

REYNOLDS SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2011



12700 SW 72nd Ave.
Tigard, OR 97223

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

BOARD OF DIRECTORS AS OF JUNE 30, 2011

<u>NAME</u>	<u>TERM EXPIRES</u>
Theresa Delaney Davis, Chair	June 30, 2013
Dane Nickerson, Vice Chair	June 30, 2011
Rick Phelps	June 30, 2013
Valerie Tewksbury	June 30, 2013
Joseph Teeny	June 30, 2013
Lori Rutledge	June 30, 2011
Claudette Naylor	June 30, 2011

The above Board Members receive mail at the address below:

Dr. Joyce Hendstrand, Superintendent

Administrative Office
1204 N.E. 201st Avenue
Fairview, Oregon 97024

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MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3a-3h
FINANCIAL STATEMENTS AND SCHEDULES:	
Government-wide Financial Statements:	
Statement of Net Assets	4
Statement of Activities	5
Fund Financial Statements:	
Balance Sheet – Governmental Funds	6
Reconciliation of the Governmental Funds Balance Sheet To the Statement of Net Assets	7
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	8
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	9
Statement of Net Assets – Proprietary Fund	10
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Fund	11
Statement of Cash Flows – Proprietary Fund	12
Statement of Fiduciary Net Assets-Fiduciary Funds	13
Statement of Changes in Fiduciary Net Assets-Fiduciary Funds	14
Notes to Basic Financial Statements	15
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Actual and Budget:	
Major Funds:	
General Fund	36
Federal Programs Fund	37
SUPPLEMENTARY INFORMATION:	
Schedules of Revenues, Expenditures, and Changes in Fund Balances – Actual and Budget:	
Major Funds:	
Debt Service Fund	38
PERS Bond Fund	39
Capital Projects Fund	40

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

TABLE OF CONTENTS (CONTINUED)

	<u>PAGE</u>
SUPPLEMENTARY INFORMATION (CONTINUED):	
Nonmajor Funds:	
Combining Balance Sheet –Nonmajor Governmental Funds	41
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances –Nonmajor Governmental Funds	42
Schedules of Revenues, Expenditures, and Changes in Fund Balances - Actual and Budget - Nonmajor Funds:	
Nutrition Service Fund	43
State and Local Programs Fund	44
Self-Insurance Fund	45
Retirement Fund	46
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Actual and Budget – Internal Service Fund Worker’s Compensation Fund	47
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Actual and Budget – Fiduciary Fund Private-purpose Trust Fund	48
OTHER FINANCIAL SCHEUDLES:	
Schedule of Bond Redemption and Interest Requirements	49
Schedule of Property Tax Transactions and Balances of Taxes Uncollected -General Fund	50
Schedule of Property Tax Transactions and Balances of Taxes Uncollected -Debt Service Fund	51
Supplemental Information – As Required by the Oregon Department of Education	52
INDEPENDENT AUDITORS’ REPORT REQUIRED BY OREGON STATE REGULATIONS	53
GRANT COMPLIANCE REVIEW:	
Schedule of Expenditures of Federal Awards	55
Report on Internal Control Structure over Financial Reporting	57
Report on Compliance with Requirements Applicable to each Major Program	59
Schedule of Findings and Questioned Costs	61



PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

-
- 12700 SW 72ND AVENUE • TIGARD, OREGON 97223
 - (503) 620-2632 • FAX (503) 684-7523

November 25, 2011

To the Board of Directors
Multnomah County School District No. 7
Multnomah County, Oregon

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of Multnomah County School District No. 7, Multnomah County, Oregon, as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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 the Government Auditing Standards, issued by the Comptroller General of the United States. The financial statements of the discretely presented component units were not audited in accordance with Government Auditing Standards. 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 internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

Management has not calculated a termination benefits liability for its early retirement program or obtained an actuarial valuation of the post-employment benefit obligation related to the health insurance subsidies. Accounting principles generally accepted in the United States of America require that actuarially determined annual required contributions related to postemployment benefits, other than retirement benefits, attributable to employee services already rendered be recorded as expenses as employees earn the benefits, which, if not funded would increase the liabilities, reduce the net assets, and change the expenses of the governmental activities. The amount by which these departures would affect net assets, liabilities and expenses of the governmental activities is not reasonably determinable.

In our opinion, except for the effects of not calculating a termination benefits liability or providing an actuarially determined liability for postemployment benefits as described in the preceding paragraph, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of the Multnomah County School District No. 7 as of June 30, 2011, and the results of its operations and the cash flows thereof of its proprietary fund types and the respective changes in financial position 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 reports dated November 25, 2011, on our consideration of the internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis, as listed on the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The Supplemental Information, including budgetary comparison schedules (which are required supplementary information for major governmental funds) as listed in the Table of Contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards, as listed in the table of contents, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Supplemental Information and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole, except as noted below.

The supplemental information on page 52 is presented for purposes of additional analysis as required by the Oregon Department of Education. However, we did not audit the information and express no opinion on it.

Pauly, Rogers and Co. P.C.
PAULY, ROGERS AND CO., P.C.



Reynolds School District
Administration Offices
1204 NE 201st Avenue
Fairview, OR 97024
503.661.7200 • FAX 503.667.6932

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2011

As management of Reynolds School District # 7 (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities for the fiscal year ending June 30, 2011.

Since the focus of the Management's Discussion and Analysis (MD&A) is on the current year activities, resulting changes and currently known facts. The MD&A should be read in conjunction with the District's financial statements, including the accompanying notes. Additionally, as a required part of the MD&A, comparative information for the current year is presented for financial analysis to enhance the understanding of the District's financial performance. This report is the first year of GASB 54 reporting requirements, thus some changes have and will occur in the report and audit.

Financial Highlights

- The net assets of the District in the government-wide financial statements were \$41,206,296. The District invested \$27,693,771 in capital assets, net of related debt.
- At June 30, 2011, the District's governmental funds reported combined ending fund balances of \$23,930,582. This represents an increase of \$1,090,287 from the prior year. This increase reflects the District's commitment to be fiscally sound by exercising prudent fiscal management to preserve fund balance. The District's policy requires a large enough fund balance in order to replicate school district curriculum and programs over the course of the next years.
- At June 30, 2011, the General Fund had a fund balance of \$19,506,353 including \$1,341,441 from prior years adjustment (see note 17, page 35), and a GASB 54 reporting requirement of \$888,238 from Early Retirement Fund.
- GASB 54 requires the Early Retirement Fund's ending fund balance be reported with the General Fund, instead of reporting with Other Government funds as in prior years.
- During the fiscal year, the District was awarded \$1.6 million for the final part of the Federal Stimulus Fund, and a onetime grant of \$2.4 million funded by the ED Recovery Act as part of the American Recovery and Reinvestment Act of 2009. Receipts of these funds allowed the District to maintain programs that serve the education needs of the students of the Reynolds School District and avert layoffs. These funds sunset on June 30, 2011 with the exception of Title I and IDEA that will sunset September 30, 2011, and is a result of carrying this forward to meet future obligations.
- The District's total debt decreased by \$7,308,912 during fiscal year 2011. Principal paid on the existing General Obligations and Pension Obligation bonds contributed to this decrease.

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

Government-Wide Financial Statements are designed to provide readers with a broad overview of the District's finances in a manner similar to private-sector businesses.

- The *Statement of Net Assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. 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 District's net assets changed during the most recent fiscal year. 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 (e.g., uncollected taxes, and earned, but unused, vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). As is typical for a school district, the Reynolds School District has governmental activities, such as regular and special education programs, child nutrition services, transportation, administration, and facilities improvements and construction. These activities are primarily financed through property taxes, Oregon's State School Fund, and other intergovernmental revenues. The District does not have any business-type activities.

The government-wide financial statements can be found on pages 4 and 5 of this report.

Fund Financial Statements are designed to demonstrate compliance with finance-related legal requirements overseeing the use of fund accounting. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives. The School Board sets appropriations within every fund each year (for instruction, support services, enterprise and community services, facilities acquisition and construction, debt service, transfers, contingency, and unappropriated ending fund balance and other GASB 54 classifications) that establish the legal limits for expenditures of the District.

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 available resources, as well as balances of available resources 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 District'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 District maintains five major governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Federal Programs Fund, Debt Service Fund, PERS Bond Fund, Capital Projects Fund and Other Governmental Funds. The District classifies these five funds as major funds.

The District adopts an annual appropriated budget for all of its funds as stated above. A budgetary comparison statement has been provided for each fund individually to demonstrate compliance with their budgets.

The basic governmental fund financial statements can be found beginning on pages 6-14 of this report.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 15 to 35 of this report.

Other information is included on the basic financial statements and accompanying notes. The State of Oregon requires governmental entities to provide financial information prepared in accordance with Oregon's Budgetary Law (Budgetary Basis). The District also includes additional supplemental information to assist the users of the financial statements in gaining an understanding of the District's financial position. Other information (both required and additional) can be found on pages 36-52 of this report.

Additionally, the Federal Government and the State of Oregon require Governmental entities to include additional auditor reports and schedules. The 2010-2011 Auditors' Comments and Disclosure includes the auditors' report on internal accounting control and other matters. The Grant Compliance review includes a schedule of Federal Awards along with reports on internal control, program compliance and schedule of prior and current year audit findings relative to Federal awards. The required auditors' comments, disclosures and grant compliance review information can be found beginning on page 53 of this report.

Government-Wide Financial Analysis

Net assets

The District's assets are more than liabilities by \$41,206,296. Capital assets, which consist of the District's land, buildings, building improvements, vehicles, and equipment, represent about 51.86% of total assets, similar to the prior year. There were capital additions (vehicle and equipments) in fiscal year 2011. The reduction represents the net these additions and the recorded depreciation. The remaining assets consist mainly of investments, cash, inventories and property taxes receivable.

The District's largest liability, or approximately 90%, is for the repayment of the following liabilities, which are due in more than one year: general obligation bonds, pension (PERS) bonds, notes and lease contract payables. Current liabilities, representing about 10% of the District's total liabilities, consist almost entirely of payables on salaries and benefits, other vendor payables, and current portions of long-term debt.

Net Assets at June 30th, 2011 as compared to June 30, 2010:

	Governmental Activities			
	2011	2010	Increase (Decrease)	%
Assets				
Current and other assets	\$ 87,455,541	\$ 91,602,877	\$ (4,147,336)	(4.5)
Net capital assets	<u>94,210,871</u>	<u>97,486,995</u>	<u>(3,276,124)</u>	<u>(3.4)</u>
Total assets	<u>181,666,412</u>	<u>189,089,872</u>	<u>(7,423,460)</u>	<u>(3.9)</u>
Liabilities				
Current liabilities	13,467,176	15,104,054	(1,636,878)	(10.8)
Long term liabilities	<u>126,992,940</u>	<u>134,507,556</u>	<u>(7,514,616)</u>	<u>(5.6)</u>
Total liabilities	140,460,116	149,611,610	(9,151,494)	(6.1)
Net Assets				
Invested in Capital Assets, net of related debt	27,693,771	25,739,747	1,954,024	7.6
Restricted	1,142,164	6,802,055	(5,659,891)	(83.2)
Unrestricted	<u>12,370,361</u>	<u>6,936,460</u>	<u>5,433,901</u>	<u>78.3</u>
Total net assets	<u>\$ 41,206,296</u>	<u>\$ 39,478,262</u>	<u>\$ 1,728,034</u>	<u>4.4</u>

The District's net assets are largely invested in capital assets (e.g, land, buildings, vehicles and equipment), less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to students and other District residents; consequently these assets are not available for future spending. Although the District's investment in its capital sets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources (generally property taxes), since the capital assets themselves cannot be used to liquidate these liabilities.

Some key elements of change in the governmental activities net assets for the year ending June 30, 2011, and 2010 are as follows:

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>	<u>%</u>
Revenues				
Program revenues				
Charges for services	\$ 1,439,364	\$ 1,491,329	\$ (51,965)	(3.5)
Operating grants and contributions	15,716,230	13,825,203	1,891,027	13.7
General revenues				
Property taxes	26,255,760	25,976,489	279,271	1.1
State school fund	61,867,057	66,164,872	(4,297,815)	(6.5)
State Common school fund	1,120,472	1,041,417	79,055	7.6
Other Federal, State and Local Sources	6,843,229	5,139,732	1,703,497	33.1
Investment earnings	90,233	244,248	(154,015)	(63.1)
Total revenues	<u>113,332,345</u>	<u>113,883,290</u>	<u>(550,945)</u>	<u>(0.5)</u>
Expenses				
Instruction	63,190,614	58,097,568	5,093,046	8.8
Support services	38,152,331	32,807,833	5,344,498	16.3
Enterprise and community services	4,866,276	4,653,983	212,293	4.6
Gain/Loss on Equity Interest in CAL	43,976	42,545	1,431	3.4
Interest on long-term debt	6,623,305	6,705,030	(81,725)	(1.2)
Total expenses	<u>112,876,502</u>	<u>102,306,959</u>	<u>10,569,543</u>	<u>10.3</u>
Increase in net assets	455,843	11,576,331	(11,120,488)	(96.1)
Net assets, beginning as restated,				
	39,478,262	27,218,931	12,259,331	45.0
Prior Periods Adjustment	1,272,191	683,000	589,191	86.3
Net assets, ending	<u>\$ 41,206,296</u>	<u>\$ 39,478,262</u>	<u>\$ 1,728,034</u>	<u>4.4</u>

Revenues

Total revenues decreased \$550,945 from the prior year, is a net result in an increase in the Federal ARRA funding received and a decrease in the State School Fund and other local sources. Budget shortfalls at the state level resulted in the District receiving less state funding than in prior years. The District's investment earnings were reduced by 63% due to the sharp decline of investment markets during the fiscal year.

General Fund revenues account for approximately 85% of all funds revenues. Property taxes are split between General Fund tax levies, and Debt Service requirements. The State School Fund (SSF) is the largest revenue source at \$61,867,057, or 55% of total revenues. Each Oregon school district receives money from the state based upon an Average Daily Membership (ADMw) formula, weighted for various demographic considerations. The formula is allocated by multiplying a dollar rate per student established by the legislature every biennium. All General Fund Ad Valorem Taxes, County School Fund, State School Support, Common School Fund, and Federal Forest Fees are included in the SSF formula. As a safety net, each district may utilize the highest ADMw from two of the most recent fiscal years in the calculation.

Of great concern is the reduction in General Fund State Sources; 2010 - 11 was \$63,381,118 (page 8), 2009-10 was \$68,651,132, and 2008-09 was \$69,193,479.

Expenses

Expenses related to governmental activities are presented in five broad functional categories. Costs of direct classroom instruction activities account for 56% of the total expenses of \$112,876,502. In addition, approximately 34% of the costs in support services relate to students, instructional staff and school administration.

