Source: Multnomah ESD Financial Records

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

<u>Building Name</u>	<u>Square Footage</u>	<u>Owned or Leased</u>	<u>Programs/Services Offered</u>
<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 five 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.

Source: Multnomah ESD Facilities and Communications Departments

SINGLE AUDIT SECTION





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

December 18, 2012

Board of Directors
Multnomah Education Service District
Portland, Oregon

We have audited the financial statements of Multnomah Education Service District, Portland, Oregon, (the District) as of and for the year ended June 30, 2012, and have issued our report thereon dated December 18, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency

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

Page 2

INTERNAL CONTROL OVER FINANCIAL REPORTING (Continued)

in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 2012-01 that we consider to be a significant deficiency in internal control over financial reporting. 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.

COMPLIANCE AND OTHER MATTERS

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

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's response and, accordingly, we express no opinion on it.

* * * * *

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

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

December 18, 2012

Board of Directors
Multnomah Education Service District
Portland, Oregon

COMPLIANCE

We have audited the compliance of Multnomah Education Service District, Portland, Oregon, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

As described in items 2012-02, 2012-03, 2012-04, 2012-05, and 2012-06 in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding allowable costs that are applicable to its Migrant Education (CFDA #84.011), Substance Abuse and Mental Health Services Projects of Regional and National Significance (CFDA #93.243), Special Education Cluster (CFDA #84.027, 84.173, 84.391 and 84.392), Early Intervention Services Cluster (CFDA #84.181 and 84.393) and Education Jobs Fund (CFDA #84.410). Compliance with such requirements is necessary, in our opinion, for the District to comply with requirements applicable to those programs.

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

Page 2

COMPLIANCE (Continued)

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

INTERNAL CONTROL OVER COMPLIANCE

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is 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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2012-02, 2012-03, 2012-04, 2012-05, and 2012-06 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2012-07 and 2012-08 to be significant deficiencies.

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

Page 3

INTERNAL CONTROL OVER COMPLIANCE (Continued)

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

* * * * *

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



Certified Public Accountants

**Multnomah Education Service District
Schedule of Expenditures and Federal Awards
For the Year Ended June 30, 2012**

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass through Number	Grant Period	Grant Amount	Expenditures
US Department of Agriculture					
<i>Passed through Oregon Department of Education:</i>					
Child Nutrition Cluster:					
School Breakfast Program	10.553	N/A	7/1/11 - 6/30/12	\$ -	\$ 45,961
National School Lunch Program	10.555	N/A	7/1/11 - 6/30/12	-	118,883
Total Child Nutrition Cluster				-	164,843
Total US Department of Agriculture				-	164,843
US Department of Education					
Impact Aid Cluster					
TRIO - Talent Search	84.044	N/A	9/1/07 - 8/31/12	1,133,000	217,245
Total Impact Aid Cluster				1,133,000	217,245
<i>Passed through Oregon Department of Education:</i>					
Title I, Part A Cluster					
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	84.010	23728	9/1/11 - 6/30/12	35,000	34,773
	84.010	20475	9/1/10 - 9/30/11	40,300	89
	84.389	24793	5/1/12 - 8/31/12	150,000	26
Total Title I, Part A Cluster				225,300	34,888
Migrant Education - State Grant Program					
	84.011	22185	7/1/11 - 9/30/12	152,914	152,877
	84.011	24592	1/1/12 - 6/30/12	3,000	2,341
	84.011	22204	7/1/11 - 9/30/12	16,351	16,351
	84.011	19258	7/1/10 - 9/30/11	17,913	115
	84.011	19277	7/1/10 - 9/30/11	146,639	31
	84.011	24751	5/1/12 - 9/30/12	29,399	469
	84.011	21621	5/1/11 - 9/30/11	30,279	23,748
Total Migrant Education - State Grant Program				396,495	195,932
Title I Program for Neglected and Delinquent Children					
	84.013	24567	7/1/11 - 6/30/12	10,198	10,181
	84.013	24568	7/1/11 - 6/30/12	62,319	61,868
	84.013	9141	7/1/11 - 6/30/13	10,045	5,818
Total Title I Program for Neglected and Delinquent Children				82,562	77,867
Charter Schools					
	84.282	21206	7/15/09 - 7/15/11	225,000	106,674
Special Education Cluster (IDEA)					
Special Education - Grants to States (IDEA, Part B)					
	84.027	9098	7/1/11 - 6/30/12	1,515,804	1,027,447
	84.027	9141	7/1/11 - 6/30/13	28,561	15,945
	84.027	9088	7/1/11 - 6/30/13	15,871	7,935
	84.027	21362	10/1/10 - 9/30/11	2,652	2,278
	84.027	23243	8/1/11 - 6/30/12	1,026	695
	84.027	23244	8/1/11 - 6/30/12	1,299	1,299
	84.027	23245	8/1/11 - 6/30/12	997	997
	84.027	23246	8/1/11 - 6/30/12	3,311	3,307
	84.027	23247	8/1/11 - 6/30/12	3,987	3,987
	84.027	23248	8/1/11 - 6/30/12	1,305	1,305

