

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Comprehensive Annual Financial Report
For the Year Ended June 30, 2003

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PORTLAND PUBLIC SCHOOLS

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Jim Scherzinger
Superintendent

OFFICE OF THE SUPERINTENDENT

November 26, 2003

To Members of the Board of Education:

In accordance with the provisions of Oregon Revised Statutes 297.405 through 297.555, referred to as the Municipal Audit Law, submitted herewith is the comprehensive annual financial report of School District No.1, Multnomah County, Oregon (Portland Public Schools or the District), for the fiscal year ended June 30, 2003.

These statutes require that Portland Public Schools issue an annual report on its financial position and activity, and that this report be audited by an independent firm of certified public accountants. Responsibility for the completeness and fairness of the data presented and all accompanying disclosures rests with District management.

To provide a reasonable basis for making these representations, District management has established and maintains internal controls designed to ensure that the assets of the District are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principals (GAAP). Our internal control is designed to provide reasonable, but not absolute, assurance that these objectives are met.

The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. Internal control is subject to periodic evaluation by management. We believe our internal control adequately safeguards the assets and provide reasonable assurance of proper recording of all financial transactions. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Financial Statement Presentation

Designed to meet the needs of a broad spectrum of financial statement readers, this Comprehensive Annual Financial Report (CAFR) is divided into four major sections.

The **Introductory Section** includes the table of contents, this transmittal letter, the District's organizational chart, and copies of Certificates awarded for the Portland Public Schools' 2002 CAFR.

The **Financial Section** includes the independent auditors' report, Management's Discussion and Analysis (MD&A), the basic financial statements including notes to the financial statements, required supplementary information (RSI), and supplemental information including the combining and individual fund financial statements.

The **Statistical Section** includes selected financial and demographic information, generally presented on a multi-year basis. Efforts were made to update each schedule with the most accurate information, resulting in minor revisions of prior years' amounts.

The **Auditors' Comments and Disclosures Section** contains disclosures required by the Minimum Standards for Audits of Oregon Municipal Corporations.

The provisions of Oregon Revised Statutes 297.425 through 297.555, inclusive, require that an independent audit of the financial records and affairs of all District fund types be completed within six months following the close of the fiscal year. The auditors selected by the Board of Education, Pauly, Rogers and Co., P.C., have completed their audit of the basic financial statements for the fiscal year ended June 30, 2003, and their unqualified Independent Auditors' Report is presented as the first component of the financial section of this report.

The Single Audit Act of 1984 and the Single Audit Act Amendments of 1996 require state and local governments that expend \$300,000 or more in federal assistance in a year have a special form of audit conducted for that year. For the fifteenth consecutive fiscal year, Portland Public Schools has issued a separate report on the requirements of the Single Audit Act and the U.S. Office of Management and Budget's Circular A-133, *Audits of State and Local Governments*, on which Pauly, Rogers and Co., P.C. have also provided various required reports. Contained in the separately issued Single Audit Report are schedules of expenditures of federal awards, required reports on internal controls and compliance with laws and regulations.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The Portland Public Schools' MD&A can be found immediately following the independent auditors' report.

Profile of the District

Portland Public Schools is the largest school district in the State of Oregon. Located in northwestern Oregon at the confluence of the Columbia and Willamette rivers, the District's boundaries are generally the same as the City of Portland. The District includes approximately 146 square miles and has a population in excess of 400,000 constituting portions of the cities of Portland (pop. 538,180), Lake Oswego (pop. 33,150), and Milwaukie (pop. 19,950). The District operates 59 elementary schools, 17 middle schools, 10 high schools and 26 alternative, special, administrative, support and other facilities. Student enrollment at June 30, 2003 was 52,969.

The District is governed by a seven-member Board of Education elected by the voters of the District for staggered four-year terms. The chief administrative officer of the District is the Superintendent, who is appointed by the Board. The Board is accountable for all fiscal matters that significantly influence operations.

Under Oregon State law, school districts are municipal corporations empowered to provide elementary and secondary educational services for the children residing within its boundaries. The District discharges this responsibility by building, operating, and maintaining school facilities, developing and maintaining approved educational programs and courses of study, including vocational programs and programs for special needs students, and providing for transportation and feeding of students in accordance with District, State, and Federal programs. This report includes all funds of the District. The District has three charter schools, technically component units, which are immaterial to District operations and thus not included as a component units. The pass-through State School Fund amounts for these charter schools are included as expenditures within the instructional program of the General Fund. The District is not included in any other financial reporting entity.

The District is required by the State of Oregon to adopt an annual budget for all funds subject to the requirements of Local Budget Law as outlined in Oregon Revised Statutes 294.305 through 294.520, inclusive. The budget for each individual fund is a plan for the financial operations to be conducted during the coming fiscal year and is adopted annually, prior to July 1, by the Board of

Education after certification by the Multnomah County Tax Supervising and Conservation Commission. After adoption, the budget may be revised through procedures specified in State statute and Board policy.

Service Efforts and Accomplishments

- 1) The District continues to focus on aligning its budget and its efforts with its comprehensive strategic plan and action plan designed to implement the strategic plan. The District's mission is ***to support all students in achieving their very highest educational and personal potential, to inspire in them an enduring love for learning, and to prepare them to contribute as citizens of a diverse, multicultural and international community.*** A critical component of achieving this mission is to raise the educational achievement of all District students. As measured by the Oregon Statewide Assessments, Portland students are doing that. Over all the grades tested by the state, nearly 60% of students met both the reading and the math state standards in 2003.

Compared to the state as a whole, District students outperform their peers in reading at grades 3, 5 and 8, and in math at grades 5 and 8. They are even with the state in math at grade 10. Fewer District students met state standards in math at grade 3 (by 1%), and at the high school level (by 4% in reading, 6% in science, 1% in writing and 3% in math problem solving). Note that writing, math problem solving and science were tested only at the tenth grade in 2003 due to budget constraints at the Oregon Department of Education.

The gap between European American students' test performance and that of other student groups remains, but it is declining slightly. Although the achievement gap remains, the District as a whole met the rigorous definition of Adequate Yearly Progress (AYP) established by the Oregon Department of Education to comply with the federal No Child Left Behind Act. To accomplish that, the District's total student body (in grades 3, 5, 8 and 10), African American, American Indian, Asian American, European American, Hispanic American, special education, English language learners and economically disadvantaged students all had to be tested in sufficient numbers (at least 95% participation) and meet at a sufficiently high level the state standards in reading/literature, writing, math and math problem solving.

At the school level, 56 of 61 elementary schools met AYP, 12 of 20 middle schools met AYP and no high schools met AYP. This follows the pattern seen statewide (and, in fact, nationally) that the larger and more diverse the school, the more difficult it is to meet AYP since a school must meet the participation and achievement standard for every subgroup noted above. In the entire state, only three large high schools met AYP.

The Chief Academic Officer has established an Education Action Plan that is intended to guide Portland Public Schools in becoming the first urban school district to raise the bar for all students and eliminate the achievement gap.

- 2) Portland Public Schools continues to concentrate on the middle and high school reform initiative to support every student to high school graduation and beyond. The current goal is to build capacity within the District to accomplish specific strategies such as:
 - Improve reading with a new reading program and reading needs assessment.
 - Develop transition programs for middle school students.
 - Implement transition programs for students entering college and the workforce.
 - Provide literacy coaches in every high school.
 - Create opportunities to learn beyond the classroom.

- Establish early warning systems to identify students who are falling behind graduation needs.
- 3) The District faced such drastic revenue shortfalls during 2002-03, that in February 2003 the District announced a 24-day furlough for all District personnel, which would have brought operational costs more in line with declining resources. The prospect of such disruptions on the educational process caused District leadership, teachers, employees, political and community stakeholders to respond with significant changes in both resources and costs for the year. Specifically, the non-represented employees and members of the SEIU Local 140 accepted a redesign of their health care benefits with a premium cap of \$600 per month. The members of the Portland Association of Teachers agreed to a 5.263% retroactive salary reduction, which was the equivalent of 10-days' salary in the year. Additionally, the City of Portland increased its Business License Fees and provided the District \$14 million in cash during the year. As a result, no furlough was necessary.

Factors Affecting Financial Condition

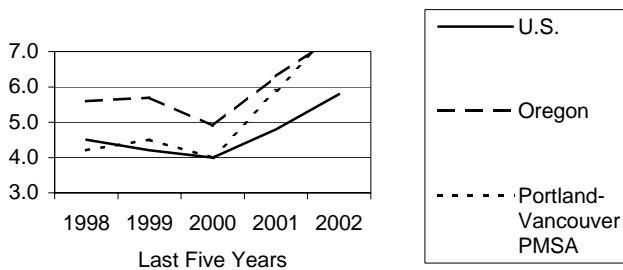
The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the District operates.

Local economy. Portland, known as the “City of Roses,” and the surrounding metropolitan area has a widely diversified economy. Its centralized location and excellent transportation facilities have established the area as a major distribution point on the West Coast for wholesale trade and high tech exports. Manufacturing accounts for a large sector (13%) of the economy. Neither heavy nor light manufacturing dominates the industry. Durable goods such as electronics, metals, machinery, and lumber and wood products account for 75% of manufacturing employment.