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the District's *governmental funds* is to provide information on relatively short-term cash flow and funding for future basic services. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* and any unused *budgeted contingencies* may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year. The District did not spend any of the budgeted contingency in fiscal year 2011.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$23,930,582. Of this amount, \$18,263,971 constitutes unassigned fund balance, which is available for spending at the District's discretion, but subject to restrictions of fund type.

General Fund

The General Fund is the primary operating fund of the District. At the end of the current fiscal year, the ending fund balance was \$19,506,353. As a measure of the fund's liquidity, it may be useful to compare total fund balance to total fund revenue. The General Fund ending fund balance represents 82% of total all funds balance, and 22% of General Fund revenues.

General Fund ending fund balance increased by \$2,625,461 or 15% from prior year due to:

- GASB 54 requires the Early Retirement Ending fund balance of \$888,238 be included in the General Fund ending fund balance in this fiscal year. It was reported under Other Governmental Funds in prior years; and
- The continued efforts of the administration to reduce costs by creating efficiencies and the ability to fund programs with monies received from the Federal Economic Stimulus Funds including the Education Jobs Funds, resulted in an increase of \$1,284,020; and
- The continued efforts of the administration to bring financial stability to the District increased the use of internal controls. This led to the business system identifying and clearing all prior years PERS liabilities, \$1,341,441.

The Debt Service Fund Balance decreased \$996,777, and ended the year at \$122,608. The cash balance serves to make the first interest payment due in December, prior to the time sufficient taxes are collected to cover the payments.

Capital Asset and Debt Administration

Capital assets

The District's investment in capital assets for its governmental activities as of June 30, 2011 amounts to \$94,210,871, net of accumulated depreciation. This investment in capital assets includes land, buildings, equipment, and vehicles. Capital assets for the prior year amounted to \$97,486,995 and reflect a reduction of \$3,276,124. This reduction is the net amount of current year's depreciation and capital asset acquisitions (vehicle and equipments) in fiscal year 2011.

Capital Assets (Net of Depreciation) includes the following:

	June 30, 2011	June 30, 2010	Total Percentage Change
Land	\$ 18,236,549	\$ 18,236,549	0.00%
Buildings and improvements	73,321,643	75,651,114	-3.08%
Vehicles and equipment	2,652,679	3,599,332	-26.30%
Total assets	\$ 94,210,871	\$ 97,486,995	

Additional information on the District's capital assets can be found in note 5 on page 24 of this report

Long-term debt. At the end of the fiscal year, the District had a total outstanding long-term debt of \$134,545,002 consisting of general obligation debt and pension obligation debt net of unamortized premium/discount. There was \$24,747,156 on outstanding Full Faith Credit Obligations, \$108,607,902 on Bonds payable and \$1,189,944 on capital leases payable

Outstanding Long-Term Debt includes the following:

	June 30, 2011	June 30, 2010	Total Percentage Change
Bonds payable	\$ 108,607,902	\$ 114,826,666	-5.42%
Capital Leases	1,189,944	1,628,127	-26.91%
Full Faith Credit Obligations	24,747,156	25,399,121	-2.57%
Total Long-Term Debt	\$ 134,545,002	\$ 141,853,914	

Additional information on the District's long-term debt can be found in note 7 on pages 25 to 31 of this report

Economic Factors and Next Year's Budgets

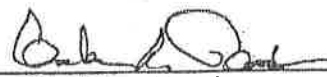
- The most significant economic factor for the District is the State of Oregon's State School Fund. For the year ending June 30, 2011, the State School Fund – General Fund provided 68% of the District's program resources. The state economic forecast reveals a slow recovery.
- The 2011-12 budget is based on a bi-annual budget of which will provide 51% of the bi-annual k-12 revenue allocation which means a decrease in funding in 2012-13.
- District enrollment is expected to remain flat in the near term.
- Salaries, benefits and utilities costs continue to increase.
- Unemployment rates in Portland, Oregon has declined slightly, from 10.6% in June 2010 and 9.4% in June 2011.
- The District's Budget Committee and School Board considered all of these factors while preparing the District's budget for the 2012-13 fiscal year. In spite of a slow economic recovery and continued funding challenges, the District, through prudent fiscal management, maintains a healthy financial position to provide the quality education deserved by every child.

Requests for Information

This financial report is designed to present the user (citizens, taxpayers, investors, and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. Questions concerning any of the information provided in this report or requests for additional information should be address to the District's Executive Director of Business Services at 1204 NE 201st Ave, Fairview OR 97024. Electronic copies of this report may be found at the district website <http://www.reynolds.k12.or.us/dept/business.html>.

Respectfully submitted,


Dr. Joyce Henstrand
Superintendent


Dr. Charles A. Rhoads
Executive Director of Business Services.

A great place for learning.

www.reynolds.k12.or.us/schools/

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

GOVERNMENT WIDE FINANCIAL STATEMENTS

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MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

STATEMENT OF NET ASSETS
June 30, 2011

	Component Units				
	Governmental Activities	Multisensory Learning Academy	Arthur Academy	ACE Academy	Knova Learning Center
ASSETS					
Cash and Investments	\$ 24,145,800	\$ 394,320	\$ 126,586	\$ 127,393	\$ 6,258
Receivables:					
Accounts and Grants	5,000,713	2,382	279,846	9,042	90,427
Property Taxes	1,417,532	-	-	-	-
Supply Inventories & Assets held for resale	222,567	-	-	-	-
Prepaid PERS Assets	54,111,462	-	-	-	-
Other Prepaid Expenses	-	5,538	10,670	-	21,243
Bond Issuance Costs	860,431	35,570	-	-	-
Equity in CAL	1,697,036	-	-	-	-
Capital Assets, Non-Depreciable	18,236,549	1,449,644	-	-	-
Capital Assets, Depreciable, Net	75,974,322	1,973,425	773,677	-	398,610
Total Assets	181,666,412	3,860,879	1,190,779	136,435	516,538
LIABILITIES:					
Accounts Payable	772,293	9,281	39,839	20,531	50,107
Accrued Salaries and Benefits	4,672,518	116,822	68,208	29,028	180,008
Unearned Revenue	10,211	27,366	-	-	-
Accrued Vacation Payable	327,802	-	-	-	-
Bond & Note Interest Payable	132,290	11,970	-	-	5,671
Noncurrent liabilities					
Due within one year	7,552,062	55,605	19,250	-	200,000
Due in more than one year	126,992,940	2,157,506	129,993	-	-
Total Liabilities	140,460,116	2,378,550	257,290	49,559	435,786
NET ASSETS:					
Invested in Capital Assets, Net of Related Debt	27,693,771	1,209,958	624,434	-	198,610
Restricted for Debt Service	215,575	-	-	-	-
Restricted for Special Projects	926,589	-	-	-	-
Unrestricted	12,370,361	272,371	309,055	86,876	(117,858)
Total Net Assets	\$ 41,206,296	\$ 1,482,329	\$ 933,489	\$ 86,876	\$ 80,752

See accompanying notes to basic financial statements.

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

STATEMENT OF ACTIVITIES
For the year ended June 30, 2011

Net (Expense) Revenue and
Changes in Net Assets

Functions/Programs	Program Revenues			Component Units				
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Multisensory Learning Academy	Arthur Academy	ACE Academy	Knova Learning Center
Instruction	\$ 63,190,614	\$ 241,997	\$ 7,851,320	\$ (55,097,297)	\$ (740,581)	\$ (573,892)	\$ (243,423)	\$ (653,163)
Support Services	38,152,331	-	3,457,968	(34,694,363)	(543,198)	(288,653)	(279,547)	(289,196)
Community Services	4,910,252	1,197,367	4,406,942	694,057	-	-	(3,295)	(19,117)
Unallocated Depreciation	-	-	-	-	-	(52,136)	-	-
Interest on Long-Term Debt	6,623,305	-	-	(6,623,305)	(11,971)	(13,433)	-	(5,671)
Total Governmental Activities	\$ 112,876,502	\$ 1,439,364	\$ 15,716,230	(95,720,908)	(1,295,750)	(928,114)	(526,265)	(967,147)
Component Units:								
M.L.A.	\$ 1,304,592	\$ 4,966	\$ 3,876		(1,295,750)			
Arthur Academy	\$ 928,114	\$ -	\$ -			(928,114)		
ACE Academy	\$ 688,409	\$ -	\$ 162,144				(526,265)	
Knova Learning Center	\$ 1,518,702	\$ 81,950	\$ 469,606					(967,146)
General Revenues								
Property Taxes Levied for General Purposes				20,918,304	-	-	-	-
Property Taxes Levied for Debt Service				5,337,456	-	-	-	-
Other Federal Revenue				5,212,262	-	-	-	-
State Support				63,381,118	1,598,603	991,797	564,154	1,044,339
Intermediate Sources				138,681	-	-	-	-
Earnings on Investments				90,233	-	86	3	-
Loss on Equity - CAL				(43,976)	-	-	-	-
Miscellaneous				1,142,673	1,406	55,825	35,386	1,110
Total General Revenues				96,176,751	1,600,010	1,047,708	599,543	1,045,449
Change in net assets				455,843	304,260	119,594	73,278	78,303
Net assets beginning of year				39,478,262	1,178,070	819,101	13,598	2,449
Prior Period Adjustment				1,272,191	-	(5,206)	-	-
Net assets end of year				\$ 41,206,296	\$ 1,482,329	\$ 933,489	\$ 86,876	\$ 80,752

See accompanying notes to basic financial statements.

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

FUND FINANCIAL STATEMENTS

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MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2011

	<u>GENERAL FUND</u>	<u>FEDERAL PROGRAMS FUND</u>	<u>DEBT SERVICE FUND</u>	<u>PERDS BOND FUND</u>	<u>CAPITAL PROJECTS FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS:							
Cash & Equity in Pooled Cash	\$ 20,426,379	\$ -	\$ 53,712	\$ 92,967	\$ 2,692,076	\$ 880,666	\$ 24,145,800
Receivables:							
Accounts and Grants	1,737,179	2,695,568	40,959	-	-	413,555	4,887,261
Property Taxes	1,120,394	-	297,138	-	-	-	1,417,532
Interfund Receivable	2,664,415	-	-	-	-	-	2,664,415
Inventory & Property Held for resale	-	-	-	-	-	222,567	222,567
Total Assets	\$ 25,948,367	\$ 2,695,568	\$ 391,809	\$ 92,967	\$ 2,692,076	\$ 1,516,788	\$ 33,337,575
LIABILITIES, AND FUND BALANCES:							
Liabilities:							
Accounts Payable	\$ 751,140	\$ 20,943	\$ -	\$ -	\$ -	\$ 210	\$ 772,293
Accrued Salaries and Benefits	4,672,518	-	-	-	-	-	4,672,518
Deferred Revenue	1,018,356	10,210	269,201	-	-	-	1,297,767
Interfund Payable	-	2,664,415	-	-	-	-	2,664,415
Total Liabilities	6,442,014	2,695,568	269,201	-	-	210	9,406,993
Fund Balances (Deficit):							
Nonspendable	-	-	-	-	-	222,567	222,567
Restricted:							
Debt Service	-	-	122,608	92,967	-	-	215,575
State & Local Programs	-	-	-	-	-	59,265	59,265
Food Service	-	-	-	-	-	816,199	816,199
Committed:							
Early Retirement	888,238	-	-	-	-	-	888,238
Self Insurance	-	-	-	-	-	329,121	329,121
Assigned:							
Capital Projects	-	-	-	-	2,692,076	-	2,692,076
State & Local Programs	-	-	-	-	-	443,570	443,570
Unassigned	18,618,115	-	-	-	-	(354,144)	18,263,971
Total Fund Balances (Deficit)	19,506,353	-	122,608	92,967	2,692,076	1,516,578	23,930,582
Total Liabilities and Fund Balances	\$ 25,948,367	\$ 2,695,568	\$ 391,809	\$ 92,967	\$ 2,692,076	\$ 1,516,788	\$ 33,337,575

See accompanying notes to basic financial statements.

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Assets
June 30, 2011

TOTAL FUND BALANCES-GOVERNMENTAL FUNDS	\$	23,930,582
<p>Capital assets are not financial resources and therefore are not reported in the governmental funds.</p>		
Cost	\$ 151,704,294	
Accumulated Depreciation	<u>(57,493,423)</u>	94,210,871
<p>A portion of the 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.</p>		
		1,287,556
<p>The unamortized portion of prepaid pension costs and bond issuance costs is not available to pay for current period expenditures, and therefore is not reported in the governmental funds.</p>		
Prepaid pension costs	54,111,462	
Bond issuance costs	<u>860,431</u>	54,971,893
<p>Equity interest in the Center for Advanced Learning (CAL) is not reported in the governmental funds:</p>		
		1,697,036
<p>Long-term liabilities applicable to the governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in the governmental funds, but rather is recognized as an expenditure when due.</p>		
<p>Long term Liabilities:</p>		
Accrued Vacation Payable	(327,802)	
Bond & Note Interest Payable	(132,290)	
Capital Leases	(1,189,944)	
Qualified Zone Academy Bonds	(978,480)	
Full Faith and Credit Obligation Payable	(24,747,156)	
Pension obligation bonds payable	(67,049,422)	
General obligation bonds payable	<u>(40,580,000)</u>	(135,005,094)
<p>Accounts receivable not received within 60 days of year end is not accrued in the Governmental Fund Statements, but all receivables are accrued in the Government-Wide Statements, regardless of when they were received.</p>		
		<u>113,452</u>
TOTAL NET ASSETS	\$	<u><u>41,206,296</u></u>

See accompanying notes to basic financial statements.