**Multnomah Education Service District
Schedule of Expenditures of Federal Awards (continued)
For the Year Ended June 30, 2012**

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass through Number	Grant Period	Grant Amount	Expenditures
Special Education Cluster (IDEA) continued					
	84.027	24055	9/1/11 - 6/30/12	\$ 4,500	\$ 4,500
	84.027	9119	7/1/11 - 6/30/13	36,682	16,403
	84.027	24557	7/1/11 - 6/30/12	2,323	2,317
	84.027	24558	7/1/11 - 6/30/12	41,813	41,738
Subtotal Special Education – Grants to States (IDEA, Part B)				80,818	60,458
Special Education - Preschool Grants (IDEA Preschool)	84.173	9098	7/1/11 - 6/30/12	424,184	412,186
	84.173	23390	7/1/11 - 6/30/12	900	900
Subtotal Special Education – Preschool Grants (IDEA Preschool)				425,084	413,086
Special Education - Grants to States (Idea, Part B), (ARRA)	84.391	16049	2/17/09 - 9/30/11	1,507,360	217,490
Special Education - Preschool Grants (Idea Preschool), (ARRA)	84.392	16057	2/17/09 - 9/30/11	725,184	63,920
Total Special Education Cluster (IDEA)				4,343,369	1,824,648
Early Intervention Services (IDEA) Cluster					
Special Education - Grants for Infants and Families	84.181	9098	7/1/11 - 6/30/12	949,233	852,528
Special Education - Grants for Infants and Families, (ARRA)	84.393	16067	2/17/09 - 9/30/11	994,931	109,686
Total Early Intervention Services (IDEA) Cluster				1,944,164	962,214
Education Jobs Fund					
ARRA Funds	84.410	20922	8/10/10 - 9/30/12	947,793	487,793
	84.410	21164	8/10/10 - 6/30/12	15,817	15,817
	84.410	24578	8/10/10 - 6/30/12	550	550
	84.410	24579	8/10/10 - 6/30/12	135	135
	84.410	24580	8/10/10 - 6/30/12	67	67
Total Education Jobs Fund				964,362	504,362
Total US Department of Education				11,131,593	3,923,832
US Department of Health and Human Services					
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	93.104	N/A	10/1/05 - 9/30/12	9,000,000	51,498
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	N/A	9/30/10 - 9/29/15	3,250,000	697,483
Total US Dept of Health and Human Services				12,250,000	748,982
TOTAL FEDERAL FINANCIAL ASSISTANCE				\$ 23,381,593	\$ 4,837,657

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

MULTNOMAH EDUCATION SERVICE DISTRICT
 Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2012

SECTION 1 – SUMMARY OF INDEPENDENT AUDITORS RESULTS

Financial Statements:

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

Federal Awards:

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

Identification of major programs:

<u>CFDA NUMBER(S)</u>	<u>NAME OF FEDERAL PROGRAM OR CLUSTER</u>
84.011	Migrant Education – State Grant Program
84.027, 84.173, 84.391, 84.392	Special Education (IDEA) Cluster
84.181, 84.393	Early Intervention Services (IDEA) Cluster
84.410	Education Jobs Fund
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

Finding 2012-01:

Criteria:	The District should have a system of internal controls over manual journal entries such that misstatements of the financial statements would be prevented, or detected and corrected by management or employees in the normal course of their duties.
Condition:	The District posted a manual journal entry without proper review and approval.
Context:	During testing over manual journal entries, a sample of 23 journal entries was selected. Of the 23, one journal entry was not properly reviewed and approved consistent with the District's policies and procedures.
Effect:	Failure to properly review and approve manual journal entries creates an opportunity for misstatement in the financial statements.
Cause:	The District lacks a system of controls over manual journal entries which presents a significant risk of misstatement with respect to the financial statements.
Recommendation:	We recommend that the District develop appropriate internal controls including policies and procedures for recording manual journal entries.
Views of responsible official:	The District understands and concurs with the finding.

MULTNOMAH EDUCATION SERVICE DISTRICT
Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2012

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2012-02:

Federal Program:	CFDA 84.011 – Migrant Education
Federal Agency:	Department of Education
Award Year:	2011-12
Pass Through Entity:	Oregon Department of Education
Criteria:	In accordance with Circular A-87, charges for salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which reflects an after the fact distribution of the actual activity of each employee, they must account for the total activity for which each employee is compensated, they must be prepared at least monthly and must coincide with one or more pay periods, and they must be signed by the employee and supervisor.
Condition:	The District does not require timecards for employees working under the federal program and does not require signature by a supervisor, indicating proper review and authorization of charges to the grant, unless the employee is a substitute.
Questioned costs:	We could not perform a test of controls over compliance or test compliance for this program; therefore, known questioned costs are indeterminable. The likely questioned costs are the entire payroll expenditures under the program of \$168,556.
Context:	While obtaining an understanding of internal controls, it was determined that timecards were not prepared by the employees and were not approved by a supervisor indicating proper review and authorization of charges to the grant.

MULTNOMAH EDUCATION SERVICE DISTRICT
 Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2012

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

Finding 2012-02 (Continued):

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

Finding 2012-03:

Federal Program:	CFDA 93.243 – Substance Abuse and Mental Health Services Projects of Regional and National Significance
Federal Agency:	Department of Health and Human Services
Award Year:	2011-12
Pass Through Entity:	N/A
Criteria:	In accordance with Circular A-87, charges for salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which reflects an after the fact distribution of the actual activity of each employee, they must account for the total

MULTNOMAH EDUCATION SERVICE DISTRICT
 Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2012

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

Finding 2012-03 (Continued):

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

- Condition: The District does not require timecards for employees working under the federal program and does not require signature by a supervisor, indicating proper review and authorization of charges to the grant, unless the employee is a substitute.
- Questioned costs: We could not perform a test of controls over compliance or test compliance for this program; therefore, known questioned costs are indeterminable. The likely questioned costs are the entire payroll expenditures under the program of \$97,073.
- Context: While obtaining an understanding of internal controls, it was determined that timecards were not prepared by the employees and were not approved by a supervisor indicating proper review and authorization of charges to the grant.
- Effect: Failure to obtain timecards and/or evidence of appropriate supervisory review supporting payroll related charges constitutes noncompliance under OMB Circular A-87. Other evidence indicates the personnel were authorized to work under the grant; however, without appropriate documentation of timecards or appropriate supervisory review, there is a risk that federal funds may have been misapplied under the program.
- Cause: It appears that the District does not have a formal procedure in place for the supervisor of federal programs to review and approve payroll of employees working on the program.
- Recommendation: We recommend the District develop and implement policies and procedures such that all relevant charges to Federal programs are supported by timecards that are reviewed and approved in accordance with OMB Circular A-87.
- Views of responsible official: The District understands and concurs with the finding.