Employment by Industry – June 2003

Education, Health Services, & Hospitality	21%
Trade, Transportation, & Utilities	20%
Professional, Business & Other Services	16%
Government	14%
Manufacturing	13%
Information, Financial & Real Estate	10%
Construction & Mining	6%

Average Unemployment Rates



Along with the entire state, the job growth in the Portland metro area is predicted to be slower in the next 10 years than it was in the previous decade. However, the area’s projected growth rate for the period between 2002 and 2012 is 14.6%, still greater than statewide projections of 13.7%.

Although Oregon is experiencing an economic downturn, the Portland metro area’s population increased by 2.8% between 2000 and 2002. A steady growth in the labor force that is outpacing the creation of new jobs may explain why, for the first time, the unemployment rate in the Portland-Vancouver PMSA is higher than the State. In 2002, Portland’s average annual unemployment rate was 7.8%, compared to 7.5% for the State and 5.8% for the nation.

Long term financial planning. The \$196 million capital bonds approved by the voters in 1995 are expected to be fully spent in the summer of 2004. The District has convened a bond planning task force, which is meeting monthly to set priorities and determine the size for the next capital bond offering. The District is considering whether to include a bond levy on the ballot in 2004.

Passing such an authorization in the May 2004 election would require a double majority. The November 2004 general election would only require a simple majority to pass. Continued declines in State funding exert downward pressure on the District's budget such that there are virtually no General Fund dollars budgeted for capital needs. Therefore, the need for another bond levy may be critical.

Awards and Acknowledgements


The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its comprehensive annual financial report for the fiscal year ended June 30, 2002. In order to be awarded a Certificate of Achievement, a governmental entity must publish an easily readable and efficiently organized CAFR that satisfies both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for this coveted Certificate.

The Association of School Business Officials International (ASBO) awarded its Certificate of Excellence in Financial Reporting to the District for its comprehensive annual financial report for the fiscal year ended June 30, 2002. Receiving the Award is recognition that the District has met the highest standards of excellence in school financial reporting as adopted by ASBO. The District believes that this 2003 CAFR, which will be submitted to ASBO for review, will also conform to these standards.

We wish to express our appreciation to Assistant Controller, Joanne Ossanna, CPA, staff of the Finance Department, and members of other District departments who assisted in the preparation of this comprehensive annual financial report. We also express appreciation to Parry Ankersen, CPA, and the Pauly, Rogers staff for their extra efforts during the audit. We further extend our appreciation to the members of the Board of Education, employees of the District, and the citizens of Portland whose continued cooperation, support, and assistance have contributed greatly to the achievements of the Portland Public Schools.

Respectfully submitted,



James R. Schetzinger, Superintendent



Heidi B. Franklin, CPA, Interim Chief Financial Officer and Controller

School District No. 1, Multnomah County, Oregon
Principal Officials
At June 30, 2003

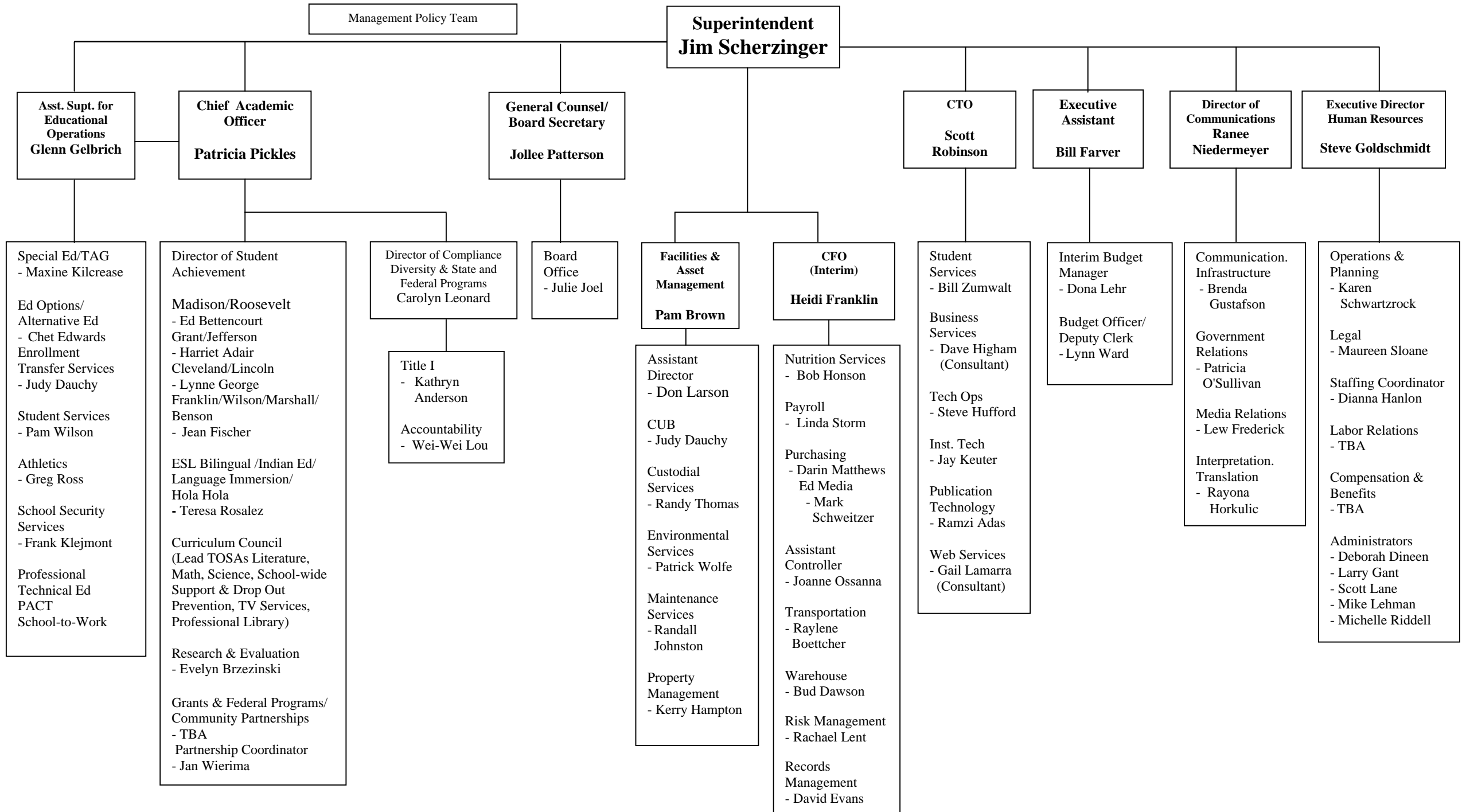
BOARD OF EDUCATION

Member	Term Expires	Address
Marc Abrams	June 30, 2003	1753 NW Aspen Ave., Portland, OR 97210
Debbie Goldberg-Menashe	June 30, 2003	6845 SE 28 th Ave., Portland, OR 97202
Sue Hagmeier	June 30, 2003	3315 SE Harrison St., Portland, OR 97214
Karla Wenzel	June 30, 2003	3131 SW Fairmount Blvd., Portland, OR 97201
Julia Brim-Edwards	June 30, 2005	6666 SE Yamhill St., Portland, OR 97205
Derry Jackson	June 30, 2005	9540 N Edison St., Portland, OR 97203
Lorenzo Poe	June 30, 2005	5703 NE Church St., Portland, OR 97218

ADMINISTRATIVE STAFF

James R. Scherzinger Superintendent
Heidi B. Franklin, CPA..... Interim Chief Financial Officer/Controller
Jollee Patterson..... General Counsel

Portland Public Schools Organization Chart 2002-2003



Certificate of Achievement for Excellence in Financial Reporting

Presented to

School District No. 1,
Multnomah County,
Oregon

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

**ASSOCIATION OF SCHOOL BUSINESS OFFICIALS
INTERNATIONAL**



This Certificate of Excellence in Financial Reporting is presented to

SCHOOL DISTRICT NO. 1, MULTNOMAH COUNTY, OREGON

For its Comprehensive Annual Financial Report (CAFR)
For the Fiscal Year Ended June 30, 2002

Upon recommendation of the Association's Panel of Review which has judged the Report substantially conforms to principles and standards of ASBO's Certificate of Excellence Program

B. H. [Signature]
President

Barbara W. Keller
Executive Director



PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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

November 26, 2003

To the Board of Education
School District No. 1, Multnomah County, Oregon
Portland, Oregon

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the School District No. 1, Multnomah County, Oregon as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of School District No. 1, Multnomah County, Oregon as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also separately issued our report dated November 26, 2003 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is 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.

Management's discussion and analysis commencing on page 2 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information including the budgetary comparison information for the General Fund and the Grants Fund (which is required supplementary information), and the combining and individual nonmajor fund financial statements, as listed in the table of contents, are presented for purposes of additional analysis, and are not a required part of the basic financial statements. Such supplementary information has 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. Other supplementary information, other than management's discussion and analysis, such as the introductory section and the statistical section, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Pauly, Rogers and Co., P.C.

SCHOOL DISTRICT NO. 1, MULTNOMAH COUNTY, OREGON Management's Discussion And Analysis

As management of the School District No.1, Multnomah County, Oregon (Portland Public Schools or the District), we offer readers this narrative overview and analysis of the financial activities of the Portland Public Schools for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-v of this report.