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the year ended June 30, 2011

	<u>GENERAL FUND</u>	<u>FEDERAL PROGRAMS FUND</u>	<u>DEBT SERVICE FUND</u>	<u>PERS BOND FUND</u>	<u>CAPITAL PROJECTS FUND</u>	<u>OTHER GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES:							
Local Sources	\$ 22,148,318	\$ -	\$ 5,373,998	\$ 5,426,843	\$ 15,836	\$ 1,325,753	\$ 34,290,748
Intermediate Sources	-	59,789	-	-	340,832	150,543	551,164
State Sources	63,276,951	-	-	-	-	104,167	63,381,118
Federal Sources	5,212,262	11,505,603	-	-	-	4,210,627	20,928,492
Total Revenues	<u>90,637,531</u>	<u>11,565,392</u>	<u>5,373,998</u>	<u>5,426,843</u>	<u>356,668</u>	<u>5,791,090</u>	<u>119,151,522</u>
EXPENDITURES:							
Current:							
Instruction	54,016,262	7,892,119	-	-	-	211,125	62,119,506
Support Services	34,779,510	3,475,938	-	-	-	181,937	38,437,385
Community Services	102,467	197,335	-	-	-	5,007,653	5,307,455
Facilities Acquisition	-	-	-	-	151	-	151
Capital Outlay	132,295	-	-	-	-	14,137	146,432
Debt Service	122,310	-	6,370,775	5,430,611	1,634,364	-	13,558,060
Total Expenditures	<u>89,152,844</u>	<u>11,565,392</u>	<u>6,370,775</u>	<u>5,430,611</u>	<u>1,634,515</u>	<u>5,414,852</u>	<u>119,568,989</u>
Revenues over (under) expenditures	1,484,687	-	(996,777)	(3,768)	(1,277,847)	376,238	(417,467)
Other Financing Sources, (Uses):							
Transfers In	800,000	-	-	-	125,000	436,230	1,361,230
Transfers Out	(1,000,667)	-	-	-	-	(125,000)	(1,125,667)
Total other financing sources (Uses)	<u>(200,667)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>125,000</u>	<u>311,230</u>	<u>235,563</u>
Net Change in Fund Balance	<u>1,284,020</u>	<u>-</u>	<u>(996,777)</u>	<u>(3,768)</u>	<u>(1,152,847)</u>	<u>687,468</u>	<u>(181,904)</u>
Fund balance, beginning	16,880,892	-	1,119,385	96,735	3,844,923	898,360	22,840,295
Prior Period Adjustment	1,341,441	-	-	-	-	(69,250)	1,272,191
Fund balance, ending	<u>\$ 19,506,353</u>	<u>\$ -</u>	<u>\$ 122,608</u>	<u>\$ 92,967</u>	<u>\$ 2,692,076</u>	<u>\$ 1,516,578</u>	<u>\$ 23,930,582</u>

See accompanying notes to basic financial statements.

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
to the Statement of Activities
For the year ended June 30, 2011

TOTAL NET CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS \$ (181,904)

Governmental funds report capital outlay 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. This is the amount by which capital outlays exceeded depreciation expense in the current period:

Expenditures for capital assets	\$ 313,093	
Less current year depreciation	<u>(3,589,217)</u>	(3,276,124)

Long-term debt proceeds are reported as other financing sources in governmental funds. In the Statement of Net Assets, however, issuing long-term debt increases liabilities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability government-wide.

Principal Payments on Long-Term-Debt	7,346,358
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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 premiums	101,243	
Accretion of discount on pension obligation bonds	(138,689)	
Amortization of issuance costs	<u>(59,391)</u>	(96,837)

In the governmental funds, the current year payment to PERS to advance fund the District's UAL is charged as expenditures. In the Statement of Net Assets it is reported as an asset and amortized over the life of the pension bonds issued to fund the payment. This is the net effect of these transactions: (3,183,027)

In the Statement of Activities interest is accrued on long-term debt, whereas in the governmental funds it is recorded as an expense when due. 26,580

Property taxes that do not meet the measurable and available criteria are not recognized as revenue in the current year in the governmental funds. In the Statement of Activities property taxes are recognized as revenue when levied. (49,327)

Equity interest in the Center for Advanced Learning (CAL) is not reported in the governmental funds: (43,976)

Compensated absences are recognized as expenditure in the governmental funds when they are paid. In the Statement of Activities these liabilities are recognized as an expenditure when earned. 36,211

Accounts receivable not received within 60 days of year end is not accrued in the Governmental Fund Statements, but all receivables are accrued in the Government-Wide Statements, regardless of when they were received. 113,452

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 455,843

See accompanying notes to basic financial statements.

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

STATEMENT OF NET ASSETS - PROPRIETARY FUND
June 30, 2011

INTERNAL SERVICE FUND

	Worker's Compensation Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ -
TOTAL ASSETS	<u>-</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	-
NET ASSETS	
Unrestricted	-
TOTAL NET ASSETS	<u><u>\$ -</u></u>

See accompanying notes to basic financial statements.

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
For the year ended June 30, 2011

INTERNAL SERVICE FUND

	Worker's Compensation Fund
OPERATING REVENUES:	
Transfer from General Fund	\$ -
TOTAL OPERATING REVENUES	<u>-</u>
OPERATING EXPENSES:	
Employee Benefits	-
TOTAL OPERATING EXPENSES	<u>-</u>
OPERATING INCOME	-
NONOPERATING EXPENSE	
Transfer to Self Insurance Fund	235,563
CHANGE IN NET ASSETS	(235,563)
NET ASSETS, July 1, 2010	<u>235,563</u>
NET ASSETS, June 30, 2011	<u><u>\$ -</u></u>

See accompanying notes to basic financial statements.

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the year ended June 30, 2011

INTERNAL SERVICE FUND

	<u>Worker's Compensation Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Received for Services	\$ -
Paid to:	
Employees	<u>-</u>
NET CASH USED BY OPERATING ACTIVITIES	-
CASH FLOWS FROM NON-OPERATING ACTIVITIES	
Transfer	<u>(235,563)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(235,563)
CASH AND CASH EQUIVALENTS, beginning	<u>235,563</u>
CASH AND CASH EQUIVALENTS, ending	<u><u>\$ -</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating Income	\$ -
Adjustments to Reconcile Operating Loss to Net Cash Used By Operating Activities:	
Depreciation	-
Changes in Assets and Liabilities:	
Accounts Payable	<u>-</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ -</u></u>

See accompanying notes to basic financial statements.

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2011

	<u>Private-purpose Trust Funds</u>			<u>Agency Fund</u>
	<u>R.S. Reynolds Scholarship Fund</u>	<u>Mark Whitehead Scholarship Fund</u>	<u>Skip Squires Scholarship Fund</u>	<u>Student Activity Funds</u>
ASSETS:				
Cash and Investments	\$ 6,465	\$ 3,807	\$ 766	\$ 587,203
LIABILITIES:				
Due to Student Organizations	-	-	-	587,203
NET ASSETS:				
Reserved for Scholarship Programs	<u>\$ 6,465</u>	<u>\$ 3,807</u>	<u>\$ 766</u>	<u>\$ -</u>

See accompanying notes to basic financial statements.

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the year ended June 30, 2011

	Private-purpose Trust Funds			Agency Fund
	R.S. Reynolds Scholarship Fund	Mark Whitehead Scholarship Fund	Skip Squires Scholarship Fund	Student Activity Funds
Additions:				
Receipts	\$ -	\$ -	\$ -	\$ 1,017,207
Deductions:				
Disbursements	-	-	-	994,219
Change in Net Assets	-	-	-	22,988
Beginning Net Assets	6,465	3,807	766	564,215
Ending Net Assets	\$ 6,465	\$ 3,807	\$ 766	\$ 587,203

See accompanying notes to basic financial statements.

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MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. THE FINANCIAL REPORTING ENTITY

Multnomah County School District No. 7 (the District) is a municipal corporation governed by an elected seven member Board of Directors. The Superintendent is approved by the Board. The daily functioning of the District is under the supervision of the Superintendent. As required by generally accepted accounting principles 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.

Component units, as established by the Government Accounting Standards Board (GASB) Statement 39, are separate organizations that are included in the District's reporting entity because of the significance of their operational or financial relationship with the District. There are five component units, the Multisensory Learning Academy (MLA), Mastery Learning Institute – Arthur Academy, Oregon Building Congress Academy for Architecture, Construction, and Engineering (ACE), Knova Learning Center, and the Oregon Virtual Education Partners (OVEP). The five component units were organized under the provisions of Oregon Revised Statutes Chapter 338 for the purposes of operating a charter school. The MLA, Arthur Academy, ACE Academy, Knova Learning Center, and OVEP are considered component units because the District is the body that has the authority to approve or revoke the charter agreements establishing their charter school status. Oregon Revised Statutes also require that charter schools be reported as component units of the school districts with charter approval authority.

Detailed information about the MLA, Arthur Academy, ACE Academy, and Knova Learning Center financial statements is contained in the component unit financial reports of the four entities, which are issued separately. OVEP ended its operations at year end and has not been included in this report because financial information was not available. Management believes their activity is immaterial to these financial statements.

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the governing body and establishes governmental accounting and financial reporting principles. The more significant accounting policies are described below.

B. GOVERNMENT-WIDE FINANCIAL STATEMENTS (GWFS)

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) display information about the reporting government as a whole. Fiduciary funds are not included in the GWFS. Fiduciary funds are reported only in the Statement of Fiduciary Net Assets at the fund financial statement level.

The government-wide financial statements are reported 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. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with GASB Statement No. 33 "Accounting and Financial Reporting for Non-exchange Transactions."

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B. GOVERNMENT-WIDE FINANCIAL STATEMENTS (GWFS) - Continued

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All direct expenses are reported by function in the Statement of Activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Private sector standards of accounting and reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that these standards do not conflict or contradict the guidance of the Governmental Accounting Standards Board.

The accounts 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 number of funds is maintained consistent with legal and managerial requirements.

Net assets are reported as restricted when constraints placed on net asset use are either externally restricted, imposed by creditors, or through constitutional provisions or enabling resolutions.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are considered to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

Property taxes associated with the current fiscal period, are considered by management to be susceptible to accrual, if received in cash or a County collecting such taxes within 60 days after year-end. All other revenue items are recognized in the accounting period when they become both measurable and available. All other revenue items are considered to be measurable and available only when cash is received.

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION - Continued

The following major governmental funds are reported:

GENERAL FUND

This fund accounts for all financial resources and expenditures, except those required to be accounted for in another fund. The principal revenue sources are property taxes and an apportionment from the State of Oregon School Support Fund.

FEDERAL PROGRAMS FUND

This fund accounts for expenditures of federal grant funds. The principal revenue source is federal grant monies.

DEBT SERVICE FUND

This fund accounts for the payment of principal and interest general obligation bonds. The principal revenue source is property taxes.

PERS BOND FUND

This fund accounts for the payment of principal and interest pension bonds. The principal revenue source is Services Charged to Other Funds.

CAPITAL PROJECTS FUND

This fund accounts for major capital outlay expenditures relating to the acquisition, construction and remodeling of facilities. Principal financing sources include the proceeds from the issuance of debt, sales of property and earnings from investments.

Three non-major funds are reported as a combined total on the fund financial statements. These funds are not considered major because of the level of activity within them.

Additionally, there are the following other fund types:

FIDUCIARY FUNDS

This fund type is comprised of three private purpose scholarship trust funds and one agency fund that accounts for the student body accounts.

INTERNAL SERVICE FUND

This fund type is comprised of the worker's compensation reserve fund.

FUND EQUITY

In March 2009, the GASB issued Statement No. 54, Fund Balance Reporting and Governmental Fund-type Definitions. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved/undesignated were replaced with five new classifications – nonspendable, restricted, committed, assigned, and unassigned.

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION - Continued

- Nonspendable fund balance represents amounts that are not in a spendable form. The nonspendable fund balance represents inventories.
- Restricted fund balance represents amounts that are legally restricted by outside parties for a specific purpose (such as debt covenants, grant requirements, donor requirements, or other governments) or are restricted by law (constitutionally or by enabling legislation).
- Committed fund balance represents funds formally set aside by the governing body for a particular purpose. The use of committed funds would be approved by resolution.
- Assigned fund balance represents amounts that are constrained by the expressed intent to use resources for specific purposes that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body or by an official to whom that authority has been given by the governing body. Authority to classify portions of ending fund balance as assigned is granted to the Clerk and the Deputy Clerk.
- Unassigned fund balance is the residual classification of the General Fund. Only the General Fund may report a positive unassigned fund balance. Other governmental funds would report any negative residual fund balance as unassigned.

The governing body has approved the following order of spending regarding fund balance categories: Restricted resources are spent first when both restricted and unrestricted (committed, assigned or unassigned) resources are available for expenditures. When unrestricted resources are spent, the order of spending is committed (if applicable), assigned (if applicable) and unassigned.

Special Revenue Fund Rolled into the General Fund for GASB 54 Purposes

As discussed above, financial statements for periods beginning after June 15, 2010 must report as Special Revenue funds only those which have a substantial portion of revenue inflows from restricted or committed revenue sources. The Retirement Fund is combined into the General Fund because there are no restricted or committed revenues

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

CASH AND CASH EQUIVALENTS AND INVESTMENTS

For the purpose of the cash flow statement, the statement of net assets and the balance sheets, moneys in the Oregon State Local Government Investment Pool, savings deposits and demand deposits are considered to be cash and cash equivalents.

Investments with a remaining maturity of more than one year at the time of purchase are stated at fair value.

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 by management to be substantially collectible or recoverable through liens; therefore no allowance for uncollectible taxes has been established. All property taxes receivable are due from property owners within the District.

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY- Continued

PROPERTY TAXES- Continued

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

SUPPLY INVENTORIES AND PREPAID ITEMS

School operating supplies, maintenance supplies, and food and other cafeteria supplies are stated at average invoice cost. Commodities purchased from the United States Department of Agriculture in the Food Service Fund are included in inventories at USDA wholesale value. Inventory is accounted for on the consumption method in the government wide statements. Under the consumption method, inventory is recorded when purchased and expenditures/expenses are recorded when inventory items are used. In the fund financial statements, inventories are expensed when purchased. Donated commodities consumed during the year are reported as revenues and expenditures. The amount of unused donated commodities at balance sheet date is considered immaterial by management for reporting purposes. Prepaid assets are recognized as expenditures when their use benefits the District.

ACCOUNTS AND OTHER RECEIVABLES

Accounts and other receivables are comprised primarily of claims for reimbursement of costs under various federal, state and local grants. Amounts due from Federal agencies are considered by management to be fully collectible. An allowance for uncollectible accounts receivable from the public is established when management determines that collection is unlikely to occur. At June 30, 2011 management considers all accounts, including those from the public fully collectible.

GRANT ACCOUNTING

Unreimbursed expenditures due from grantor agencies are reflected in the basic 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 are recorded as unearned revenue on the statement of net assets and the balance sheet.

CAPITAL ASSETS

Capital assets are recorded at original cost or estimated original cost. Donated capital assets are recorded at their estimated fair market value on the date donated. Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Interest incurred during construction is not capitalized. The cost of routine maintenance and repairs that do not add to the value of the assets or materially extend asset lives are charged to expenditures as incurred and not capitalized. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10 to 50 years
Vehicles and Equipment	5 to 30 years

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY- Continued

COMPENSATED ABSENCES

It is the policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since there is no policy to pay any amounts when an employee separates from service with the District. All vacation pay is accrued when incurred in the government-wide financial statements and expensed when used in the fund financial statements.

LONG TERM OBLIGATIONS

In the government-wide financial statements long-term debt is reported as a liability in the Statement of Net Assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the bonds outstanding method. Bond 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. As permitted by GASB Statement No. 34 the cost of prior bond issuance has been amortized prospectively from the date of adoption of GASB Statement No. 34.