MULTNOMAH EDUCATION SERVICE DISTRICT
Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2012

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

Finding 2012-04:

Federal Program:	CFDA Nos. 84.027, 84.173, 84.391 (ARRA), 84.392 (ARRA) – Special Education Cluster
Federal Agency:	Department of Education
Award Year:	2011-12
Pass Through Entity:	Oregon Department of Education
Criteria:	In accordance with Circular A-87, charges for salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which reflects an after the fact distribution of the actual activity of each employee, they must account for the total activity for which each employee is compensated, they must be prepared at least monthly and must coincide with one or more pay periods, and they must be signed by the employee and supervisor.
Condition:	The District does not require timecards for employees working under the federal program and does not require signature by a supervisor, indicating proper review and authorization of charges to the grant, unless the employee is a substitute.
Questioned costs:	We could not perform a test of controls over compliance or test compliance for this program; therefore, known questioned costs are indeterminable. The likely questioned costs are the entire payroll expenditures under the program of \$1,284,536.
Context:	While obtaining an understanding of internal controls, it was determined that timecards were not prepared by the employees and were not approved by a supervisor indicating proper review and authorization of charges to the grant.

MULTNOMAH EDUCATION SERVICE DISTRICT
 Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2012

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

Finding 2012-04 (Continued):

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

Finding 2012-05:

Federal Program:	CFDA Nos. 84.181, 84.393 (ARRA) – Early Intervention Services (IDEA) Cluster
Federal Agency:	Department of Education
Award Year:	2011-12
Pass Through Entity:	Oregon Department of Education
Criteria:	In accordance with Circular A-87, charges for salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which reflects an after the fact distribution of the actual activity of each employee, they must account for the total

MULTNOMAH EDUCATION SERVICE DISTRICT
 Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2012

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

Finding 2012-05 (Continued):

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

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

Questioned costs: We could not perform a test of controls over compliance or test compliance for this program; therefore, known questioned costs are indeterminable. The likely questioned costs are the entire payroll expenditures under the program of \$860,717.

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

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

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

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

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

MULTNOMAH EDUCATION SERVICE DISTRICT
 Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2012

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

Finding 2012-06:

Federal Program:	CFDA No. 84.410 – Education Jobs Fund – ARRA
Federal Agency:	Department of Education
Award Year:	2011-12
Pass Through Entity:	Oregon Department of Education
Criteria:	In accordance with Circular A-87, charges for salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which reflects an after the fact distribution of the actual activity of each employee, they must account for the total activity for which each employee is compensated, they must be prepared at least monthly and must coincide with one or more pay periods, and they must be signed by the employee and supervisor.
Condition:	The District does not require timecards for employees working under the federal program and does not require signature by a supervisor, indicating proper review and authorization of charges to the grant, unless the employee is a substitute.
Questioned costs:	We could not perform a test of controls over compliance or test compliance for this program; therefore, known questioned costs are indeterminable. The likely questioned costs are the entire payroll expenditures under the program of \$504,362.
Context:	While obtaining an understanding of internal controls, it was determined that timecards were not prepared by the employees and were not approved by a supervisor indicating proper review and authorization of charges to the grant.
Effect:	Failure to obtain timecards and/or evidence of appropriate supervisory review supporting payroll related charges constitutes noncompliance under OMB Circular A-87. Other

MULTNOMAH EDUCATION SERVICE DISTRICT
 Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2012

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

Finding 2012-06 (Continued):

evidence indicates the personnel were authorized to work under the grant; however, without appropriate documentation of timecards or appropriate supervisory review, there is a risk that federal funds may have been misapplied under the program.

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

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

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

Finding 2012-07:

Federal Program: CFDA No. 93.243 – Substance Abuse and Mental Health Service – Project of Regional and Nation Significance

Federal Agency: Department of Health and Human Services

Award Year: 2011-12

Pass Through Entity: N/A

Criteria: Non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principal(s) are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a non-procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. 2 CFR Section 180.220 of the government-wide non-procurement debarment and suspension guidance contains those additional limited circumstances. All non-procurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions. When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity

MULTNOMAH EDUCATION SERVICE DISTRICT
 Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2012

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

Finding 2012-07 (Continued):

must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (2 CFR Section 180.300).