Financial Highlights

- The net assets of Portland Public Schools in the government-wide financial statements were \$132,688,368. Of this amount, \$123,871,911 was invested in capital assets, net of related debt and the remainder, \$8,816,457, is technically considered to be unreserved, but the District has \$23,228,580 committed to debt-financed programs.
- At June 30, 2003, the General Fund had an unreserved fund balance deficit of (\$13,551,548), caused by unprecedented state revenue declines, which resulted in significant mid-year cuts in state school funding. A 24-day furlough was averted.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Portland Public Schools' basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

- 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 Portland Public Schools 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, Portland Public Schools has governmental activities, which include instruction, supporting services, facilities, food services, community service, and debt service. Portland Public Schools currently does not have any business-type activities.

The government-wide financial statements can be found on pages 12-13 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. All of the funds of the Portland Public Schools can be divided into two categories: governmental funds and proprietary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term* inflows and outflows of available resources, as well as on 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*.

Portland Public Schools maintains five different individual 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, the Grant Fund, and three capital projects funds, all of which are considered to be major funds. Data from the other nine governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

Portland Public Schools adopts an annual appropriated budget for all of its funds. A budgetary comparison statement has been provided for each fund individually in supplementary information to demonstrate compliance with their budgets.

The basic governmental fund financial statements can be found on pages 14-18 of this report.

Proprietary funds are used to account for a government's business-type activities. The District maintains only one type of proprietary fund, which is an internal service fund.

Internal service funds are accounting devices used to accumulate and allocate costs internally among various functions. The District uses an internal service fund to account for its Self-Insurance activities. Because Portland Public Schools has no business-type functions, this service benefits governmental functions and has been included within the governmental activities in the governmental-wide financial statements.

Internal service funds provide the same type of information as the government-wide financial statements. The internal service fund financial statements provide separate information for the Self-Insurance Fund, which is considered to be a major fund of Portland Public Schools.

The basic internal service fund financial statements can be found on pages 19-21 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 22-37 of this report.

Required Supplemental Information (RSI) is located directly after the notes to the basic financial statements and represent the required comparison of the General Fund and the only major special revenue fund, the Grants Funds, budget and actual results on the District's budgetary basis. This information is on pages 39-42.

The **Combining Statements** referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 44-49 of this report.

Government-Wide Financial Analysis

Net assets. As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. In the case of Portland Public Schools, assets exceeded liabilities by \$132,688,368 at the close of the most recent fiscal year.

Condensed Statement of Net Assets

	Total School District Governmental Activities		Percentage Change
	<u>2002</u>	<u>2003</u>	<u>2002-2003</u>
Assets			
Current and other assets	\$ 138,570,096	\$ 103,758,133	-25.1%
Prepaid PERS unfunded actuarial liability	-	486,617,609	n/a
Net capital assets	<u>223,642,208</u>	<u>228,616,491</u>	2.2%
Total assets	<u>362,212,304</u>	<u>818,992,233</u>	126.1%
Liabilities			
Long-term debt outstanding	169,925,241	78,866,315	-53.6%
PERS unfunded actuarial liability debt outstanding	-	491,273,897	n/a
Other liabilities	<u>78,923,488</u>	<u>116,163,653</u>	47.2%
Total liabilities	<u>248,848,729</u>	<u>686,303,865</u>	175.8%
Net Assets			
Invested in capital assets, net of related debt	87,514,912	123,871,911	41.5%
Unrestricted	<u>25,848,663</u>	<u>8,816,457</u>	-65.9%
Total net assets	<u>\$113,363,575</u>	<u>\$ 132,688,368</u>	17.0%

By far the largest portion of the District's net assets (93%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets for classrooms and supporting services for providing K-12 education; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

At the end of the current fiscal year, Portland Public Schools is able to report positive balances in both categories of net assets for governmental activities. The District's net assets increased by \$19,324,793 during the current fiscal year. By far the largest portion of this increase represents the degree to which the capitalization of assets coupled with the liquidating of related debt exceeds depreciation expense. The remainder of this growth largely reflects increases in operating grants and contributions.

The revenues and expenses shown below explain changes in net assets for the fiscal years 2002 and 2003.

Changes in Net Assets

	Total School District Governmental Activities		
	<u>2002</u>	<u>2003</u>	
Revenues			
Program Revenues			
Charges for services	\$ 12,858,442	\$ 10,532,039	2.3%
Operating grants & contributions	83,955,434	75,616,763	16.2%
Total Program Revenues	<u>96,813,876</u>	<u>86,148,802</u>	18.5%
General Revenues			
Property taxes	182,765,788	194,401,235	41.7%
State school fund	193,284,103	150,705,317	32.3%
Common school fund	1,527,383	3,100,444	0.6%
County and intermediate sources	10,863,837	24,440,903	5.2%
Investment earnings	5,310,974	2,187,551	0.5%
Other	2,278,644	5,343,708	1.1%
Gain on disposal of fixed assets	2,098,078	239,238	0.1%
Total General Revenues	<u>398,128,807</u>	<u>380,418,396</u>	81.5%
Total Revenues	<u>494,942,683</u>	<u>466,567,198</u>	100.0%
Expenses			
Instruction	278,299,538	246,091,005	55.0%
Supporting services	159,969,208	160,169,734	35.8%
Facilities	7,031,606	15,638,257	3.5%
Food services	13,261,350	13,411,985	3.0%
Community services	1,617,719	1,324,171	0.3%
Interest on long-term debt	12,209,958	10,607,253	2.4%
Total Expenses	<u>472,389,379</u>	<u>447,242,405</u>	100.0%
Increase in net assets	22,553,304	19,324,793	
Net assets - beginning	<u>90,810,171</u>	<u>113,363,575</u>	
Net assets - ending	<u>\$ 113,363,475</u>	<u>\$ 132,688,368</u>	

Revenues. Since the District's mission is to provide a free and appropriate public education for K-12 students within its boundaries, the District may not charge for its core services. As expected, therefore, general revenues provide 81.5% of the funding required for governmental programs. Property taxes and State school fund combined account for 90.7% of general revenues and 74.0% of total revenues.

Charges for services are only 2.3% of total revenues and are composed of the following items for which it is appropriate that the District charge tuition or fees:

- Food services charge not only for lunch and breakfast, but also for catering and contract services. \$ 4,213,286

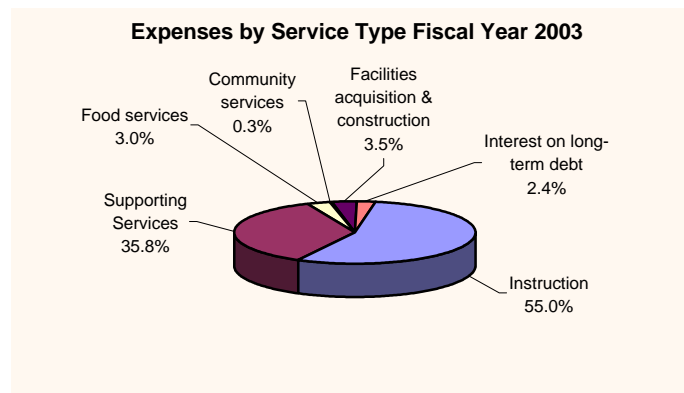
- Tuition is charged for all-day kindergarten, evening high school, out-of-district students, summer school, and driver's education. 2,237,757
 - Facilities leverages District buildings by leasing and renting classrooms, cafeterias, gymnasiums, swimming pools, auditoriums, and entire vacant buildings. 1,847,893
 - The District is under contract with the State to provide certain services for special needs children for four other Districts in the region, who or are charged accordingly. 980,221
 - Athletics charges pay-to-play fees and sells tickets to events and games. 673,691
 - Inventory sales.
 - Other sales, royalties, and events generate revenue. 579,191
- \$ 10,532,039**
- Total Charges for Services:

Operating grants and contributions represent 16.2% of total revenues. Included in this category are \$9.5 million for federal reimbursement under the school lunch program and \$7.3 million raised or donated by student body activities. Federal and state grants for designated programs totaled \$54.6 million.

Expenses. Expenses related to governmental activities are presented in six broad functional categories. Costs of direct classroom instruction activities account for 55.0% of the total expenses of \$447,242,405. In addition, approximately half of the costs in supporting services relate to students, instructional staff and school administration.

Net Cost of Governmental Activities

	<u>Total Cost of Services</u>		<u>Percentage</u>	<u>Net Cost of</u>		<u>Percentage</u>
	<u>2002</u>	<u>2003</u>	<u>Change</u>	<u>(Profit from) Services</u>		<u>Change</u>
	<u>2002</u>	<u>2003</u>	<u>2002-2003</u>	<u>2002</u>	<u>2003</u>	<u>2002-2003</u>
Instruction	\$ 278,299,538	\$ 246,091,005	-11.6%	\$ 214,518,928	\$ 191,466,360	-10.7%
Supporting Services	159,969,208	160,169,734	0.1%	141,719,289	143,984,134	1.6%
Food services	13,261,350	13,411,985	1.1%	73,623	(622,293)	n/a
Community services	1,617,719	1,324,171	-18.1%	22,099	19,892	-10.0%
Facilities acquisition & construction	7,031,606	15,638,257	122.4%	7,031,606	15,638,257	122.4%
Interest on long-term debt	<u>12,209,858</u>	<u>10,607,253</u>	-13.1%	<u>12,209,858</u>	<u>10,607,253</u>	-13.1%
Total	<u>\$ 472,389,279</u>	<u>\$ 447,242,405</u>	-5.3%	<u>\$ 375,575,403</u>	<u>\$ 361,093,603</u>	-3.9%



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.

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$23,534,534. Of this amount, \$23,228,580 is committed to capital projects.