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 issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

RETIREMENT PLANS

Substantially all employees are participants in Public Employees Retirement System (PERS). Contributions to PERS are made on a current basis as required by the plan and are charged to expenditures as funded.

Some permanent employees who have 10-15 years of regular service in the District may be eligible for supplemental retirement benefits under a separate plan. Contributions to the plan are funded on a current basis from the General Fund.

OTHER POST-EMPLOYMENT BENEFITS

Eligible employees who elect supplemental retirement may be entitled to payment of group medical insurance premiums. The costs of these premiums are recorded as expenditures as due and funded on a current basis.

USE OF ESTIMATES

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

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

BUDGETARY INFORMATION

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

The budget process begins early in each fiscal year with the establishment of the budget committee. In the fall, public input is invited as the Board decides the budget priorities for the next year. Recommendations are developed through late winter with the budget committee approving the budget in the spring. Public notices of the budget hearing are published generally in the spring with a public hearing being held approximately three weeks later. The Board may amend the budget prior to adoption; however, budgeted expenditures for each fund may not be increased by more than ten percent. The budget is then adopted, appropriations are made and the tax levy declared no later than June 30th.

Expenditure budgets are appropriated at the following levels for each fund: Instruction, Support Services, Enterprise and Community Services, Facilities Acquisition and Construction, Interfund Transactions, Debt Service, and Operating Contingency.

Expenditures cannot legally exceed the above appropriation levels except in the case of grants, which could not be estimated at the time of budget adoption. Appropriations lapse at the fiscal year end. Management may amend line items in the budget without Board approval as long as appropriation levels (the legal level of control) are not changed. Supplemental appropriations may occur if the Board approves them due to a need that exists which was not determined at the time the budget was adopted. There was one supplemental appropriation during the year.

Budget amounts shown in the budgetary financial statements reflect the original and final amended budget. Amendments to the adopted budget include the re-appropriation of general funds between functional areas.

Expenditures of the various funds were within authorized appropriations, except the General Fund, Transfers Out were over-expended by \$95,667, Federal Programs Fund, Community Services expenditures were over-expended by \$53,887, PERS Bond Fund, Debt Service expenditures were over-expended by \$122, Capital Projects Fund, Facilities Acquisition expenditures were over-expended by \$151, Nutrition Service Fund, Enterprise expenditures were over-expended by \$34,882, and the State and Local Programs Fund, Community Services expenditures were over-expended by \$70,955.

NOTE 3. BUDGETARY BASIS OF ACCOUNTING

While the financial position, results of operations, and changes in fund balance/net assets are reported on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis of accounting differs from generally accepted accounting principles. The budgetary statements provided as part of supplementary information elsewhere in this report are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The primary differences between the budgetary basis and GAAP basis are that capital outlay is expensed when purchased, depreciation expense is not recorded, and the full accrual of property taxes, which are reported as deferred revenue in the governmental funds if not received within 60-days of year end. Inventories of supplies are budgeted as expenditures when purchased, bond issuance costs are expensed when paid, and debt, accrued vacation and OPEB liabilities are expensed as paid instead of when incurred.

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 4. CASH AND INVESTMENTS

DEPOSITS

Deposits with financial institutions are comprised of bank demand deposits and certificates of deposit. Oregon Revised Statutes require deposits to be adequately covered by federal depository insurance or deposited at an approved depository as identified by the Treasury.

Credit Risk

In the case of deposits, this is the risk that in the event of a bank failure, the deposits may not be returned. There is no deposit policy for custodial credit risk. As of June 30, 2011, the bank balance of \$5,813,641 was either insured by FDIC or covered by collateral.

INVESTMENTS

The policy is to follow state statutes governing cash management. Statutes authorize investment 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.

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

Amounts in the State Treasurer's Local Government Investment Pool (LGIP) are not required to be collateralized. There is no material difference between the fair value of the position in the LGIP and the value of the pool shares at June 30, 2011. There were no known violations of legal or contractual provision for deposits and investments during the fiscal year.

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. There are no investments that have a maturity date beyond three months.

Credit Risk

Oregon Revised Statutes do not limit investments as to credit rating for securities purchased from US Government Agencies or USGSE. The State Investment Pool is not rated.

Concentration of Credit Risk

At June 30, 2011 100% of total investments were in the State Treasurer's Investment Pool. State statutes do not limit the percentage of investments in this instrument. Oregon Revised Statutes require no more than 25 percent of the moneys of a local government to be invested in bankers' acceptances of any qualified financial institution. At June 30, 2011, there was compliance with all percentage restrictions.

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 4. CASH AND INVESTMENTS - Continued

Cash and Investments at June 30, 2011 (recorded at fair value) consisted of:

Deposits With Financial Institutions	<u>2011</u>
Demand Deposits:	
Checking	\$ 2,449,335
Investments	<u>22,294,706</u>
Total	<u>\$ 24,744,041</u>
Reported in:	
Governmental Funds	\$ 24,145,800
Fiduciary Funds	<u>598,241</u>
Total	<u>\$ 24,744,041</u>

There were the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in months)		
		Less than 3	3-17	18-59
State Treasurer's Investment Pool	\$ 22,294,706	\$ 22,294,706	\$ -	\$ -
Total	<u>\$ 22,294,706</u>	<u>\$ 22,294,706</u>	<u>\$ -</u>	<u>\$ -</u>

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 occurred as follows:

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2011</u>
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 18,236,549	\$ -	\$ -	\$ 18,236,549
Total Capital Assets Not being Depreciated:	<u>18,236,549</u>	<u>-</u>	<u>-</u>	<u>18,236,549</u>
Capital Assets Being Depreciated:				
Buildings and Improvement	125,503,670	116,549	-	125,620,219
Vehicles and Equipment	7,650,982	196,544	-	7,847,526
Total Capital Assets Being Depreciated:	<u>133,154,652</u>	<u>313,093</u>	<u>-</u>	<u>133,467,745</u>
Accumulated Depreciation				
Buildings and Improvement	(49,852,556)	(2,446,020)		(52,298,576)
Vehicles and Equipment	(4,051,650)	(1,143,197)		(5,194,847)
Total Accumulated Depreciation	<u>(53,904,206)</u>	<u>(3,589,217)</u>	<u>-</u>	<u>(57,493,423)</u>
Total Capital Assets Being Depreciated, Net	<u>79,250,446</u>	<u>(3,276,124)</u>	<u>-</u>	<u>75,974,322</u>
Governmental Activities	<u>\$ 97,486,995</u>	<u>\$ (3,276,124)</u>	<u>\$ -</u>	<u>\$ 94,210,871</u>

Current year depreciation expense of \$3,589,217 is allocated to the functions as follows:

Instruction	\$ 2,691,913
Support Services	717,843
Community Services	179,461
	<u>\$ 3,589,217</u>

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 6. INTERFUND TRANSFERS

	<u>Transfers Out</u>	<u>Transfers In</u>
General	\$ 1,000,667	\$ 800,000
Capital Projects	-	125,000
Food Service	-	48,436
State & Local Programs	125,000	95,231
Self Insurance	-	292,563
Internal Service	235,563	-
	<u>\$ 1,361,230</u>	<u>\$ 1,361,230</u>

Transfers are used to finance operations between funds.

NOTE 7. INTERFUND RECEIVABLES/PAYABLES

	<u>Receivable</u>	<u>Payable</u>
General	\$ 2,664,415	\$ -
Federal	-	2,664,415
	<u>\$ 2,664,415</u>	<u>\$ 2,664,415</u>

Interfund loans are used to finance operations between funds.

NOTE 8. LONG-TERM DEBT

BONDS PAYABLE

General Obligation Bonds

On December 5, 2000, \$45,000,000 of general obligation bonds were issued to provide funds for the acquisition and construction of major capital facilities. The bonds were issued with a premium of \$867,563 and an original issue discount (OID) of \$415,851. Principal and interest payments are made annually on June 15th and interest rates range from 4.3%- 5.6%.

On October 1, 2001, \$18,175,000 of general obligation bonds were issued to refund the outstanding series 1995 general obligation bonds in the amount of \$17,930,000. The proceeds were used to purchase United States government obligations and deposited into escrow. The escrow deposits were sufficient to redeem all remaining principal and the bonds were called on June 1, 2006. Principal and interest payments on the refunding bonds are made semiannually on June 15th and December 15th with interest rates ranging from 3%-5.5%. The refunding resulted in an economic gain of \$626,005 and decreased total debt service payments by \$785,353.

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 8. LONG-TERM DEBT - Continued

BONDS PAYABLE - Continued:

Pension Obligation Bonds

On April 21, 2003, \$80,978,772 of limited tax pension obligation bonds were issued to finance the unfunded actuarially accrued liability (UAL) with the State of Oregon Public Employees Retirement System (PERS). The issuance of the bonds was considered an advance refunding of the UAL and resulted in an estimated present value savings of approximately \$20 million over the life of the bonds. The actual savings realized over the life of the bonds is uncertain because of the various legislative changes and legal issues pending with the PERS system which could impact the future required contribution rate.

Advance Refunding Bonds

On March 1, 2005, \$32,500,000 in Series 2005 General Obligation Refunding Bonds were issued to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt services payments of \$32,390,000 of general obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. This advance refunding was undertaken to reduce total debt service payments by \$2,015,234 and resulted in an economic gain of \$1,542,768.

Qualified Zone Academy Bonds Series 2004

\$2,100,000 of Qualified Zone Academy bonds were issued on July 1, 2004. \$1,995,000 in proceeds were received after paying issuance costs, and annual payments totaling \$122,310 will be made through July 1, 2018.

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 8. LONG-TERM DEBT - Continued

Changes in bonds outstanding are as follows

Issue Date	Interest Rates	Original Issue	Outstanding July 1, 2010	Issued	Matured and Redeemed	Outstanding June 30, 2011
December 5, 2000	4.35-5.625	45,000,000	\$ 2,165,000	\$ -	\$ 2,165,000	\$ -
October 1, 2001	3.0-5.5	18,175,000	10,810,000	-	1,975,000	8,835,000
March 1, 2005	3.0-5.0	32,500,000	31,745,000	-	-	31,745,000
	Sub-Total		44,720,000	-	4,140,000	40,580,000
April 21, 2003	1.5-6.27	80,978,772	70,416,051	-	2,055,865	68,360,186
July 1, 2004	N/A	2,100,000	1,100,790	-	122,310	978,480
	Sub-Total		116,236,841	-	6,318,175	109,918,666
Premium			392,775	-	39,278	353,497
Accretion on pension obligation bonds			(1,802,950)	-	(138,689)	(1,664,261)
	Total		<u>\$ 114,826,666</u>	<u>\$ -</u>	<u>\$ 6,218,764</u>	<u>\$ 108,607,901</u>

Following are the annual requirements to amortize all bonds outstanding at year end:

Fiscal Year Ending June 30,	Principal	Interest	Total Requirements
2011-12	\$ 6,429,506	\$ 5,632,658	\$ 12,062,164
2012-13	6,784,929	5,696,959	12,481,888
2013-14	7,175,881	5,746,583	12,922,464
2014-15	7,565,690	5,806,449	13,372,139
2015-16	5,787,200	5,877,188	11,664,388
2016-21	28,357,989	32,067,308	60,425,297
2021-26	30,441,706	20,746,341	51,188,047
2026-28	16,065,000	1,205,580	17,270,580
	<u>\$ 108,607,901</u>	<u>\$ 82,779,066</u>	<u>\$ 191,386,967</u>

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 8. LONG-TERM DEBT - Continued

NOTES PAYABLE:

Capital Lease Financing Agreements Payable

2007-2008 Capital Lease Financing Agreement Notes:

Bus Acquisition:

During 2007-08 a lease/purchase agreement to acquire 4 school buses was entered into. The lease is to be paid in 5 annual payments of \$84,484. Total obligation under the lease agreement is \$422,420 of which \$47,052 is attributable to interest at 4.60%

Bus Acquisition:

During 2007-08 a lease/purchase agreement to acquire 2 school buses and was entered into. The lease is to be paid in 5 annual payments of \$40,922. Total obligation under the refinancing lease agreement is \$204,611 of which \$24,813 is attributable to interest at 4.60%.

Bus Acquisition:

During 2007-08 a lease/purchase agreement to acquire 16 school buses was entered into. The lease is to be paid in 6 annual payments of \$286,174. Total obligation under the lease agreement is \$1,717,045 of which \$150,293 is attributable to interest at 3.56%

Bus Disposition and refinance:

During 2007-08 a lease/purchase agreement to dispose of 16 school buses and refinance 15 school buses was entered into. The lease is to be paid in 6 annual payments of \$37,558. Total obligation under the refinancing lease agreement is \$225,350 of which \$19,105 is attributable to interest at 3.56%.

2008-2009 Capital Lease Financing Agreement Notes:

Computer Acquisition:

During 2008-2009 a lease/purchase agreement to acquire computers was entered into. The lease is to be paid in 4 annual payments of \$51,957. Total obligation under the lease agreement is \$207,829 of which \$14,329 is attributable to interest at 4.9812%

Changes in capital lease financing agreement notes payable are as follows:

Note Date	Interest Rate	Original Principal	Outstanding July 1, 2010	Principal Additions	Principal Reductions	Outstanding June 30, 2011
2007 Note - Bus Acquisition	3.70%	\$ 179,798	\$ 112,282	\$ -	\$ 35,757	\$ 76,525
2007 Note - Bus Acquisition	4.45%	375,368	231,805	-	73,821	157,984
2008 Note - Bus Acquisition	3.56%	1,566,752	1,049,645	-	248,807	800,838
2008 Note - Bus Refinance	3.56%	206,246	137,759	-	32,654	105,105
2008 Note - Computer	4.98%	193,500	96,636	-	47,144	49,492
Total			<u>\$ 1,628,127</u>	<u>\$ -</u>	<u>\$ 438,183</u>	<u>\$ 1,189,944</u>

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 8. LONG-TERM DEBT - Continued

Following are the annual requirements to amortize capital lease financing agreements payable outstanding at year end:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Requirements</u>
2011-12	\$ 455,591	\$ 45,504	\$ 501,095
2012-13	421,749	27,390	449,139
2013-14	312,604	11,128	323,732
	<u>\$ 1,189,944</u>	<u>\$ 84,022</u>	<u>\$ 1,273,966</u>

Full Faith & Credit Obligations (Bond Anticipation) Notes Payable

Series 2006

In June 2006, \$17,000,000 in Full Faith and Credit Obligations were issued, the proceeds of which were used to finance the acquisition and improvements of real property to be used as a site for future school facilities, improvements for District Office facilities, and to purchase approximately twelve school buses. Principal payments are due annually on June 1, through 2035 with interest rates between 4.75-5.0%. The notes were refunded by issuance of the series 2010 Full Faith and Credit Refunding Obligations.