Condition: The District did not check the excluded parties list before entering into contracts exceeding \$25,000 as required.

Questioned costs: None noted, as none of the contractors/vendors tested were found to be on the suspended/debarred list.

Context: The District did not maintain appropriate documentation to evidence verification of suspension and debarment for two out of five contracts selected for testing. Subsequent review indicated that the contractor was not suspended or debarred.

Effect: The District failed to verify compliance of suspension and debarment requirements. Failure to verify suspension and debarment for covered transactions could result in entering into agreements with parties who are suspended or debarred.

Cause: The District's contract checklist to approve new contracts included the requirement to check for suspension and debarment; however, the District failed to properly check and document the check for suspension and debarment.

Recommendation: We recommend that the District utilize the checklist for approving new contracts as intended.

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

Finding 2012-08:

Federal Program: CFDA Nos. 84.027, 84.173, 84.391 (ARRA), 84.392 (ARRA) – Special Education Cluster

Federal Agency: Department of Education

Award Year: 2011-12

MULTNOMAH EDUCATION SERVICE DISTRICT
 Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2012

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

Finding 2012-08 (Continued):

Pass Through Entity:	Oregon Department of Education
Criteria:	Non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principal(s) are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a non-procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. 2 CFR Section 180.220 of the government-wide non-procurement debarment and suspension guidance contains those additional limited circumstances. All non-procurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions. When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (2 CFR Section 180.300).
Condition:	The District did not check the excluded parties list before entering into contracts exceeding \$25,000 as required.
Questioned costs:	None noted, as none of the contractors/vendors tested were found to be on the suspended/debarred list.
Context:	None of the contractors selected for testing were on the excluded parties list.
Effect:	The District failed to verify compliance of suspension and debarment requirements. Failure to verify suspension and debarment for covered transactions could result in entering into agreements with parties who are suspended or debarred.
Cause:	The District's contract checklist to approve new contracts included the requirement to check for suspension and debarment; however, the District failed to properly check and document the check for suspension and debarment.

MULTNOMAH EDUCATION SERVICE DISTRICT
Portland, Oregon

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

YEAR ENDED JUNE 30, 2012

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

Finding 2012-08 (Continued):

Recommendation: We recommend that the District utilize the checklist for approving new contracts as intended.

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

MULTNOMAH EDUCATION SERVICE DISTRICT
Portland, Oregon

SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2012

Finding 2011-01:

Audit Finding: The District should provide evidence of review of all bank and accounts receivable reconciliations and that the recording of, and reconciliation of, be segregated.

Corrective Action Plan Taken: Beginning with the fiscal year 2011-12, all reconciliations showed evidence of review by the Supervisor of Accounting and Finance or the Chief Operating Officer. Management believes there to be controls in place which mitigate the segregation of duties noted in this finding once this corrective action plan was implemented.

Finding 2011-02:

Audit Finding: The District should reconcile the PERS accrual and expense on a consistent basis, and the reconciliation should be reviewed by a responsible party.

Corrective Action Plan Taken: Due to decreased staff levels for most of 2011-12, the PERS accrual and expense was not reconciled on a consistent basis. However, shortly after the start of the fiscal year 2012-13 the District filled the Business Services Director position and is expected to reconcile the PERS activity on a regular basis.

Finding 2011-03:

Audit Findings: The District should consider additional training for staff involved in preparing the Comprehensive Annual Financial Report (CAFR) so that it can be prepared on a timely basis and be free of material misstatements.

Corrective Action Plan Taken: Due to the vacant Business Manager position, the District retained the services of an outside contractor to prepare the 2011-12 financial statements. Shortly after the start of the fiscal year 2012-13, the District filled the Business Services Director position and expects to continue preparing the CAFR on a timely basis with in-house staff.