A. State Revenue Shortfalls

Portland Public Schools was subject to unprecedented fluctuations in revenue during 2002-03, the second year of the State's biennial appropriation. Revenue shortfalls at the state level, primarily the result of Oregon having the highest unemployment in the nation, drove legislative leaders to be called into five special sessions to adjust operating budgets and re-balance the State budget. During the third special session in June 2002, Senate Bill 1022 was passed. During the 2003 regular legislative session House Bill 2650 was passed, amending SB 1022. Of the variety of changes accomplished by these bills, those impacting the District most significantly include:

- ◆ Decreasing the total amount available in the State School Fund for distribution to K-12 schools
- ◆ Allowing districts to accrue up to a maximum of \$309 per ADMw from 2003-04 revenue into the 2002-03 fiscal year. The maximum accrual allowed the District for 2003-04 was \$18,471,450.
- ◆ Providing a formula to calculate the amount per ADMw of future revenues allowed to be accrued to the previous year's revenues.

Authority for this accrual continues, unless the statute is amended in a future legislative session.

The amount of the State School Fund not paid in fiscal year 2002-03 may be accrued as if it were a receivable and revenue using the modified accrual method on the budgetary basis of accounting. However, under generally accepted accounting principles (GAAP) such an accrual is not appropriate. Therefore, the State School Fund revenue reported in accordance with GAAP on the government-wide statement (p.12) and the governmental funds statement (p.14) reflect no such accrual. State School Fund revenue reported in the General Fund on a budgetary, non-GAAP basis (p. 52) does include \$17,100,000 accrual as allowed under SB 1022.

B. District Revenue Shortfalls

All indications support a conclusion that the State enacted the plan embodied in SB 1022 to avoid severe budget cuts resulting from the decrease in State revenues. Despite this legislation, the District faced such drastic revenue shortfalls during 2002-03, that in February 2003 the District announced a 24-day furlough during which all schools and offices of the District would be closed. The prospect of the negative impact such a long furlough would have on the educational experience of the students dismayed District leadership, teachers, employees, political leaders and community stakeholders alike. In response, non-represented employees and members of the SEIU Local 140 accepted a redesign of their health care benefits with a premium cap of \$600 per month. The members of the Portland Association of Teachers agreed to a 5.263% retroactive salary reduction, which was the equivalent of 10-days salary. The City of Portland increased its Business License Fees and provided the District \$14 million in cash.

General Fund Budgetary Highlights

The budget was adjusted during the year to react to changing resources, primarily, declines in state funding. The changes can be briefly summarized as follows:

- \$5.1 million increase in instruction
- (\$3.3) million decrease in student supporting services
- \$5.0 million increase in debt service, to correct a budgeting error
- \$1.8 million increase in transfers out, to establish the PERS Rate Stabilization Reserve fund
- \$501 million increase in PERS unfunded actuarial liability payment, to reflect the District's participation in pooled limited tax pension bonds to effect a reduction in the PERS rate charged to expense.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2003, amounts to \$228,616,491 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles & equipment, and construction in progress. The District's investment in capital assets for the current fiscal year reflects a 2.2% increase over the prior year.

Capital Assets (net of depreciation)

	Total School District Governmental Activities		Total Percentage Change
	<u>2002</u>	<u>2003</u>	<u>2002-2003</u>
Land	\$ 9,049,378	\$ 9,049,378	0.0%
Buildings	184,355,422	189,869,181	3.0%
Vehicles & Equipment	16,304,996	14,933,261	-8.4%
Construction in Progress	13,932,412	14,764,671	6.0%
Total	\$ 223,642,208	\$ 228,616,491	2.2%

Major capital asset events during the current fiscal year included the following:

- Building improvements continue in the areas of seismic upgrades, fire, life and safety, ADA compliance, and priority building repairs.
- Completed projects added cost of \$15.7 million to buildings and site improvements. Construction in progress as of the close of fiscal year had reached \$14.7 million.

Additional information on the District's capital assets can be found in note 7 on page 30 of this report.

Long-term debt. At the end of the current fiscal year, the District had total debt outstanding of \$618,218,477. Of this amount, \$65,375,000 comprises general obligation debt and \$513,473,897 represents limited tax obligation debt, and \$39,369,580 comprises debt backed by the full faith and credit of the District. The District's total debt increased by \$448,293,236 during the current fiscal year.

Outstanding Long-term Debt

	<u>Total School District</u>		Percentage
	<u>2002</u>	<u>2003</u>	Change
			<u>2002-2003</u>
General obligation bonds	\$ 124,845,000	\$ 87,575,000	-29.9%
PERS limited tax general obligation bonds	-	491,273,897	n/a
Other Long-term debt	<u>45,080,241</u>	<u>39,369,580</u>	-12.7%
Total	<u>\$ 169,925,241</u>	<u>\$ 618,218,477</u>	263.8%

Standard & Poor's gave the District's debt a single A rating on its outstanding limited tax general obligation refunding debt (the gap bond) in 1999, and an A+ rating on the unlimited tax general obligation debt outstanding at June 30, 1999. Moody's Investors Service confirmed the rating on the District's outstanding gap bond is A1 and on the unlimited tax general obligation bonds is Aa3 in 1999. The ratings are primarily based on the District's large and diverse tax base, which continues to grow. These ratings remain unchanged at June 30, 2003. At the time of issuance, the Limited Tax Pension Obligation, Series 2002 and Series 2003, received a Standard & Poor's rating of AA-, which shadow the credit rating for the State of Oregon. In November 2003, Standard & Poor's downgraded the State of Oregon's credit rating, which consequently changed the rating for the Limited Tax Pension Obligations, Series 2003 from AA- to "A+".

State statutes limit the amount of general obligation debt a school district may issue based on a formula for determining the percentage of the Real Market Value of all taxable properties within the District. The District's general obligation bond debt capacity is 7.95% of Real Market Value or \$3,542,847,741, which is significantly in excess of the District's outstanding general obligation debt.

PERS is Oregon's public pension system. Under a pension plan, the actuarial liability is the present value of the plan's current and expected benefits payments (plus administrative expenses). If a fund's actuarial liability exceeds its assets, then the fund has a shortfall that is known as an unfunded actuarial liability ("UAL"). The portion of the PERS UAL attributable to Oregon education districts was estimated at over \$1.73 billion based on the 2000 valuation and is expected to increase when the 2001 and 2002 actuarial valuation reports are released. PERS requires that school districts pay (or "amortize") this UAL over a period of approximately 26 years with interest at 8% a year. Since interest rates have been at historic lows, an opportunity to benefit from interest rate arbitrage was created.

The District participated in the Oregon School Board Association ("OSBA") sponsored pooled pension obligation bond program, in which the proceeds from bond issues were used to offset a portion of the UAL. The details of the District's borrowing are in Note 10 to the Basic Financial Statements. The benefits of the arbitrage are seen in a substantial reduction in the District's PERS employer rate. This reduction in rates should dampen the effects of future increases in the District's UAL. As long as PERS' investment returns exceed the costs of servicing the bonds, the benefits of this program will exceed the costs. The District's UAL was reduced, but was not eliminated, by these borrowing transactions. Statutes, legislation, regulations, and rules regarding PERS can change at any time. These changes may improve or reduce the benefits of participation in the bond program.

Additional information on the District's long-term debt can be found in note 10 on page 31 of this report.

Economic Factors and Next Year's Budgets

- In recent years, unemployment rates in the Portland-Vancouver area had been lower than those in the rest of the State and in the nation. However, during the current fiscal year unemployment rates in Oregon remained over 7%, which are among the highest in the nation.
- HB 5077 appropriates \$5.2 billion in state resources to the Department of Education for the 2003-05 biennium K-12 State School Fund ("SSF") for all Oregon public schools. An additional \$100 million may be allocated in 2004-05 if certain state revenue targets are met. The bill reduces the 2004-05 SSF appropriation by \$285 million, if the graduated income tax assessment component of the legislature's revenue package (HB 2152) is referred by petition to voters and rejected. It reduces the 2004-05 appropriation by \$414 million, if the entire revenue package is referred and rejected. HB 2825 sets a special election for February 3, 2004, if HB 2152, or any part thereof, is referred to voters by petition. The potential impact on the District's revenues for 2004-05 is expected to be partially or fully offset by the Multnomah County Income Tax (Measure 26-48 passed by the voters in Multnomah County on May 20, 2003), which assesses a 1.25% income tax rate on taxable personal income for 2003, 2004, and 2005.
- When the District and the Portland Association of Teachers (PAT) reached a tentative agreement in February 2003, it called for the creation of the Compensation & Health Benefits Advisory Committee. The Committee was charged with making findings and recommendations for the creation of a balanced and competitive compensation package that reduces cost of benefits and increases teacher salaries. The Committee issued its report on October 31, 2003. The specific recommendations may only be implemented through agreements reached during collective bargaining. The PAT contract expires June 30, 2004.

Requests for Information

This financial report is designed to provide a general overview of the Portland Public Schools' finances for all those with an interest in the District's finances. Questions concerning any of the information provided in the report or requests for additional financial information should be addressed to the Office of the Controller, Portland Public Schools, 501 N Dixon, Portland, OR, 97227.