Series 2007

In November 2007, \$5,758,500 in Full Faith and Credit Obligations were issued, the proceeds of which were used to finance the acquisition and improvements of real property to be used as a site for future school facilities. Principal payments are due annually on July 15, through 2027 with interest rate at 5.35%. The notes were refunded by issuance of the series 2010 Full Faith and Credit Refunding Obligations

Series 2010 - Refunding

In June 2010, \$23,850,000 in Full Faith and Credit Obligations were issued. \$25,399,121, which includes the premium of \$1,549,121, was deposited into escrow. From the amount deposited, \$18,757,731 was used to purchase United States Treasury Securities and the remaining \$6,509,408 was held uninvested as cash. The amount in escrow was sufficient to retire the following securities: Series 2006 Full Faith and Credit Obligations, Series 2007 Full Faith and Credit Obligations, 2003 Financing Agreement Note and 2007 Financing Agreement Note. Principal payments are due annually on June 1, through 2035 with interest rates of ranging from 2-5%. The refunding resulted in an economic gain of \$1,542,768, but increased total debt service payments by \$245,157. All four refunded securities were considered defeased on June 3, 2010, the issuance date of the refunding bonds.

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 8. LONG-TERM DEBT – Continued

Full Faith & Credit Obligations (Bond Anticipation) Notes Payable - Continued

Changes in full faith & credit obligations (BAN) notes payable are as follows:

Full Faith & Credit Obligation	Interest Rates	Original Issue	Outstanding July 1, 2010	Issued	Matured and Redeemed	Outstanding June 30, 2011
Series 2010	2-5%	23,850,000	\$ 23,850,000	\$ -	\$ 590,000	\$ 23,260,000
	Sub-Total		23,850,000	-	590,000	23,260,000
Premium			1,549,121	-	61,965	1,487,156
	Total		<u>\$ 25,399,121</u>	<u>\$ -</u>	<u>\$ 651,965</u>	<u>\$ 24,747,156</u>

Following are the annual requirements to amortize all full faith & credit (BAN) obligation notes payable outstanding at year end:

Fiscal Year Ending June 30,	Principal	Interest	Total Requirements
2011-12	\$ 605,000	\$ 1,038,413	\$ 1,643,413
2012-13	615,000	1,026,313	1,641,313
2013-14	630,000	1,010,938	1,640,938
2014-15	650,000	992,038	1,642,038
2015-16	670,000	972,538	1,642,538
2016-21	3,750,000	4,448,388	8,198,388
2021-26	4,675,000	3,584,400	8,259,400
2026-31	5,845,000	2,360,000	8,205,000
2031-35	5,820,000	745,500	6,565,500
	<u>\$ 23,260,000</u>	<u>\$ 16,178,528</u>	<u>\$ 39,438,528</u>

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 8. LONG-TERM DEBT – Continued

Total long-term liability activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable	\$ 114,433,890	\$ -	\$ 6,179,485	\$ 108,254,405	\$ 6,390,228
Premium	392,776	-	39,279	353,497	39,278
Capital Lease Payable	1,628,127	-	438,183	1,189,944	455,591
Full Faith & Credit (BAN) Obligation Notes Payable	23,850,000	-	590,000	23,260,000	605,000
Premium	1,549,121	-	61,965	1,487,156	61,965
Total long-term liabilities	<u>\$ 141,853,914</u>	<u>\$ -</u>	<u>\$ 7,308,912</u>	<u>\$ 134,545,002</u>	<u>\$ 7,552,062</u>

NOTE 9. STATEWIDE LOCAL GOVERNMENT RETIREMENT SYSTEM

Contributions are made to the Oregon Public Employees Retirement Fund (OPERF), a cost-sharing multiple-employer defined benefit pension plan administered by the Oregon Public Employees Retirement System (PERS). PERS provides retirement and disability benefits, post employment health care benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

PERS is administered under Oregon Revised Statute (ORS) Chapter 238. ORS 238.620 establishes the Public Employees Retirement Board as the governing body of PERS. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report can be obtained by writing to PERS, P.O. Box 23700, Tigard, OR 97281-3700 or by calling 1-503-598-7377.

Members of PERS are required to contribute 6% of their salary covered under the plan. ORS 238.225 requires contributions at an actuarially determined rate. On April 21, 2003, the District participated in the Oregon School Boards Association limited tax pension obligation bond issue to finance a portion of the estimated unfunded PERS actuarial liability (the "UAL"). \$80,978,772 was borrowed, which results in a rate reduction offset which is adjusted every two years. The unadjusted PERS rate effective June 30, 2011 is 14.85% of salary covered under the plan for Tier 1 and Tier 2 employees (T1/T2) and 14.75% for employees covered under the Oregon Public Services Retirement Plan (OPSRP). The District is receiving a rate reduction offset of 14.56%, resulting in net employer contribution rates of 0.29% (T1/T2) and 0.19% (OPSRP). The PERS Board has statutory authority to revise employer contributions as necessary to ensure the promised benefits will be funded on a sound basis.

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 9. STATEWIDE LOCAL GOVERNMENT RETIREMENT SYSTEM - Continued

A summary of the PERS Contributions, Rate Reduction Offset and PERS Bond Payments for the respective fiscal years ended:

	June 30, 2011		June 30, 2010		June 30, 2009	
	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>
Member Contributions	6.00%	\$ 3,344,224	6.00%	\$ 3,605,915	6.00%	\$ 3,466,000
District Contributions:						
(Rates are net of rate reduction offset)						
T1/T2	0.29%	56,056	0.29%	461,569	3.08%	1,253,000
OPSRP	0.19%	16,744	0.19%	137,752	5.35%	673,000
Total District Contributions		<u>72,800</u>		<u>599,321</u>		<u>1,926,000</u>
Total PERS Contributions		<u>\$ 3,417,024</u>		<u>\$ 4,205,236</u>		<u>\$ 5,392,000</u>
Rate Reduction Offset (Savings) (14.56%)		\$ (2,652,101)	(14.56%)	\$ (8,974,127)	(14.56%)	\$ (8,278,000)
Required Annual PERS Bond Payment		\$ 5,430,611		\$ 5,155,489		\$ 4,890,490
Annual Amortization of Prepaid PERS Liability - Note 9		3,183,000		3,183,000		3,183,000

Contributions are remitted when invoiced from PERS.

NOTE 10. PREPAID PERS ASSET

As a result of the issuance of the 2003 Limited Tax Pension Obligation Bonds, as described in Notes 8 and 9, a Prepaid PERS Liability is reported in the Statement of Net Assets. The prepaid liability is equal to the initial \$80,193,194 payment made to PERS from the bond proceeds, less accumulated amortization. Annual amortization of \$3,830,000 is calculated on a straight-line basis over the life of the pension obligation bonds.

NOTE 11. TERMINATION BENEFITS

A single employer defined benefits pension plan is maintained as an early retirement supplement program for employees. This program covers all full-time certified, classified and administrative personnel.

The program has been established under separate collective bargaining agreements and contains provisions for early retirement at age 55 or 58 with 30 or 15 years of credited service in PERS, respectively. In addition to attaining age 58 or 55, all personnel must have completed thirteen (13) years of continuous service. The optional early retirement program provides the employee with the following:

For certificated employees with 30 years of service and eligible for retirement under PERS, \$600 per month from retirement for thirty-six months or until age 62, whichever comes first. For certificated staff with less than 30 years of service early retirement payments may continue beyond age 62 to the extent the number of years an employee is short of thirty years qualified PERS service at age 59.

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 11. TERMINATION BENEFITS - Continued

Prorated benefits are provided for certificated staff with a minimum of 10 years continuous District service at time of eligibility.

For classified personnel with fifteen (15) years of service one-party medical insurance under the District's group insurance program for a maximum of four (4) years, or two party medical insurance for a maximum of three years. Either choice is available until the employee qualifies for Federal Medicare coverage or the time period has elapsed, whichever is earlier. Prorated benefits are provided for classified staff with a minimum of 10 years continuous service at time of eligibility.

For administrators with twelve years of continuous service and retire at ages 55-57 receive \$450 per month until age 58. All eligible retired administrators at age 58 receive \$250 per month for up to 48 months or age 62 which ever comes first, plus two-party medical coverage until age 65.

The benefits from this program are fully paid by the District and, consequently, no contributions by employees are required. The contributions are financed on a pay-as-you-go basis; therefore, the District is not required to fund the program in advance. The charge to expenditures for stipends paid to retirees for fiscal years 2011 and 2010 were \$888,238 and \$758,719. No actuarial valuation was available.

NOTE 12. OTHER POST EMPLOYMENT BENEFITS

As a result of collective bargaining agreements, post retirement health care benefits are offered to certain employees who retire with 15 years of service and have attained the age of 58, but are not yet eligible for Medicare. These benefits are available until age 62 to 65 and are fully paid by the District. Contributions are financed by the General Fund and recorded as expenditures on a pay as you go basis. The cost of these benefits in fiscal years 2011 and 2010 were \$114,170 and \$106,171.

NOTE 13. PROPERTY TAX LIMITATION

The voters of the State of Oregon approved ballot measure 5, a constitutional limit on property taxes for schools and nonschool government operations, in November 1990. 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 initiative 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 voters of the State of Oregon passed ballot measure 50 in May 1997 to further reduce property taxes by replacing the previous constitutional limits on tax bases with a rate and value limit.

Measure 50 reduced the amount of operating property tax revenues available to the District for its 1997-98 fiscal year, and thereafter. 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 property tax limitations. The measure also sets restrictive voter approval requirements for most tax and many fee increases and new bond issues, and requires the State of Oregon to minimize the impact of the tax cuts to the school districts.

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 13. PROPERTY TAX LIMITATION - Continued

The State of Oregon, in its 2010 legislative session, provided additional State revenues for the 2010-11 biennium to help alleviate the impact on school operations. The ultimate impact to the District as a result of this measure is not determinable at this time.

NOTE 14. COMMITMENTS AND CONTINGENCIES

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

A substantial portion of operating funding is received from the State of Oregon. State funding is determined through state wide revenue projections that are paid to individual school districts based on pupil counts and other factors in the state school fund revenue formula. Since these projections and pupil counts fluctuate they can cause either increases or decreases in revenue. Due to these future uncertainties at the state level, the future effect on the District's operations can not be determined.

NOTE 15. RISK MANAGEMENT

There is exposure to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which commercial insurance is purchased. There were no significant reductions in insurance coverage from coverage in prior years in any of the major categories of risk. Also, the amounts of any settlements have not exceeded insurance coverage for the past three fiscal years.

NOTE 16. JOINT VENTURE

The District has entered into an intergovernmental property agreement to build and operate a Center for Advanced Learning (CAL), a charter school. However, payment and ownership will be shared with the following Districts along with their share of ownership: Reynolds School District No. 7, 19.305%; Centennial School District No. 28J, 16.369%; Mt. Hood Community College, 15.058%; and Gresham-Barlow School District No. 10J, 49.268%. The investment in CAL at June 30, 2011 was \$1,697,036.

The Center for Advanced Learning issues a publicly available financial report which may be obtained by writing: Administrator, The Center for Advanced Learning, 1484 NW Civic Drive, Gresham, OR 97030.

The District has entered into an agreement to a joint participation agreement to sponsor a charter school for the Academy for Architecture, Construction and Engineering, known as the ACE Academy. The participating school districts; Reynolds School District No. 7, Centennial School District No. 28J, Gresham-Barlow School District No. 10J and Parkrose School District No.3; agreed that each of them has an equal interest in and responsibility for the Charter Agreement.

The ACE Academy issues a financial report which may be obtained by writing: Administrator, ACE Academy, 422 NE 158th Avenue, Portland OR 97230

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 17. PRIOR PERIOD ADJUSTMENTS

A prior period adjustment was made to increase beginning fund balance in the General Fund because payroll expenditures were overstated in prior years by \$1,341,441. This is primarily due to an error in calculating PERS contributions in the IFAS accounting software in 2010-11. PERS rates have been corrected in the new iVisions accounting software for 2011-12.

Additionally, a prior period adjustment was made to reduce beginning fund balance in the State and Local Programs Fund by \$69,250 to remove revenues that were accrued at June 30, 2008, that were not realized.

NOTE 18. LEGAL MATTERS

The District is involved in various claims and legal matters relating to its operations which have all been tended to, and are either being adjusted by the liability carrier, or are being defended by attorneys retained by the liability carrier. The status of these matters is uncertain at this time as well as any potential loss. The District is the defendant in litigation from persons formerly employed by the District in various capacities. The District intends to vigorously defend the lawsuits.