MULTNOMAH EDUCATION SERVICE DISTRICT
 Portland, Oregon

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

YEAR ENDED JUNE 30, 2012

Finding 2011-04, 2011-05:

Audit Finding: The District should develop procedures for reimbursement requests to ensure accuracy, completeness and timely filing.

Corrective Action Plan Taken: The District has implemented procedures to ensure reimbursement requests are reviewed and that the evidence of the review is retained.

Finding 2011-06:

Audit Finding: The District should develop a process for tracking in-kind contributions associated with matching requirements.

Corrective Action Plan Taken: The District re-assessed its in-kind identified work time and tightened procedures to train and comply with the District policies and grant requirements.

Finding 2011-07, 2011-08, 2011-09, 2011-10:

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 for its teachers. The system is designed with the understanding it will meet all time certification requirements as per federal and state grant laws and regulations.

**Multnomah Education Service District
Summary of Prior Audit Findings
Year Ended June 30, 2012**

Finding 11-01

The District should provide evidence of review of all bank and accounts receivable reconciliations and that the recording of, and reconciliation of, be segregated.

Corrective Action Plan

Beginning with the fiscal year 2011-12 all reconciliations showed evidence of review by the Supervisor of Accounting and Finance or the Chief Operating Officer. Management believes there to be controls in place which mitigate the segregation of duties noted in this finding once this corrective action plan was implemented.

Finding 11-02

The District should reconcile the PERS accrual and expense on a consistent basis, and the reconciliation should be reviewed by a responsible party.

Corrective Action Plan

The district is reconciling the PERS accrual and expense on a consistent basis and the reconciliation is reviewed by the Business Services Director.

Finding 11-03

The District should consider additional training for staff involved in preparing the CAFR so that it can be prepared on a timely basis and be free of material misstatements.

Corrective Action Plan

Due to the vacant Business Manager position, the District retained the services of an outside contractor to prepare the 2011-12 financial statements. Shortly after the start of the fiscal year 2012-13, the District filled the Business Services Director position and expects to continue preparing the CAFR on a timely basis with in-house staff.

Findings 11-04, 11-05

The District should develop procedures for reimbursement requests to ensure accuracy, completeness and timely filing.

Corrective Action Plan

The District has implemented procedures to ensure reimbursement requests are reviewed and that the evidence of the review is retained.

Multnomah Education Service District
Summary of Prior Audit Findings (Continued)
Year Ended June 30, 2012

Finding 11-06

The District should develop a process for tracking in-kind contributions associated with matching requirements.

Corrective Action Plan

The District re-assessed its in-kind identified work time and tightened procedures to train and comply with the District policies and grant requirements.

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

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

Effective July 1, 2012, the District redesigned its system of time capture and certification for its teachers. The system is designed with the understanding it will meet all time certification requirements as per federal and state grant laws and regulations.

AUDIT COMMENTS AND DISCLOSURES





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

December 18, 2012

Board of Directors
Multnomah Education Service District
Portland, Oregon

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Multnomah Education Service District, Portland, Oregon, (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 18, 2012. We conducted our audit 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.

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

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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: Instruction	\$ 7,165,381	\$ 7,407,117	\$ (241,736)
Contracted Services Fund: Apportionment of funds	1,504,699	1,951,183	(446,484)
Risk Management Reserve Fund: Support services	650,426	670,747	(20,321)

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.

* * * * *

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

Talbot, Kowala & Warwick LLP

Certified Public Accountants



**Multnomah Education Service District
Corrective Action Plan
Year Ended June 30, 2012**

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 12-01

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

Corrective Action Plan:

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 12-02, 12-03, 12-04, 12-05, 12-06

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:

Effective July 1, 2012, the District redesigned its system of time capture and certification for its teachers. The system is designed with the understanding it will meet all time certification requirements as per federal and state grant laws and regulations.

Finding 12-07, 12-08

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

Corrective Action Plan:

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.