BASIC FINANCIAL STATEMENTS

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Statement of Net Assets
June 30, 2003

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 31,824,571
Cash in segregated accounts	2,979,730
Cash and cash equivalents held by fiscal agents	1,630,707
Investments	32,776,064
Accounts and other receivables	16,405,523
Property taxes and other taxes receivable	11,396,969
Inventories	1,542,291
Prepaid items	607,861
Prepaid PERS unfunded actuarial liability	486,617,609
Bond issue costs, net of accumulated amortization	4,594,417
Capital Assets, net of accumulated depreciation:	
Land	9,049,378
Buildings and capital improvements	189,883,030
Vehicles and equipment	14,919,412
Construction in progress	14,764,671
Total assets	<u>818,992,233</u>
LIABILITIES	
Accounts payable	9,266,850
Accrued wages and benefits	49,851,069
Claims payable	5,046,000
Accrued bond interest payable	2,253,387
Arbitrage rebate	672,698
Deferred revenues	995,384
Noncurrent Liabilities:	
Bonds payable - Due within one year	48,078,265
Bonds payable - Due in more than one year	570,140,212
Total liabilities	<u>686,303,865</u>
NET ASSETS	
Invested in capital assets, net of related debt	123,871,911
Unrestricted	8,816,457
Total net assets	<u><u>\$ 132,688,368</u></u>

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

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Statement of Activities
For the year ended June 30, 2003

Functions/Programs	Expenses	PROGRAM REVENUES		Net (Expense) Revenue and Changes in Net Assets
		Charges for services	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction	\$ 246,091,005	\$ 6,318,753	\$ 48,305,892	\$ (191,466,360)
Supporting services	160,169,734	-	16,185,600	(143,984,134)
Food services	13,411,985	4,213,286	9,820,992	622,293
Community services	1,324,171	-	1,304,279	(19,892)
Facilities acquisition & construction	15,638,257	-	-	(15,638,257)
Interest and fees on long-term debt	10,607,253	-	-	(10,607,253)
Total governmental activities	<u>\$ 447,242,405</u>	<u>\$ 10,532,039</u>	<u>\$ 75,616,763</u>	<u>(361,093,603)</u>
GENERAL REVENUES:				
Property taxes, levies for operations				131,056,316
Property taxes, levies for debt service				47,081,715
Local option taxes				16,263,204
State School Fund				150,705,317
State Common School Fund				3,100,444
County and intermediate sources				24,440,903
Investment earnings				2,187,551
Other				5,343,708
Gain on disposal of capital assets				239,238
Total general revenues				<u>380,418,396</u>
Change in net assets				19,324,793
Net assets - beginning of year				<u>113,363,575</u>
Net assets - end of year				<u>\$ 132,688,368</u>

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

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Governmental Funds
Balance Sheet
June 30, 2003

	General Fund	Grant Fund
ASSETS		
Cash and cash equivalents	\$ 21,619,672	\$ -
Cash in segregated accounts	6,551	-
Cash and cash equivalents held by fiscal agents	1,243,450	-
Investments	138,093	-
Accounts and other receivables	5,706,194	9,080,369
Property taxes and other taxes receivable	8,741,769	-
Due from other funds	461,818	-
Inventories	938,999	-
Prepaid Items	607,861	-
Total assets	<u>\$ 39,464,407</u>	<u>\$ 9,080,369</u>
LIABILITIES		
Accounts payable	\$ 3,902,878	\$ 1,171,345
Accrued wages and benefits	40,884,027	6,451,822
Due to other funds	400,000	461,818
Arbitrage rebate	-	-
Deferred revenues	7,829,050	995,384
Total liabilities	<u>53,015,955</u>	<u>9,080,369</u>
FUND BALANCES (DEFICIT)		
Unreserved, reported in:		
General Fund	(13,551,548)	-
Special revenue funds	-	-
Capital projects funds	-	-
Debt service funds	-	-
Total fund balances (deficit)	<u>(13,551,548)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 39,464,407</u>	<u>\$ 9,080,369</u>

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

System Project Fund	Facilities Improvement/Technology Fund	Facilities Improvement II Fund	Other Governmental Funds	Total Governmental Funds
\$ 2,215	\$ 508,568	\$ 160,947	\$ 8,083,213	\$ 30,374,615
-	-	-	2,973,179	2,979,730
-	-	-	387,257	1,630,707
2,719,000	17,792,000	5,320,000	1,982,971	27,952,064
2,370	14,224	2,610	1,458,988	16,264,755
-	-	-	2,655,200	11,396,969
-	-	-	400,000	861,818
-	-	-	603,292	1,542,291
-	-	-	-	607,861
<u>\$ 2,723,585</u>	<u>\$ 18,314,792</u>	<u>\$ 5,483,557</u>	<u>\$ 18,544,100</u>	<u>\$ 93,610,810</u>
\$ 191,396	\$ 2,265,603	\$ 115,809	\$ 902,547	\$ 8,549,578
23,726	7,748	16,374	1,386,814	48,770,511
-	-	-	-	861,818
672,698	-	-	-	672,698
-	-	-	2,397,237	11,221,671
<u>887,820</u>	<u>2,273,351</u>	<u>132,183</u>	<u>4,686,598</u>	<u>70,076,276</u>
-	-	-	-	(13,551,548)
-	-	-	11,222,575	11,222,575
1,835,765	16,041,441	5,351,374	-	23,228,580
-	-	-	2,634,927	2,634,927
<u>1,835,765</u>	<u>16,041,441</u>	<u>5,351,374</u>	<u>13,857,502</u>	<u>23,534,534</u>
<u>\$ 2,723,585</u>	<u>\$ 18,314,792</u>	<u>\$ 5,483,557</u>	<u>\$ 18,544,100</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	228,616,491
Long-term taxes receivable are not available to pay for current-period expenditures and therefore, are deferred in the funds.	10,226,287
The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	624,713
Bonds payable are not due and payable in the current period and therefore are not reported in the funds.	(618,218,477)
PERS unfunded liability payment is not reported as a prepayment in the funds and therefore, is expensed in the the funds.	486,617,609
Bond issue costs are not amortized over the life of the bonds in the funds and therefore are expensed in the year of the bond issue.	4,594,417
Accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(1,053,819)
Bond interest is not accrued as a liability in the government funds.	(2,253,387)
Net assets of governmental activities	\$ 132,688,368

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the year ended June 30, 2003

	<u>General Fund</u>	<u>Grant Fund</u>
REVENUES		
Property and other taxes	\$ 131,120,992	\$ -
State School Fund (See Note 15)	150,705,317	-
Local option taxes	16,263,204	-
County and intermediate sources	23,419,710	1,021,193
State Common School Fund	3,100,444	-
Sales	-	-
Federal and state support	-	53,932,428
Investment earnings	1,134,924	-
Extracurricular activities	-	-
Other	7,830,133	1,259,410
Total revenues	<u>333,574,724</u>	<u>56,213,031</u>
EXPENDITURES		
Current Operating:		
Instruction	205,323,920	38,392,786
Supporting services	129,855,161	16,185,600
Food services	-	330,366
Community services	-	1,304,279
Facilities acquisition & construction	-	-
Debt Service:		
Principal	515,661	-
Interest	759,648	-
Bond issue costs	4,314,271	-
Total expenditures	<u>340,768,661</u>	<u>56,213,031</u>
Excess of expenditures over revenues	<u>(7,193,937)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	-	-
Transfers out	(8,850,365)	-
PERS bond proceeds	490,933,461	-
PERS unfunded actuarial liability payment	(486,617,609)	-
Proceeds from the sale of property	995,922	-
Total other financing sources (uses)	<u>(3,538,591)</u>	<u>-</u>
Net change in fund balances	(10,732,528)	-
Fund balances (deficit) - beginning of year	(2,819,020)	-
Fund balances (deficit) - end of year	<u>\$ (13,551,548)</u>	<u>\$ -</u>

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

System Project Fund	Facilities Improvement/ Technology Fund	Facilities Improvement II Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 47,081,715	\$ 178,202,707
-	-	-	-	150,705,317
-	-	-	-	16,263,204
-	-	-	-	24,440,903
-	-	-	-	3,100,444
-	-	-	4,213,286	4,213,286
-	-	-	10,183,845	64,116,273
154,990	528,670	76,347	233,001	2,127,932
-	-	-	7,171,159	7,171,159
-	-	-	6,443,431	15,532,974
<u>154,990</u>	<u>528,670</u>	<u>76,347</u>	<u>75,326,437</u>	<u>465,874,199</u>
-	-	-	10,626,629	254,343,335
3,925,643	4,187,271	393,500	2,134,865	156,682,040
-	-	-	13,182,154	13,512,520
-	-	-	19,892	1,324,171
-	15,638,257	-	-	15,638,257
-	-	-	42,465,000	42,980,661
-	-	-	8,223,050	8,982,698
-	-	-	-	4,314,271
<u>3,925,643</u>	<u>19,825,528</u>	<u>393,500</u>	<u>76,651,590</u>	<u>497,777,953</u>
<u>(3,770,653)</u>	<u>(19,296,858)</u>	<u>(317,153)</u>	<u>(1,325,153)</u>	<u>(31,903,754)</u>
-	-	-	8,850,365	8,850,365
-	-	-	-	(8,850,365)
-	-	-	-	490,933,461
-	-	-	-	(486,617,609)
-	-	-	-	995,922
<u>-</u>	<u>-</u>	<u>-</u>	<u>8,850,365</u>	<u>5,311,774</u>
<u>(3,770,653)</u>	<u>(19,296,858)</u>	<u>(317,153)</u>	<u>7,525,212</u>	<u>(26,591,980)</u>
<u>5,606,418</u>	<u>35,338,299</u>	<u>5,668,527</u>	<u>6,332,290</u>	<u>50,126,514</u>
<u>\$ 1,835,765</u>	<u>\$ 16,041,441</u>	<u>\$ 5,351,374</u>	<u>\$ 13,857,502</u>	<u>\$ 23,534,534</u>