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MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

REQUIRED SUPPLEMENTARY INFORMATION

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MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET (BUDGETARY BASIS)
For the year ended June 30, 2011

	<u>GENERAL FUND</u>			VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>(NEGATIVE)</u>
REVENUES:				
Local Sources	\$ 21,301,202	\$ 21,301,202	\$ 22,148,318	\$ 847,116
Intermediate Sources	295,000	295,000	-	(295,000)
State Sources	67,368,247	67,368,247	63,276,951	(4,091,296)
Federal Sources	92,415	5,304,677	5,212,262	(92,415)
Total Revenues	<u>89,056,864</u>	<u>94,269,126</u>	<u>90,637,531</u>	<u>(3,631,595)</u>
EXPENDITURES:				
Instruction	54,131,597	59,248,164 (1)	54,022,126	5,226,038
Support Services	35,596,704	35,617,399 (1)	34,118,785	1,498,614
Community Services	34,990	109,990 (1)	102,467	7,523
Debt Service	1,453,605	1,453,605 (1)	122,310	1,331,295
Contingency	1,779,472	1,779,472 (1)	-	1,779,472
Total Expenditures	<u>92,996,368</u>	<u>98,208,630</u>	<u>88,365,688</u>	<u>9,842,942</u>
Excess of Revenues Over, (Under) Expenditures	(3,939,504)	(3,939,504)	2,271,843	6,211,347
OTHER FINANCING SOURCES, (USES)				
Transfers Out	<u>(905,000)</u>	<u>(905,000) (1)</u>	<u>(1,000,667)</u>	<u>(95,667)</u>
Total Other Financing Sources, (Uses)	<u>(905,000)</u>	<u>(905,000)</u>	<u>(1,000,667)</u>	<u>(95,667)</u>
Net Change in Fund Balance	(4,844,504)	(4,844,504)	1,271,176	6,115,680
Beginning Fund Balance	8,844,504	8,844,504	16,005,498	7,160,994
Prior Period Adjustment	-	-	1,341,441	1,341,441
Ending Fund Balance	<u>\$ 4,000,000</u>	<u>\$ 4,000,000</u>	18,618,115	<u>\$ 14,618,115</u>
Reconciliation to Governmental Fund Balance as required by GASB 54:				
Ending Fund Balance			888,238	
Retirement Fund			<u>\$ 19,506,353</u>	

(1) Appropriation Level

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET (BUDGETARY BASIS)
For the year ended June 30, 2011

<u>FEDERAL PROGRAMS FUND</u>				VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
REVENUES:				
Intermediate Sources	\$ -	\$ -	\$ 59,789	\$ 59,789
Federal Sources	12,631,160	15,280,447	11,505,603	(3,774,844)
Total Revenues	<u>12,631,160</u>	<u>15,280,447</u>	<u>11,565,392</u>	<u>(3,715,055)</u>
EXPENDITURES:				
Instruction	8,436,293	11,085,580 (1)	7,892,119	3,193,461
Support Services	4,051,419	4,051,419 (1)	3,475,938	575,481
Community Services	143,448	143,448 (1)	197,335	(53,887)
Total Expenditures	<u>12,631,160</u>	<u>15,280,447</u>	<u>11,565,392</u>	<u>3,715,055</u>
Net Change in Fund Balance	-	-	-	-
Beginning Fund Balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Ending Fund Balance	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

(1) Appropriation Level

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

SUPPLEMENTARY INFORMATION

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MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET (BUDGETARY BASIS)
For the year ended June 30, 2011

	<u>DEBT SERVICE FUND</u>			VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	
REVENUES:				
Local Sources	\$ 5,412,699	\$ 5,412,699	\$ 5,373,998	\$ (38,701)
Total Revenues	<u>5,412,699</u>	<u>5,412,699</u>	<u>5,373,998</u>	<u>(38,701)</u>
EXPENDITURES:				
Debt Service	<u>6,370,775</u>	<u>6,370,775</u> (1)	<u>6,370,775</u>	<u>-</u>
Total Expenditures	<u>6,370,775</u>	<u>6,370,775</u>	<u>6,370,775</u>	<u>-</u>
Net Change in Fund Balance	(958,076)	(958,076)	(996,777)	(38,701)
Beginning Fund Balance	<u>1,969,964</u>	<u>1,969,964</u>	<u>1,119,385</u>	<u>(850,579)</u>
Ending Fund Balance	<u>\$ 1,011,888</u>	<u>\$ 1,011,888</u>	<u>\$ 122,608</u>	<u>\$ (889,280)</u>

(1) Appropriation Level

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET (BUDGETARY BASIS)
For the year ended June 30, 2011

	<u>PERS BOND FUND</u>			VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>(NEGATIVE)</u>
REVENUES:				
Local Sources	\$ 5,415,022	\$ 5,415,022	\$ 5,426,843	\$ 11,821
Total Revenues	5,415,022	5,415,022	5,426,843	11,821
EXPENDITURES:				
Debt Service	5,430,489	5,430,489 (1)	5,430,611	(122)
Total Expenditures	5,430,489	5,430,489	5,430,611	(122)
Net Change in Fund Balance	(15,467)	(15,467)	(3,768)	11,699
Beginning Fund Balance	65,467	65,467	96,735	31,268
Ending Fund Balance	<u>\$ 50,000</u>	<u>\$ 50,000</u>	<u>\$ 92,967</u>	<u>\$ 42,967</u>

(1) Appropriation Level

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET (BUDGETARY BASIS)
For the year ended June 30, 2011

	<u>CAPITAL PROJECTS FUND</u>			VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	
REVENUES:				
Local Sources:	\$ 75,000	\$ 75,000	\$ 15,836	\$ (59,164)
Intermediate Sources	<u>777,195</u>	<u>777,195</u>	<u>340,832</u>	<u>(436,363)</u>
Total Revenues	<u>852,195</u>	<u>852,195</u>	<u>356,668</u>	<u>(495,527)</u>
EXPENDITURES:				
Facilities Acquisition and Construction:	-	-	(1) 151	(151)
Debt Service	<u>1,762,533</u>	<u>1,762,533</u>	(1) 1,634,364	<u>128,169</u>
Total Expenditures	<u>1,762,533</u>	<u>1,762,533</u>	<u>1,634,515</u>	<u>128,018</u>
Excess of Revenues over (under) Expenditures	(910,338)	(910,338)	(1,277,847)	(367,509)
OTHER FINANCING SOURCES, (USES):				
Transfers In	<u>125,000</u>	<u>125,000</u>	<u>125,000</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>125,000</u>	<u>125,000</u>	<u>125,000</u>	<u>-</u>
Net Change in Fund Balance	(785,338)	(785,338)	(1,152,847)	(367,509)
Beginning Fund Balance	<u>4,222,805</u>	<u>4,222,805</u>	<u>3,844,923</u>	<u>(377,882)</u>
Ending Fund Balance	<u>\$ 3,437,467</u>	<u>\$ 3,437,467</u>	<u>\$ 2,692,076</u>	<u>\$ (745,391)</u>
(1) Appropriation Level				

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2011

	SPECIAL REVENUE FUNDS			
	NUTRITION SERVICE FUND	STATE AND LOCAL PROGRAMS FUND	SELF INSURANCE FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
ASSETS:				
Cash	\$ 503,805	\$ 47,740	\$ 329,121	\$ 880,666
Receivables:				
Accounts/Grants	312,394	101,161	-	413,555
Inventories	-	222,567	-	222,567
Total Assets	\$ 816,199	\$ 371,468	\$ 329,121	\$ 1,516,788
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts Payable	-	210	-	210
Total Liabilities	-	210	-	210
Fund Balances:				
Nonspendable	-	222,567	-	222,567
Restricted	816,199	59,265	-	875,464
Committed	-	-	329,121	329,121
Assigned	-	443,570	-	443,570
Unassigned	-	(354,144)	-	(354,144)
Total Fund Balances	816,199	371,258	329,121	1,516,578
Total Liabilities and Fund Balances	\$ 816,199	\$ 371,468	\$ 329,121	\$ 1,516,788

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the year ended June 30, 2011

	<u>SPECIAL REVENUE FUNDS</u>			
	<u>NUTRITION SERVICE FUND</u>	<u>STATE AND LOCAL PROGRAMS FUND</u>	<u>SELF INSURANCE FUND</u>	<u>NONMAJOR GOVERNMENTAL FUNDS</u>
REVENUES:				
Local Sources	\$ 548,821	\$ 693,213	\$ 83,719	\$ 1,325,753
Intermediate Sources	-	150,543	-	150,543
State Sources	-	104,167	-	104,167
Federal Sources	4,210,627	-	-	4,210,627
Total Revenues	4,759,448	947,923	83,719	5,791,090
EXPENDITURES:				
Instruction	-	225,262	-	225,262
Support Service	-	49,426	132,511	181,937
Community Services	4,560,231	447,422	-	5,007,653
Total Expenditures	4,560,231	722,110	132,511	5,414,852
Excess of Revenues Over, (Under) Expenditures	199,217	225,813	(48,792)	376,238
OTHER FINANCING SOURCES, (USES):				
Transfers In	48,436	95,231	292,563	436,230
Transfers out	-	(125,000)	-	(125,000)
Total Other Financing Sources (Uses)	48,436	(29,769)	292,563	311,230
Net Change in Fund Balance	247,653	196,044	243,771	687,468
Beginning Fund Balance	568,546	244,464	85,350	898,360
Prior Period Adjustment	-	(69,250)	-	(69,250)
Ending Fund Balance	\$ 816,199	\$ 371,258	\$ 329,121	\$ 1,516,578

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MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

NONMAJOR FUND BUDGETARY COMPARISON SCHEDULES

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MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET (BUDGETARY BASIS)
For the year ended June 30, 2011

<u>NUTRITION SERVICE FUND</u>				VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
REVENUES:				
Local Sources	\$ 730,000	\$ 554,194	\$ 548,821	\$ (5,373)
Federal Sources	3,165,000	3,783,300	4,210,627	427,327
Total Revenues	<u>3,895,000</u>	<u>4,337,494</u>	<u>4,759,448</u>	<u>421,954</u>
EXPENDITURES:				
Enterprise and Community Services	4,082,855	4,525,349 (1)	4,560,231	(34,882)
Total Expenditures	<u>4,082,855</u>	<u>4,525,349</u>	<u>4,560,231</u>	<u>(34,882)</u>
Excess of Revenues Over, (Under) Expenditures	(187,855)	(187,855)	199,217	387,072
OTHER FINANCING SOURCES, (USES):				
Transfers In	48,000	48,000	48,436 (2)	436
Total Other Financing Sources, (Uses)	<u>48,000</u>	<u>48,000</u>	<u>48,436</u>	<u>436</u>
Net Change in Fund Balance	(139,855)	(139,855)	247,653	387,508
Beginning Fund Balance	<u>244,406</u>	<u>244,406</u>	<u>568,546</u>	<u>324,140</u>
Ending Fund Balance	<u>\$ 104,551</u>	<u>\$ 104,551</u>	<u>\$ 816,199</u>	<u>\$ 711,648</u>

(1) Appropriation Level

(2) Included in this transfer from the General Fund is the required state appropriated general purpose revenues of \$48,436 the District must transfer to the Food Service Fund for National School Lunch Support in order to meet the general cash assistance match for 2010-11

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET (BUDGETARY BASIS)
For the year ended June 30, 2011

	<u>STATE AND LOCAL PROGRAMS FUND</u>			VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	
REVENUES:				
Local Sources:	\$ -	\$ -	\$ 693,213	\$ 693,213
Intermediate Sources	-	-	150,543	150,543
State Sources:	<u>3,898,002</u>	<u>3,898,002</u>	<u>104,167</u>	<u>(3,793,835)</u>
Total Revenues	<u>3,898,002</u>	<u>3,898,002</u>	<u>947,923</u>	<u>(2,950,079)</u>
EXPENDITURES:				
Instruction	715,637	715,637	(1) 225,262	490,375
Support Services	3,061,386	2,936,386	(1) 49,426	2,886,960
Community Services	<u>251,467</u>	<u>376,467</u>	(1) 447,422	<u>(70,955)</u>
Total Expenditures	<u>4,028,490</u>	<u>4,028,490</u>	<u>722,110</u>	<u>3,306,380</u>
Excess of Revenues Over, (Under) Expenditures	(130,488)	(130,488)	225,813	356,301
OTHER FINANCING SOURCES, (USES):				
Transfers In	-	-	95,231	95,231
Transfers Out	<u>-</u>	<u>-</u>	(1) (125,000)	<u>(125,000)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(29,769)</u>	<u>(29,769)</u>
Net Change in Fund Balance	(130,488)	(130,488)	196,044	326,532
Beginning Fund Balance	130,488	130,488	244,464	113,976
Prior Period Adjustment	<u>-</u>	<u>-</u>	<u>(69,250)</u>	<u>(69,250)</u>
Ending Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 371,258</u>	<u>\$ 371,258</u>

(1) Appropriation Level

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET (BUDGETARY BASIS)
For the year ended June 30, 2011

	<u>SELF-INSURANCE FUND</u>			VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	
REVENUES:				
Local Sources:	\$ 100,000	\$ 100,000	\$ 83,719	\$ (16,281)
Total Revenues	<u>100,000</u>	<u>100,000</u>	<u>83,719</u>	<u>(16,281)</u>
EXPENDITURES:				
Support Services	<u>155,000</u>	<u>155,000</u>	<u>132,511</u>	<u>22,489</u>
Total Expenditures	<u>155,000</u>	<u>155,000 (1)</u>	<u>132,511</u>	<u>22,489</u>
Excess of Revenues Over, (Under) Expenditures	(55,000)	(55,000)	(48,792)	(38,770)
OTHER FINANCING SOURCES, (USES):				
Transfers In	<u>57,000</u>	<u>57,000</u>	<u>292,563</u>	<u>235,563</u>
Total Other Financing Sources, (Uses)	<u>57,000</u>	<u>57,000</u>	<u>292,563</u>	<u>235,563</u>
Net Change in Fund Balance	2,000	2,000	243,771	241,771
Beginning Fund Balance	<u>38,000</u>	<u>38,000</u>	<u>85,350</u>	<u>47,350</u>
Ending Fund Balance	<u>\$ 40,000</u>	<u>\$ 40,000</u>	<u>\$ 329,121</u>	<u>\$ 289,121</u>

(1) Appropriation Level

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET (BUDGETARY BASIS)
For the year ended June 30, 2011

	<u>RETIREMENT FUND</u>			VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	
EXPENDITURES:				
Support Services	873,149	873,149 (1)	787,156	85,993
Total Expenditures	<u>873,149</u>	<u>873,149</u>	<u>787,156</u>	<u>85,993</u>
Excess of Revenues Over, (Under) Expenditures	(873,149)	(873,149)	(787,156)	85,993
OTHER FINANCING SOURCES, (USES):				
Transfers In	800,000	800,000	800,000	-
Total Other Financing Sources, (Uses)	<u>800,000</u>	<u>800,000</u>	<u>800,000</u>	<u>-</u>
Net Change in Fund Balance	(73,149)	(73,149)	12,844	85,993
Beginning Fund Balance	73,149	73,149	875,394	802,245
Ending Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 888,238</u>	<u>\$ 888,238</u>

(1) Appropriation Level

Note: This fund's activities have been combined with the General Fund activities in accordance with GASB 54, due to its financing resources being derived primarily from General Fund transfers.