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2003

Net change in fund balances - total governmental funds (page 17) \$ (26,591,980)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report all capital outlays as expenditures. However, in the statement of activities the cost of certain assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays of \$18,770,688 exceeded depreciation in the current period of \$12,845,619 and a reclass of \$194,102. 5,730,967

Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This is the change in deferred revenue related to property taxes. (64,676)

An internal service fund is used to account for all costs incurred for claims arising from workers' compensation, general liabilities, and property and fire losses. The primary funding sources are charges to other funds. This amount is the net loss of that fund for the year. (1,322,922)

Revenues need to be reduced by the net book value of capital assets sold. This equates to the cost of assets sold. (756,684)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. (443,698,819)

Governmental funds reports the prepayment of the PERS unfunded actuarial liability as an other financing use. However, in the statement of activities the expense is the reduction of the prepaid asset. 486,617,609

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Change in compensated absences	975,563
Change in bond interest payable	(1,564,265)

Change in net assets of governmental activities (page 13) \$ 19,324,793

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

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Statement of Net Assets
Proprietary Fund
June 30, 2003

	Internal Service
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 1,449,956
Investments	4,824,000
Accounts and other receivables	140,768
Total assets	6,414,724
 LIABILITIES	
Current Liabilities	
Accounts payable and other current liabilities	717,272
Accrued salaries, wages and benefits payable	26,739
Claims payable	5,046,000
Total liabilities	5,790,011
 NET ASSETS	
Unrestricted	624,713
Total net assets	\$ 6,414,724

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

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended June 30, 2003

	Internal Service
REVENUES	
Current Operating:	
Charges for services	\$ 3,997,972
Insurance recoveries	385,825
Other	72,993
Total revenues	4,456,790
 EXPENSES	
Current Operating:	
Salaries and benefits	375,787
Materials and services	1,053,692
Claims expense	4,409,852
Total expenses	5,839,331
Operating Loss	(1,382,541)
 NON OPERATING REVENUES	
Investment earnings	59,619
Net loss	(1,322,922)
Net assets - beginning of year	1,947,635
Net assets - end of year	\$ 624,713

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

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2003

	Internal Service
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from quasi-external transactions with other funds	\$ 3,997,972
Cash received from insurance recoveries	246,895
Cash received from miscellaneous transactions	72,993
Cash payments for salaries and benefits	(403,526)
Cash payments for goods and services	(4,903,707)
Net cash used by operating activities	(989,373)
CASH FLOWS FROM INVESTING ACTIVITIES	
Sale of investments	1,885,000
Investment earnings	59,619
Net cash provided by investing activities	1,944,619
Net increase in cash and cash equivalents	955,246
Cash and cash equivalents at beginning of year	494,710
Cash and cash equivalents at end of year	\$ 1,449,956
RECONCILIATION OF OPERATING LOSS TO CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (1,382,541)
Adjustment to reconcile operating loss to net cash used by operating activities:	
Increase in accounts receivable	(138,930)
Increase in accounts payable	559,837
Decrease in accrued salaries, and wages and benefits payable	(27,739)
Total adjustments	393,168
Net cash used by operating activities	\$ (989,373)
Non cash activities: None	

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

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements

For the Year Ended June 30, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

School District No. 1, Multnomah County, Oregon, known as Portland Public Schools or the District, is governed by a seven-member elected board. The District is the special-purpose primary government exercising financial accountability for all public K-12 education within its boundaries. As required by generally accepted accounting principles, the accompanying financial statements present all significant activities and organizations of the District. The District reports no component units, entities for which the government is considered to be financially accountable, and is not a component unit of any other entity and specifically has no relationship or connection with Multnomah County.

The financial statements of the District 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 District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

A. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements.

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. Program revenues include 1) charges to customers who purchase or use goods, services, or privileges provided by a given function, 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and the Self-Insurance Fund, an internal service fund, even though the fund is excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

B. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary 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, the District considers revenues 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 are considered to be susceptible to accrual, if received in cash by the District 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. Measurable means the amount of the transaction can be determined and available means collectible within the current year or soon thereafter. The available period for the District is 60 days after year-end.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements
For the Year Ended June 30, 2003

The District reports the following major governmental funds:

General – Accounts for the general operations of the District. The General Fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund's resources are available to the District for any purpose provided they are expended or transferred according to a resolution of the District and/or the general laws of Oregon.

Grant – Accounts for revenues and expenditures of grants restricted for specific projects. Principal revenue sources are federal and state grants.

System Project - Accounts for the acquisition and installation of new multi-tiered computer systems, including hardware, peripherals, software, integration of business and instructional applications, related infrastructure and training. The System Project Fund also accounts for the acquisition and installation of furniture and equipment, repair and reconstruction of District facilities, construction and preparation of facilities for interactive distance learning, and related costs and improvements. Primary resources for the fund are bond proceeds in prior years and interest earnings.

Facilities Improvement/ Technology - Accounts for the acquisition and installation of desktop computers in classroom, installation of wiring and relocated infrastructure to support computers in classrooms, and for construction related to major renovations and building repairs to the District's facilities, including American with Disabilities Act and safety requirements. Primary resources for the fund are bond proceeds in prior years and interest earnings.

Facilities Improvement II - Accounts for the construction of a new elementary school, and for construction related to major renovations and priority building repairs of the District's facilities, including Americans with Disabilities Act and safety requirements. Primary resources for the fund are bond proceeds in prior years and interest earnings.

Additionally, the District reports the following proprietary internal service fund:

Self-Insurance – Accounts for all costs incurred for claims arising from workers' compensation, general liabilities, and property and fire losses. The primary resources for the fund are charges to other funds and investment earnings. The activity and balances of this fund are included in the governmental activities in the government-wide financial statements. All revenues except for investment revenue is considered operating revenue.

Furthermore, the District established a new fund called the PERS Rate Stabilization Reserve Fund:

PERS Rate Stabilization Reserve Fund – The combination of recent economic events, legislative actions, and circumstances at PERS has seemed to magnify PERS issues and concerns. Just within the 2002-03 year, for example, the PERS rate assessed on payroll was announced to change from 12.73% to 18.58% and then changed again to 11.11%. In addition, the District took certain actions to effect further reductions in the PERS rate. The PERS Rate Stabilization Reserve Fund accounts for amounts set aside by the Board to minimize the financial impact of such rate fluctuations in future years. The primary resources for the fund are transfers from the General Fund.

C. Appropriations and Budgetary Controls

The District prepares a budget for all funds in accordance with the modified accrual basis of accounting, with certain adjustments, and legal requirements set forth in Oregon Local Budget Law.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements

For the Year Ended June 30, 2003

Consistent with Oregon law, expenditures are appropriated by fund for each legally adopted annual operating budget at the following levels of control, as appropriate:

- Instruction
- Supporting Services
- Community Services
- Food Services
- Debt Service
- Operating Contingencies
- Fund Transfers

Capital outlay expenditures are appropriated within the instruction and supporting services levels of control. Debt service expenditures in the General Fund are appropriated within the supporting services level of control. For reporting purposes debt service expenditures of General Fund are segregated from the supporting services budgetary control levels and are presented in the debt service expenditures category. Capital outlay is not segregated.

After the original budget is adopted, the Board of Education may approve appropriation transfers between the levels of control without limitation. Supplemental appropriations may be approved by the Board of Education if any occurrence, condition, or need exists which had not been anticipated at the time the budget was adopted. An appropriations transfer, which alters estimated total expenditures by less than 10% of any individual fund, may be adopted at the regular meeting of the Board of Education. For conditions which require either supplemental appropriations or an increase in expenditures greater than 10% of an individual fund, a supplemental budget must be adopted, which requires public hearings, publications in newspapers and approval by the Board of Education. Supplemental budgets must be submitted, reviewed and certified, similar to the original budget, by the Multnomah County Tax Supervising and Conservation Commission subsequent to approval by the Board of Education. Appropriations lapse at the end of each fiscal year.

D. Encumbrances

During the year encumbrances are recorded in the accounting records when purchase orders are issued. The use of encumbrances indicates to District employees that appropriations are committed, however, all encumbrances expire at year-end.

E. 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, demand deposits and cash with county treasurer 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. Other investments are stated at amortized cost, which approximates fair value.

F. Property Taxes

Uncollected real and personal property taxes are reflected on the statement of net assets and the balance sheet as receivables.

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.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements
For the Year Ended June 30, 2003

G. 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 Cafeteria Fund are included in the District's inventories at USDA wholesale value. The District accounts for the inventory based on the consumption method. Under the consumption method inventory is recorded when purchased and expenditures/expenses are recorded when inventory items are used. 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 for reporting purposes. Prepaid assets are recognized as expenditures when their use benefits the District.

H. Capital Assets

Capital assets, which include land, buildings and site improvements, construction in progress, and vehicles and equipment, are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000, and an estimated useful life in excess of one year. Such assets are recorded at historical cost, or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are completed.