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 ACTUAL AND BUDGET (BUDGETARY BASIS)
 For the year ended June 30, 2011

	<u>WORKERS COMPENSATION FUND</u>			VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>(NEGATIVE)</u>
REVENUES:				
Local Sources:	\$ -	\$ -	\$ -	\$ -
Total Revenues	-	-	-	-
EXPENDITURES:				
Support Services	-	-	-	-
Total Expenditures	-	-	-	-
OTHER FINANCING SOURCES, (USES):				
Transfers Out	-	-	(235,563)	(235,563)
Total Other Financing Sources, (Uses)	-	-	(235,563)	(235,563)
Net Change in Fund Balance	-	-	(235,563)	(235,563)
Beginning Fund Balance	-	-	235,563	235,563
Ending Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ACTUAL AND BUDGET (BUDGETARY BASIS)
For the year ended June 30, 2011

	<u>PRIVATE-PURPOSE TRUST FUND</u>			VARIANCE TO FINAL BUDGET POSITIVE (NEGATIVE)
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	
REVENUES:				
Local Sources:	\$ -	\$ -	\$ -	\$ -
Total Revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES:				
Support Services	15,550	15,550	(1) -	15,550
Total Expenditures	<u>15,550</u>	<u>15,550</u>	<u>-</u>	<u>15,550</u>
Net Change in Fund Balance	(15,550)	(15,550)	-	15,550
Beginning Fund Balance	<u>27,990</u>	<u>27,990</u>	<u>11,038</u>	<u>(16,952)</u>
Ending Fund Balance	<u>\$ 12,440</u>	<u>\$ 12,440</u>	<u>\$ 11,038</u>	<u>\$ (1,402)</u>

(1) Appropriation Level

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

OTHER FINANCIAL SCHEDULES

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MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

SCHEDULE OF BOND REDEMPTION AND INTEREST REQUIREMENTS
June 30, 2011

YEAR	G.O. Bond Refunding Issue of 10/1/01		G.O. Bond Refunding Issue of 3/1/05	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
	Due 6/15	Due 6/15 & 12/15	PRINCIPAL	INTEREST
2011-12	\$ 2,040,000	\$ 466,350	\$ 2,260,000	\$ 1,557,425
2012-13	2,145,000	361,800	2,470,000	1,466,700
2013-14	2,265,000	243,825	2,715,000	1,350,250
2014-15	2,385,000	119,250	2,980,000	1,214,500
2015-16	-	-	3,585,000	1,066,000
2016-21	-	-	17,735,000	2,307,250
TOTALS	\$ 8,835,000	\$ 1,191,225	\$ 31,745,000	\$ 8,962,125

YEAR	Pension Obligation Bond Issue 4/21/03		QZAB Series 2004	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
	Due 6/30	Due 6/30 & 12/15	Due 6/15	
2011-12	\$ 2,106,606	\$ 3,608,883	\$ 122,310	\$ -
2012-13	2,147,030	3,868,460	122,310	-
2013-14	2,172,982	4,152,508	122,310	-
2014-15	2,177,791	4,472,698	122,310	-
2015-16	2,179,301	4,811,188	122,310	-
2016-21	10,792,392	29,760,057	366,930	-
2021-26	30,719,084	20,746,340	-	-
2026-31	16,065,000	1,205,580	-	-
TOTALS	\$ 68,360,186	\$ 72,625,714	\$ 978,480	\$ -

YEAR	Full Faith and Credit Refunding Obligations, Series 2010		TOTAL ALL BOND ISSUES	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
	Due 6/30	Due 6/30 & 12/30	PRINCIPAL	INTEREST
2011-12	\$ 605,000	\$ 1,038,413	\$ 7,133,916	\$ 6,671,071
2012-13	615,000	1,026,313	7,499,340	6,723,273
2013-14	630,000	1,010,938	7,905,292	6,757,521
2014-15	650,000	992,038	8,315,101	6,798,486
2015-16	670,000	972,538	6,556,611	6,849,726
2016-21	3,750,000	4,448,388	32,644,321	36,515,695
2021-26	4,675,000	3,584,400	35,394,084	24,330,740
2026-31	5,845,000	2,360,000	21,910,000	3,565,580
2031-35	5,820,000	745,500	5,820,000	745,500
TOTALS	\$ 23,260,000	\$ 16,178,528	\$ 133,178,665	\$ 98,957,592

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

SCHEDULE OF PROPERTY TAX TRANSACTIONS AND BALANCES
OF TAXES UNCOLLECTED
For the year ended June 30, 2011

<u>GENERAL FUND</u>						
TAX YEAR	ORIGINAL LEVY OR BALANCE UNCOLLECTED 7/1/10	DEDUCT DISCOUNTS	ADJUSTMENTS TO ROLLS	ADD INTEREST	CASH COLLECTIONS BY COUNTY TREASURER	BALANCE UNCOLLECTED OR UNSEGREGATED 6/30/11
Current:						
2010-11	\$ 21,544,198	\$ 535,731	\$ (83,350)	\$ 10,030	\$ 20,337,521	\$ 597,626
Prior Years:						
2009-10	669,233	(767)	(73,545)	27,132	344,517	279,070
2008-09	295,950	(240)	(38,611)	25,316	129,079	153,816
2007-08	130,799	(14)	(24,309)	22,310	76,300	52,514
2006-07	50,893	(3)	(16,063)	14,128	40,133	8,828
2005-06 & Prior	34,950	(1)	(4,388)	3,630	5,653	28,540
Total Prior	<u>1,181,825</u>	<u>(1,025)</u>	<u>(156,916)</u>	<u>92,516</u>	<u>595,682</u>	<u>522,768</u>
Total All Years	<u>\$ 22,726,023</u>	<u>\$ 534,706</u>	<u>\$ (240,266)</u>	<u>\$ 102,546</u>	<u>\$ 20,933,203</u>	<u>\$ 1,120,394</u>

RECONCILIATION TO REVENUE:

	<u>TOTAL</u>
Cash Collections by County Treasurers Above	\$ 20,933,203
Accrual of Receivables:	
Other taxes	7,296
June 30, 2010	(135,084)
June 30, 2011	<u>101,904</u>
Total Revenue	<u>\$ 20,907,319</u>

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

SCHEDULE OF PROPERTY TAX TRANSACTIONS AND BALANCES
OF TAXES UNCOLLECTED
For the year ended June 30, 2011

DEBT SERVICE FUND

TAX YEAR	ORIGINAL LEVY OR BALANCE UNCOLLECTED 7/1/10	DEDUCT DISCOUNTS	ADJUSTMENTS TO ROLLS	ADD INTEREST	CASH COLLECTIONS BY COUNTY TREASURER	BALANCE UNCOLLECTED OR UNSEGREGATED 6/30/11
Current:						
2010-11	\$ 5,492,395	\$ 136,577	\$ (22,099)	\$ 2,557	\$ 5,184,769	\$ 151,507
Prior Years:						
2009-10	172,573	(197)	(19,671)	6,964	88,431	71,632
2008-09	89,866	(73)	(11,725)	7,687	39,195	46,706
2007-08	39,717	(4)	(7,380)	6,774	23,169	15,946
2006-07	15,454	(1)	(4,878)	4,290	12,186	2,681
2005-06 & Prior	10,612	-	(1,331)	1,102	1,717	8,666
Total Prior	328,222	(275)	(44,985)	26,817	164,698	145,631
Total All Years	\$ 5,820,617	\$ 136,302	\$ (67,084)	\$ 29,374	\$ 5,349,467	\$ 297,138

RECONCILIATION TO REVENUE:

	<u>TOTAL</u>
Cash Collections by County Treasurers Above	\$ 5,349,467
Accrual of Receivables:	
Other taxes	9,089
June 30, 2010	(38,771)
June 30, 2011	27,904
Total Revenue	\$ 5,347,689

**MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON**

**SUPPLEMENTAL INFORMATION
As Required by The Oregon Deptment of Education
For the year ended June 30, 2011**

A. Energy bills for heating - all funds:		<u>Objects 325 and 326</u>
	Function 2540	\$ 1,253,771
	Function 2550	65,389

B. Replacement of equipment - General Fund:			
Include all General Fund expenditures in Object 542, except for the following exclusions:			
Exclude these functions:			
			<u>Amount</u>
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
			\$ -

2010-2011 INDEPENDENT AUDITORS' REPORT
REQUIRED BY OREGON STATE REGULATIONS

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PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

-
- 12700 SW 72ND AVENUE • TIGARD, OREGON 97223
 - (503) 620-2632 • FAX (503) 684-7523

November 25, 2011

Independent Auditors' Report Required by Oregon State Regulations

We have audited the basic financial statements of Multnomah County School District No. 7 as of and for the year ended June 30, 2011, and have issued our report thereon dated November 25, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of 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 statements 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 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).**
- **State school fund factors and calculation.**

In connection with our testing nothing came to our attention that caused us to believe Multnomah County School District No. 7 was not in substantial compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations except as follows:

1. We noted three instances where there was noncompliance with the regulation that after ten days of absence a student be withdrawn from the enrollment records. This is required in the calculation and reporting of the factors used to compute the State School Fund distribution for the year ended June 30, 2011.

2. We noted six instances where there was noncompliance with reporting of teacher experience. This is required in the calculation and reporting of the factors used to compute the State School Fund distribution for the year ended June 30, 2011.
3. Expenditures were within authorized appropriations except as shown on page 21.
4. We noted one instance where quotes were not obtained for expenditures as required by Public Contracting Code.

OAR 162-10-0230 Internal Control

In planning and performing our audit, we considered the internal controls 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 internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the internal controls over financial reporting.

We noted matters involving the internal control structure and its operation that we consider to be significant deficiencies under standards established by the American Institute of Certified Public Accountants, which are noted in the schedule of findings and questioned costs.

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


PAULY, ROGERS AND CO., P.C.

GRANT COMPLIANCE REVIEW

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MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued
For the Year Ended June 30, 2011

Federal Grantor Pass through Grantor	Program Title	Grant Period	CFDA Number	Grant Amount	2010-11 Revenues	2010-11 Expenditures
US Department of Education - Special Revenue Fund:						
Passed through Oregon State Department of Education						
	Title IA	07/01/2009-09/30/2010	84.010	\$ 4,398,731	\$ 2,243,816	\$ 2,243,816
	Title IA	07/01/2010-09/30/2011	84.010	4,081,424	2,721,010	2,721,010
	School Improvement - Alder	01/01/2010-09/30/2011	84.010	25,000	25,000	25,000
	School Improvement - Glenfair	01/01/2010-09/30/2011	84.010	25,000	14,376	14,376
	School Improvement - Salish Ponds	01/01/2010-09/30/2011	84.010	25,000	17,474	17,474
	School Improvement Tier III Phase II - Alder	09/01/2011-09/30/2012	84.010	59,700	12,414	12,414
	School Improvement Tier III Phase II - Woodland	09/01/2011-09/30/2012	84.010	48,500	3,453	3,453
	Total			<u>8,663,355</u>	<u>5,037,543</u>	<u>5,037,543</u> (1)
	Title I ARRA	02/17/2009-09/30/2011	84.389	2,963,835	1,525,406	1,525,406
	ARRA School Improvement - Glenfair	09/01/2009-09/30/2011	84.389	33,050	30,046	30,046
	ARRA School Improvement - Salish Ponds	09/01/2009-09/30/2011	84.389	33,050	33,050	33,050
	ARRA School Improvement Tier III - Alder	09/01/2010-09/30/2011	84.389	34,669	34,193	34,193
	ARRA School Improvement Tier III - Glenfair	09/01/2010-09/30/2011	84.389	34,669	240	240
	ARRA School Improvement Tier III - Salish Ponds	09/01/2010-09/30/2011	84.389	34,669	10,460	10,460
	ARRA School Improvement Tier III - Woodland	09/01/2010-09/30/2011	84.389	34,669	34,127	34,127
	Total			<u>3,168,611</u>	<u>1,667,522</u>	<u>1,667,522</u> (1)
	Implementation Cohort B - Competitive	10/10/2008-09/30/2010	84.357	156,885	32,025	32,025
	Total			<u>156,885</u>	<u>32,025</u>	<u>32,025</u>
	Title IIA Improving Teacher Quality 09/10	07/01/2009-09/30/2010	84.367	477,639	172,135	172,135
	Title IIA Improving Teacher Quality 10/11	07/01/2010-09/30/2011	84.367	435,373	231,043	231,043
	Title II-A Moving Math Forward	09/01/2009-09/30/2010	84.367	10,000	5,814	5,814
	Title II-A Moving Math Forward	09/01/2010-09/30/2011	84.367	10,000	2,109	2,109
	Total			<u>933,012</u>	<u>411,100</u>	<u>411,100</u>
	Title IID Enhancing Education Through Technology	07/01/2009-06/30/2011	84.318	38,664	19,489	19,489
	Total			<u>38,664</u>	<u>19,489</u>	<u>19,489</u>
	Title III English Language Acquisition 09/10	07/01/2009-09/30/2010	84.365	417,255	88,711	88,711
	Title III English Language Acquisition 10/11	07/01/2010-09/30/2011	84.365	386,680	234,509	234,509
	Total			<u>803,935</u>	<u>323,220</u>	<u>323,220</u>
	Title IV Safe & Drug Free Schools	07/01/2009-09/30/2010	84.186A	57,203	53,695	53,695
	Total			<u>57,203</u>	<u>53,695</u>	<u>53,695</u>
	IDEA Part B	07/01/2009-12/31/2010	84.027	1,783,376	1,250,897	1,250,897
	IDEA Part B	07/01/2010-09/30/2012	84.027	1,778,426	902,910	902,910
	SPR & I IDEA Part B	08/01/2009-06/30/2010	84.027	5,777	5,777	5,777
	IDEA Enhancement 2009-10 Formula	10/01/2009-09/30/2010	84.027	12,360	5,506	5,506
	IDEA Enhancement 2010-11 Formula	10/01/2010-09/30/2011	84.027	12,731	12,731	12,731
	IDEA Part B Redistribution	07/01/2009-09/30/2010	84.027	3,479	2,350	2,350
	IDEA Extended Assessment 2010-11 Formula	10/01/2008-06/30/2009	84.027	3,600	3,600	3,600
	Total			<u>3,599,749</u>	<u>2,183,771</u>	<u>2,183,771</u> (1)
	IDEA ARRA	02/17/2009-09/30/2011	84.391	2,096,916	775,130	775,130
	IDEA ARRA LTCT	02/17/2009-09/30/2011	84.391	8,317	3,776	3,776
	Total			<u>2,105,233</u>	<u>778,906</u>	<u>778,906</u> (1)
	Title IV-B After School Learning Centers R5 Y3	02/01/2009-09/30/2009	84.287	553,302	19,790	19,790
	Title IV-B After School Learning Centers R5 Y4	02/01/2009-09/30/2010	84.287	414,977	26,669	26,669
	Title IV-B After School Learning Centers R5 Y5	02/01/2010-09/30/2011	84.287	276,651	234,906	234,906
	Title IV-B After School Learning Centers Cohort 2 Y1	07/01/2009-09/30/2010	84.287	440,844	54,704	54,704
	Title IV-B After School Learning Centers Cohort 2 Y2	07/01/2010-09/30/2011	84.287	439,274	399,538	399,538
	Total			<u>2,125,048</u>	<u>735,606</u>	<u>735,606</u> (1)
	Perkins Vocational Education	07/01/2010-09/30/2011	84.048A	155,133	98,265	98,265
	Total			<u>155,133</u>	<u>98,265</u>	<u>98,265</u>
	School Improvement G Fund - Glenfair	09/01/2009-09/30/2010	84.377	24,832	3,600	3,600
	School Improvement G Fund - Salish Ponds	09/01/2009-09/30/2010	84.377	26,950	9,763	9,763
	Total			<u>51,782</u>	<u>13,363</u>	<u>13,363</u>
	Effective Behavior & Instructional Support Systems	10/01/2009-09/30/2010	84.323	13,519	9,906	9,906
	Effective Behavior & Instructional Support Systems	10/01/2010-09/30/2011	84.323	12,900	5,034	5,034
	Total			<u>26,419</u>	<u>14,940</u>	<u>14,940</u>