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

<u>Asset</u>	<u>Years</u>
Buildings	100
Site Improvements	5 to 25
Equipment	5 to 15

I. Grant Accounting

Unreimbursed expenditures due from grantor agencies are recorded in the financial statements as accounts receivable and revenues. Cash received from grantor agencies in excess of related grant expenditures is reflected as a deferred revenue liability on the statement of net assets and the balance sheet.

J. Self-insurance

The District operates the Self-Insurance Fund to account for the costs of workers' compensation claims, general liability claims, property and fire loss claims, and the payment of premiums. Charges to other funds by the Self-Insurance Fund are recognized as revenues in the Self-Insurance Fund and as expenditures in the fund incurring the charges.

The District recognizes the liabilities for estimated losses to be incurred from pending claims and for claims incurred but not reported (IBNR). IBNR claims are estimates of claims that are incurred through the end of the fiscal year but have not yet been reported. These liabilities are based on actuarial valuations.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements

For the Year Ended June 30, 2003

The District is self-insured for costs up to policy deductible limits as follows:

	Self-insured Retention	Coverage per Occurrence	Excess Coverage
General and Automobile Liabilities	\$1,000,000	\$ 1,000,000	\$4,000,000
Property and Fire Liabilities	1,000,000	100,000,000	
Earthquake and Flood Liabilities		10,000,000	
Workers' Compensation Liabilities	1,000,000		1,000,000

The District has not exceeded the claims limitation on its insurance policies for the last five years.

K. Compensated Absences

Classified and hourly employees earn annual vacation leave at a rate of 10 days for one to five years of service and one additional day for each additional year of service up to a maximum of 22 days per year. Administrators earn 22 days of annual vacation leave. Employees are allowed to carry over their maximum yearly earned balances from one fiscal year to another. All outstanding vacation leave is payable upon resignation, retirement, or death.

Vested compensated absences, which include accrued vacation and salary related payments, are accrued in the Self-Insurance Fund as they are earned by employees. In governmental fund types, the amounts expected to be liquidated with expendable available financial resources are accrued in the fund. The amount payable is recorded in the statement of net assets.

Sick leave hours accumulate at the rate of eight hours per month without a limit on the total hours that can be accumulated. Accumulated sick leave does not vest and is forfeited at resignation, retirement or death. Sick leave is recorded as an expenditure/expense when leave is taken and no liability is recorded.

L. Receivables and Payables

Receivables expected to be collected within sixty days following year-end are considered measurable and available and are recognized as revenues in the fund financial statements. Other receivables, except grants, are offset by deferred revenues and, accordingly, have not been recorded as revenue. Receivables, net of any allowance for doubtful accounts, are recorded as assets for the statement of net assets.

Activity between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" in the fund financial statements, and is eliminated in the government-wide statements.

M. Long-term Obligations

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

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

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements

For the Year Ended June 30, 2003

N. Retirement Plans

Most of the District employees participate in Oregon Public Employees Retirement System (PERS). PERS requires plan contributions on a current basis. Contributions are recorded as expenditures in individual funds.

In addition, certificated employees with fifteen consecutive years of service with the District and who have attained age 55 or 30 years of service with the District are eligible for early retirement benefits. All employees with a minimum of fifteen consecutive years of service who are age 55 or older upon retirement are eligible for health and welfare benefits.

NOTE 2- BUDGETARY BASIS OF ACCOUNTING

While the District reports financial position, results of operations, and changes in fund balance/net assets/retained earnings on the basis of generally accepted accounting principles (GAAP), the District's budgetary basis of accounting differs from generally accepted accounting principles. The budgetary statements provided as part of supplementary information are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The primary difference between the District's budgetary basis and GAAP basis is that certain State School Fund revenue received in July 2003 is recorded as revenue and a receivable at June 30, 2003, as allowed under SB 1022 for budgetary purposes, but which do not meet the criteria for accrual on a GAAP basis. See Note 16.

NOTE 3 – RECLASSIFICATION OF APPROPRIATION

As more fully described in Note 10, during the year the District funded a portion of its unfunded actuarial liability (UAL) to the Oregon Public Employee Retirement System (PERS), by selling two series of limited tax pension bonds. The District enacted supplemental budgets to allow the payment of the net proceeds of the debt (\$490,933,461) to PERS. As a part of those supplemental budgets, the payments to PERS were appropriated as if they were pension payments and included as operational expenditures. However, management believes that it is more appropriate, as well as prevents misleading implications, to categorize those payments as other financing uses, similar to the treatment that would be appropriate for the repayment of refunded debt obligations. Accordingly, the appropriation for the payment to PERS of \$501,394,936, as well as the payments themselves, have been reclassified as other financing uses in the District's budgetary accounts.

NOTE 4 - STATE CONSTITUTIONAL PROPERTY TAX LIMITS

The State of Oregon has a constitutional limit on property taxes for schools and non-school government operations. Under the provisions of the limitation, tax revenues are separated into those for the public school system and those for local government operations other than the public school system. Property taxes levied for the payment of bonded indebtedness are exempt from the limitation, provided such bonds are either authorized by a specific provision of the Oregon Constitution or approved by the voters of the District for capital construction or improvements.

During May 1997, Oregon voters approved Measure 50 which limits taxes on each property by reducing the "assessed value" of each unit of property for the tax year 1998-99 to its 1995-96 value, less ten percent. Then, a "permanent tax rate", representing the product of dividing the tax levy by the assessed value, was calculated. The new tax rates are the permanent constitutional rate limit for each jurisdiction and are used to calculate future maximum tax rates. As a result of the establishment of permanent tax rates, the pre-existing levy-based tax system has effectively been replaced by a rate-based tax system.

The District's permanent tax rate for the year ended June 30, 2003 was \$4.7743 per \$1,000 of assessed value.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements

For the Year Ended June 30, 2003

NOTE 5 – DEPOSITS AND INVESTMENTS

A. Deposits

Deposits with financial institutions include bank demand deposits, deposits in the local government investment pool, time certificates of deposits, and savings account deposits as authorized by Oregon statutes. At June 30, 2003, the carrying amount of the District's deposits was \$34,804,301 and the statement balance was \$33,100,244. Of the statement balance, \$100,000 was covered by federal depository insurance, certificates of collateral were available up to \$13,000,000, and \$29,696,803 was on deposit in the local government investment pool and was exempt from collateralization. Oregon Revised Statutes require governmental funds in banks to be either protected by federal depository insurance or the financial institution is required to maintain on deposit with collateral pool manager securities having a value of not less than 25% of the face value of the certificate issued by the pool manager. When such securities are deposited, covered funds are considered fully collateralized under Oregon law. The collateral is held by a state-sponsored pool manager which is a commercial bank in the name of the pool manager, with the collateral certificate issued by the pool manager in the name of the District.

B. Investments

Oregon Revised Statutes authorize school districts to invest in obligations of the U.S. Treasury, agencies and instrumentalities of the United States, commercial paper, bankers' acceptances guaranteed by a qualified financial institution, repurchase agreements, interest bearing bonds of any city, county, port or school district in Oregon (subject to specific standards), and the Oregon State Local Government Investment Pool, among others. The Board of Education has adopted an investment policy for the District, which complies with state statutes.

In accordance with Governmental Accounting Standards Board (GASB) Statement No.31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments with a remaining maturity of more than one year at the time of purchase are stated at fair value at June 30, 2003. Fair value is determined at the quoted market price, if available, otherwise the fair value is estimated based on the amount at which the investment could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale. Investments in the State of Oregon Local Government Investment Pool (LGIP) are stated at share value, which approximates fair value.

The LGIP is administered by the Oregon State Treasury. The LGIP is an open-ended no-load diversified portfolio offered to any agency, political subdivision or public corporation of the state who by law is made the custodian of, or has control of, any fund. The LGIP is commingled with the State's short-term funds. In seeking to best serve local governments of Oregon, the Oregon Legislature established the Oregon Short-Term Fund Board. The purpose of the Board is to advise the Oregon State Treasury in the management and investment of the LGIP.

At June 30, 2003, the LGIP did not report all investments at fair value in accordance with the provisions of GASB Statement No. 31. The LGIP is required by Oregon Revised Statutes (ORS) to compute the fair value of all investments maturing more than 270 days from the date the computation is made. If the fair value totals more than one percent of the balance of the LGIP in terms of unrealized gain or loss, the amount is required to be distributed to the pool participants. Fifty percent of the LGIP portfolio must mature within 93 days. Up to 25% of the LGIP portfolio may mature in over one year and no investment may mature in over three years. At June 30, 2003, the District's share of the amount of unrealized gain reported by the LGIP, in accordance with ORS, was considered immaterial.

The District's investments at June 30, 2003 are categorized below to give an indication of the level of custodial credit risk assumed by the District. Category 1 includes investments that are insured or registered for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the trust department of the bank that acquired the security for the District in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the bank selling the security to the District.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements

For the Year Ended June 30, 2003

The District requires all securities, except for overnight investments used in conjunction with the District's demand deposit account, to be purchased in the District's name and held in third party safekeeping. During the year, the District invested in overnight commercial paper for which the underlying securities were held by the dealer.