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued
For the Year Ended June 30, 2011

Federal Grantor Pass through Grantor	Program Title	Grant Period	CFDA Number	Grant Amount	2010-11 Revenues	2010-11 Expenditures
	Advanced Placement Incentive	10/01/2008-09/30/2010	84.330	21,202	4,729	4,729
	Total			<u>21,202</u>	<u>4,729</u>	<u>4,729</u>
	Fresh Fruit and Vegetable Program - Alder	07/01/2010-09/30/2010	10.582	4,657	4,657	4,657
	Fresh Fruit and Vegetable Program - Wilkes	07/01/2010-09/30/2010	10.582	3,315	3,315	3,315
	Fresh Fruit and Vegetable Program - Salish Ponds	07/01/2010-09/30/2010	10.582	2,224	2,224	2,224
	Fresh Fruit and Vegetable Program - Fairview	07/01/2010-09/30/2010	10.582	3,157	3,157	3,157
	Fresh Fruit and Vegetable Program - Margaret Scott	07/01/2010-09/30/2010	10.582	3,284	3,284	3,284
	Fresh Fruit and Vegetable Program - Hartley	07/01/2010-09/30/2010	10.582	4,286	4,286	4,286
	Fresh Fruit and Vegetable Program - Davis	07/01/2010-09/30/2010	10.582	3,457	3,457	3,457
	Fresh Fruit and Vegetable Program - Woodland	07/01/2010-09/30/2010	10.582	2,333	2,333	2,333
	Fresh Fruit and Vegetable Program - Alder	10/01/2010-06/30/2011	10.582	21,542	21,542	21,542
	Fresh Fruit and Vegetable Program - Wilkes	10/01/2010-06/30/2011	10.582	18,735	18,735	18,735
	Fresh Fruit and Vegetable Program - Salish Ponds	10/01/2010-06/30/2011	10.582	16,210	16,210	16,210
	Fresh Fruit and Vegetable Program - Fairview	10/01/2010-06/30/2011	10.582	19,078	19,078	19,078
	Fresh Fruit and Vegetable Program - Margaret Scott	10/01/2010-06/30/2011	10.582	16,796	16,796	16,796
	Fresh Fruit and Vegetable Program - Hartley	10/01/2010-06/30/2011	10.582	18,492	18,492	18,492
	Fresh Fruit and Vegetable Program - Davis	10/01/2010-06/30/2011	10.582	16,404	16,404	16,404
	Fresh Fruit and Vegetable Program - Woodland	10/01/2010-06/30/2011	10.582	19,536	19,536	19,536
	Total			<u>173,506</u>	<u>173,506</u>	<u>173,506</u>
	Title X ARRA Homeless	02/17/2009-09/30/2011	84.387	35,768	18,339	18,339
	Education Jobs Fund ARRA	08/10/2010-09/30/2012	84.410	2,409,925	2,409,925	2,409,925 (1)
	State Fiscal Stabilization Fund - ARRA 09/10	02/17/2009-09/30/2011	84.394	3,281,821	1,474,116	1,474,116
	State Fiscal Stabilization Fund - ARRA 10/11	02/17/2009-09/30/2011	84.394	1,328,221	1,328,221	1,328,221
	Total			<u>4,610,042</u>	<u>2,802,337</u>	<u>2,802,337 (1)</u>
Passed through Multnomah Education Service District						
	OYCC/MYC (Federal Portion) GRNT0207	09/30/2010-09/30/2011	10.688	35,516	35,516	35,516
	Total			<u>35,516</u>	<u>35,516</u>	<u>35,516</u>
Direct Federal Grants						
	Mentoring Program	10/01/2007-06/30/2011	84.184B	621,221	65,667	65,667
	Title VII Indian Education	07/01/2009-11/30/2010	84.060A	12,625	4,265	4,265
	Title VII Indian Education	07/01/2010-11/30/2011	84.060A	10,917	7,641	7,641
	Total			<u>644,763</u>	<u>77,573</u>	<u>77,573</u>
Total U.S. Department of Education				29,815,751	16,891,370	16,891,370
US Department of Agriculture - Special Revenue Fund:						
Passed through Oregon State Department of Education						
	USDA Commodities	2010-2011		285,057	285,057	285,057
	National School Lunch Program	2010-2011	10.555	2,816,760	2,816,760	2,816,760
	Summer Feeding Program	2010-2011	10.559	56,851	56,851	56,851
	National School Breakfast	2010-2011	10.553	752,941	752,941	752,941
	Child Care	2010-2011	10.558	125,513	125,513	125,513
Total U.S. Department of Agriculture	Total			<u>4,037,122</u>	<u>4,037,122</u>	<u>4,037,122</u>
Totals				<u>\$ 33,852,873</u>	<u>\$ 20,928,492</u>	<u>\$ 20,928,492</u>

(1) Major Program



PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

-
- 12700 SW 72ND AVENUE • TIGARD, OREGON 97223
 - (503) 620-2632 • FAX (503) 684-7523

November 25, 2011

To the Board of Directors
Multnomah County School District No. 7
Multnomah County, Oregon

Independent Auditors' 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*

We have audited the financial statements of Multnomah County School District No. 7 as of and for the year ended June 30, 2011, and have issued our report thereon dated November 25, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses; therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompany schedule of findings and questioned costs to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted a matter that we reported to management in the schedule of findings and questioned costs beginning on page 61.

The Management responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the responses and, accordingly, we express no opinion on them.

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


PAULY, ROGERS AND CO., P.C.



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November 25, 2011

To the Board of Directors
Multnomah County School District No. 7
Multnomah County, Oregon

**Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in Accordance With OMB Circular A-133**

Compliance

We have audited the compliance of Multnomah County School District No. 7 with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2011. The major federal programs are identified in the 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 management. Our responsibility is to express an opinion on 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 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 of compliance with those requirements.

In our opinion, Multnomah County School District No. 7 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and are described in the accompanying schedule of findings and questioned costs as items 2011-FA-1 through 2011-FA-3.

Internal Control Over Compliance

Management 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 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, 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 internal control over compliance.

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

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The management responses to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on the response.

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


PAULY, ROGERS AND CO., P.C.

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

SCHEDULE OF FINDINGS
AND QUESTIONED COSTS

For the Year Ended June 30, 2011

SECTION I – SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued

Qualified

Internal control over financial reporting:

Material weakness(es) identified?

yes no

Significant deficiency(s) identified that are not considered to be material weaknesses?

yes none reported

Noncompliance material to financial statements noted?

yes no

Any GAGAS findings disclosed that are required to be reported in accordance with OMB Circular A-133, section 503(d)(2)?

yes no

FEDERAL AWARDS

Internal control over major programs:

Material weakness(es) identified?

yes no

Significant deficiency(s) identified that are not considered to be material weaknesses?

yes none reported

Type of auditors' report issued on compliance for major programs:

Qualified

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, section 510(a)?

yes no

IDENTIFICATION OF MAJOR PROGRAMS

CFDA NUMBER

NAME OF FEDERAL PROGRAM CLUSTER

84.010 & 84.389

Title I, Part A Cluster

84.027 & 84.391

Special Education Cluster

84.394

State Fiscal Stabilization Fund (ARRA)

84.287

Title IV-B After School Learning Centers

84.410

Education Jobs Fund (ARRA)

Dollar threshold used to distinguish between type A and type B programs:

\$627,855

Auditee qualified as low-risk auditee?

yes no

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

SCHEDULE OF FINDINGS
AND QUESTIONED COSTS

For the Year Ended June 30, 2011

SECTION II – FINANCIAL STATEMENT FINDINGS

2011-FS-1

Condition: During our review of payroll, we noted inadequate controls were in place over the processes in the human resources department.

Criteria: Proper controls need to be implemented so that there is a review of changes made to payroll information by the human resources department, approval by appropriate level of management of payroll registers and communication between the payroll and human resource departments.

Effect: Without a proper control system in place, the likelihood of an error or irregularity existing and not being detected over time could result in a material misstatement of the financial statements.

Cause: There appears to be a lack of coordination between human resources, payroll and management functions. There is also a lack of review by someone other than the person making changes.

Recommendations: We recommend that controls be in place in human resources department to ensure the master file, including all changes, is reviewed to ensure it reflects accurate and complete information and that payroll registers are reviewed after processing.

View of Responsible Officials and Planned Corrective Action: In July, 2011 when we converted to the new HRIS/Payroll system, tighter controls were implemented to ensure that all changes made to payroll information by the Human Resources Department are reviewed and verified as follows:

1. No payroll or benefit changes are made to the HRIS system without being accompanied by a change or correction form. All forms are reviewed and approved by the HR Director.
2. Prior to the final payroll processing, the forms are once again verified and initialed by the preparer against a payroll register (prelist) to confirm that the results accurately reflect the intended correction or change.

The Human Resources Department continues to correct errors that occurred during the conversion process, prior to these new tighter controls being implemented, but those appear to be diminishing as the conversion process cycles through each event that occurs only on an annual basis, such as open enrollment and year end.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONS COSTS:

2011-FA-1 - Significant deficiency in internal control and instance of non-compliance

Federal Program: Special Education Cluster, Title I Part A Cluster, Title IV Part B

Specific Requirements: To be allowable under Federal awards, costs must be consistent with policies, regulations and procedures that apply to other activities of the governmental unit. All U.S. employers must complete and retain an employment eligibility verification form for employees.

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

SCHEDULE OF FINDINGS
AND QUESTIONED COSTS

For the Year Ended June 30, 2011

Condition: During our testing, we noted that some employment laws were not conformed to.

Questioned Costs: None noted.

Context: During our testing, we selected I-9 Employment Eligibility Verification forms to view.

Effect: Without adequate controls or procedures in place there is the possibility of noncompliance with federal employment laws.

Cause: Management has not appropriately placed controls in place in the human resources department to ensure that I-9 forms are properly completed prior to employees beginning work.

Recommendations: We recommend that controls be in place to ensure all employment laws be met.

Views of Responsible Officials and Planned Corrective Action Plan: Immediately following the preliminary audit finding in May, 2011 The HR Department implemented a new process and put stricter controls in place to ensure that all I-9 Forms would be completed timely and accurately as dictated by Federal Law. Effective July 1, 2011 changes were made to the process of managing the tracking and maintenance of I-9 forms as follows:

1. One person in the HR department now has responsibility for maintaining the I-9 forms in notebooks, separate from the personnel files. This tracking method creates a review process by one person before the forms are filed following the intake process which is completed by various members of the department.
2. An internal audit is underway to remove all existing I-9's from the personnel files of current employees, reverify all supporting identification/documentation and update forms as needed. This process is not yet completed as there are nearly 1500 employee files to review. The target date for completion of this project is March 31, 2012.
3. MESD collects, processes, and maintains all employment documentation for substitutes as part of the SubFinder service agreement.

2011-FA-2 - Significant deficiency in internal control, instance of non-compliance and questioned costs

Federal Program: Title IA Cluster

Specific Requirement: Indirect costs are charged to a grant at a rate determined by Oregon Department of Education.

Condition: During our testing we noted indirect costs were overcharged for the grant.

Questioned Costs: Greater than \$10,000

Context: This finding is limited to the expenditures described in the condition.

Effect: Without adequate controls or procedures in place there is the possibility of noncompliance with allowable costs.

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

SCHEDULE OF FINDINGS
AND QUESTIONED COSTS

For the Year Ended June 30, 2011

Cause: Staff misunderstood the indirect charges calculation; as a result the allowable costs requirements were not met.

Recommendations: We recommend that indirect costs be charged in compliance with federal requirements.

Views of Responsible Officials and Planned Corrective Actions: This was due to new staff member thought he was to use the indirect rates stated in the ODE budget narratives, and use the annual rate for the year in which awards were issued in the case where no budget narrative was available. When these funds carried over into the following year, this caused a discrepancy between the current year annual indirect rate versus the indirect rates stated in the award narratives. We had also been playing catch-up with indirect charges for expenditures from the prior year.

We have taken steps to insure that we only use the current year indirect rate for current year expenditures. We're also posting indirect charges before we make any claims for funds in order to stay current with our indirect charges.

2011-FA-3 - Significant deficiency in internal control, instance of non-compliance and questioned costs

Federal Program: Special Education Cluster, Title I Part A Cluster, State Fiscal Stabilization Fund

Specific Requirement: Expenditures were overcharged to grants in prior years.

Condition: During our testing we noted outstanding liabilities from expenditures being overcharged in prior years.

Questioned Costs: Greater than \$10,000

Context: This finding is limited to the expenditures described in the condition.

Effect: Without adequate controls or procedures in place there is the possibility of noncompliance with allowable costs.

Cause: PERS expenditures were incorrectly calculated in prior years.

Recommendations: We recommend that all direct costs be charged in compliance with federal requirements.

Views of Responsible Officials and Planned Corrective Actions: This problem was caused due to MESD error in calculating PERS contributions in the IFAS accounting software in 2010-11. PERS rates have been corrected in the new iVisions accounting software for 2011-12.

MULTNOMAH COUNTY SCHOOL DISTRICT NO. 7
MULTNOMAH COUNTY, OREGON

SCHEDULE OF FINDINGS
AND QUESTIONED COSTS

For the Year Ended June 30, 2011

SECTION IV – SCHEDULE OF PRIOR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS:

2010-FA-1 - Significant deficiency in internal control and instance of non-compliance

Oregon State Public Contracting code requires that bids and quotes be solicited for procurements exceeding certain dollar amounts. We selected several disbursements that exceeded the dollar amounts set by the State.

Current Status: The District will maintain an operating procedure that requires bids and quotes to be obtained in compliance with state laws. We did not note any instances of this finding in the current year.

2010-FA-2 - Significant deficiency in internal control and instance of non-compliance

All U.S. employers must complete and retain an employment eligibility verification form for employees. We noted several employees that did not have an I-9 Employment Eligibility Verification form on file.

Current Status: See 2011-FA-1.

2010-FA-3 - Significant deficiency in internal control and instance of non-compliance

OMB-87 requires that time cards be maintained or semi-annual certification be signed for all employees charged to federal programs. We noted an employee that was lacking adequate documentation of time and effort in compliance with OMB-87.

Current Status: The District will maintain an operating procedure that requires time and effort documentation be kept in compliance with OMB-87. We did not note any instances of this finding in the current year.

2010-FA-4 - Instance of non-compliance

Each year the District must verify the current free and reduced price eligibility of a sample of households. We noted that an ineligible student was not removed from the free and reduced meal program after eligibility verifications were performed.

Current Status: We did not note any instances of this finding in the current year.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying schedule of expenditures of federal awards includes the federal grant activity and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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