	Category 1	Carrying Value
U.S government agency securities	\$32,776,064	\$32,776,064
Local Government Investment Pool		29,696,803
Cash with county Treasurer		1,630,707
Demand accounts		5,103,038
Petty cash		4,460
Total cash, cash equivalents and investments		\$69,211,072
Balance sheet classification:		
Cash and cash equivalents		
Governmental funds		\$ 30,374,616
Proprietary fund		1,449,956
Total cash and cash equivalents		31,824,572
Cash in segregated accounts		
Governmental funds		2,979,729
Cash and cash equivalents held by fiscal agents		
Governmental funds		1,630,707
Investments		
Governmental funds		27,952,064
Proprietary fund		4,824,000
Total Investments		32,776,064
Total cash, cash equivalents and investments		\$ 69,211,072

NOTE 6 – RECEIVABLES

Receivables as of year-end are summarized as follows:

	General	Special Revenue	Debt Service	Capital Projects	Internal Service	Total
Receivables:						
Taxes	\$ 8,741,769	\$ -	\$ 2,655,200	\$ -	\$ -	\$ 11,396,969
Interest	67	-	-	10,059	140,768	150,894
Accounts	5,641,640	1,458,988	-	9,145	-	7,109,773
Federal, state and local grants	-	9,080,369	-	-	-	9,080,369
Advances to employees	64,487	-	-	-	-	64,487
Accounts and other receivables	5,706,194	10,539,357	-	19,204	140,768	16,405,523
Total Receivables	\$ 14,447,963	\$ 10,539,357	\$ 2,655,200	\$ 19,204	\$ 140,768	\$ 27,802,492

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 7 – CAPITAL ASSETS AND DEPRECIATION

A summary of changes in capital assets for the year ended June 30, 2003, follows:

Description	Balance June 30, 2002	Additions	Reclassifications and Deletions	Balance June 30, 2003
Land (non-depreciable)	\$ 9,049,378	\$ -	\$ -	\$ 9,049,378
Buildings and site improvements	279,889,561	2,971,740	12,750,575	295,611,876
Vehicles and equipment	23,387,103	1,034,277	(157,849)	24,263,531
Construction in progress	13,932,412	14,764,671	(13,932,412)	14,764,671
Total General Fixed Assets	326,258,454	18,770,688	(1,339,686)	343,689,456
Accumulated depreciation:				
Buildings and site improvements	(95,534,139)	(10,444,581)	249,875	(105,728,845)
Vehicles and equipment	(7,082,107)	(2,401,038)	139,025	(9,344,120)
Total accumulated depreciation	(102,616,246)	(12,845,619)	388,900	(115,072,965)
Total governmental assets	\$ 223,642,208	\$ 5,925,069	\$ (950,786)	\$ 228,616,491

Depreciation expense for governmental activities is charged to functions as follows:

Instruction	\$ 9,933,412
Supporting services	2,898,180
Food services	14,027
	<u>\$ 12,845,619</u>

NOTE 8 – INTERFUND BALANCES

The interfund balances are in place to eliminate a temporary negative cash position in the Grant Fund and to invest a portion of the fund balance of the Student Body Activities Fund monies in a higher yielding investments held by the General Fund.

The composition of interfund balances as of June 30, 2003, is as follows:

	Due From	Due To
General Fund	<u>\$ 461,818</u>	<u>\$ 400,000</u>
Special revenue funds:		
Student Body Activities Fund	400,000	-
Grant Fund	-	461,818
Total special revenue funds	<u>400,000</u>	<u>461,818</u>
Total all funds	<u><u>\$ 861,818</u></u>	<u><u>\$ 861,818</u></u>

NOTE 9 – SHORT TERM DEBT

During the year, the District borrowed and repaid \$45,000,000 of tax anticipation notes at a rate of 1.93% to offset untimely cash flows.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 10 - BONDED AND OTHER LONG-TERM DEBT

Changes in long-term debt of the District during fiscal year 2003 were as follows:

	Principal Balance July 1, 2002	Additions	Repayments	Principal Balance June 30, 2003
General Obligation Bonds				
General Obligation Bonds, Series 1995	\$ 15,000,000	\$ -	\$ (15,000,000)	\$ -
General Obligation Bonds, Series 1996	77,175,000	-	(11,800,000)	65,375,000
Subtotal	<u>92,175,000</u>	<u>-</u>	<u>(26,800,000)</u>	<u>65,375,000</u>
Limited Tax General Obligation Refunding Bonds, Series 1998	32,670,000	-	(10,470,000)	22,200,000
Limited Tax General Obligation Refunding Bonds, Series 2002	-	210,103,857	-	210,103,857
Limited Tax General Obligation Refunding Bonds, Series 2003	-	281,170,040	-	281,170,040
Certificates of Participation (COP) COP, 1999	32,060,000	-	(4,045,000)	28,015,000
Refunding Special Obligations, 1993 Series A	6,310,000	-	(1,150,000)	5,160,000
Small Scale Energy Loan Programs	6,710,241	-	(515,661)	6,194,580
Total General Long-term Obligations	<u>\$ 169,925,241</u>	<u>\$ 491,273,897</u>	<u>\$ (42,980,661)</u>	<u>\$ 618,218,477</u>

In 1995, voters approved for the issuance of \$196,700,000 of general obligation bonds. The District issued \$100,000,000 general obligation bonds in December 1995. The bonds are payable annually through June 2003. Interest is payable semi-annually at rates ranging from 4.25% to 4.50%. The District issued the remaining \$96,700,000 bonds in September 1996. The bonds are payable annually beginning June 1, 1999 through June 1, 2005. Interest is payable semi-annually at rates ranging from 4.25% to 5.50%. The bonds are not subject to redemption prior to their stated maturities.

The 1987 series refunding bonds were called and redeemed in 1998, with the proceeds of the Limited Tax General Obligation Refunding Bonds, Series 1998. The 1998 series refunding bonds are payable annually through June 15, 2005. Interest is payable semi-annually at rates ranging from 5.27% to 5.75%. The bonds are federally taxable and are not subject to redemption prior to their stated maturities.

In October 2002 Portland Public Schools participated as one of forty-one Oregon school districts and education service districts in issuing limited tax pension bonds, the proceeds of which were used to finance a portion of the estimated unfunded actuarial liability of each participating school district with the Oregon Public Employees Retirement System ("PERS"). The Oregon School Boards Association ("OSBA") sponsored this pooled limited tax pension bond program. OSBA does not have a financial obligation in connection with the bonds issued under the program. Except for the payment of its pension bond payments and additional charges when due, each participating school district has no obligation or liability to any other participating school district's pension bonds or liabilities to PERS. In April 2003 OSBA sponsored another pooled limited tax pension bond program with thirty school districts and education service districts. The District records the amounts deposited with PERS as a prepayment on its actuarial obligation, and accounts for the payment of principal, interest and the amortization of the prepayment as pension expense over the life of the bonds. The District anticipates that the total costs of financing the District's actuarial obligation in this way will result in a significant savings to the District when compared to paying for such costs in additional contribution rates to PERS.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements

For the Year Ended June 30, 2003

The District issued \$210,103,857 Limited Tax Pension Obligations, Series 2002 (Federally Taxable), of which \$53,523,857 are Series 2002A (deferred interest obligations) and \$156,580,000 are Series 2002B (current interest obligations). The 2002 series Limited Tax Pensions Obligations were issued on October 31, 2002, and are payable annually through June 2028. Interest on the deferred interest bonds is accreted semiannually at yields ranging from 2.06% to 6.10%. Interest on the current coupon bonds is payable semiannually at rates ranging from 5.48% to 5.55%. The Series 2002B Obligations is subject to mandatory prepayment, which is included in the maturity schedule presented below. The bonds are federally taxable and, except for the 2021 maturity, are not subject to optional prepayment prior to their stated maturities. The 2021 maturity is subject to optional prepayment on and after June 30, 2007 at par.

The District issued \$281,170,040 Limited Tax Pension Obligations, Series 2003 (Federally Taxable), of which \$124,800,040 are Series 2003A (deferred interest obligations) and \$156,370,000 are Series 2003B (current interest obligations). The Series 2003 Limited Tax Pensions Obligations were issued on April 30, 2003, and are payable annually through June 2028. Interest on the deferred interest bonds is accreted semiannually at yields ranging from 1.50% to 6.27%. Interest on the current coupon bonds is payable semiannually at rates ranging from 5.63% to 5.68%. The bonds are federally taxable and are not subject to optional prepayment prior to their stated maturities.

The 1999 series Certificates of Participation (COP) were issued in 1999 and are payable annually through June 2009. Interest is payable semi-annually at rates ranging from 3.29% to 5.25%. The certificates of participation are not subject to redemption prior to their stated maturities.

The 1993 Series A refunding special obligations are payable annually through March 2007. Interest is payable semi-annually at rates ranging from 3.75% to 5.10%. Obligations maturing in years through 2003 are not subject to redemption prior to maturity. Obligations maturing on or after March 1, 2004 are subject to redemption in whole or in part at the option of the District on or after March 1, 2003. The obligations are also subject to redemption by lot within a maturity at the option of the District on or after March 1, 2003 on any interest date at a price of par plus accrued interest to the date of redemption.

The District borrowed from the Oregon Department of Energy Small Scale Energy Loan Program (SELP) in several increments beginning in 1993 at various interest rates. The obligations are payable monthly by the General Fund. The payment amounts are based on anticipated savings related to retrofitting and other energy conservation measures implemented with the proceeds of the loans. Such loans are not collateralized. (See note 11.)

In prior fiscal years, the District defeased general obligation and certain advance refunding bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trusts' assets and the liabilities for the defeased bonds are not included in the District's general purpose financial statements. At June 30, 2003, \$24,938,769 of bonds outstanding is considered defeased.

In 2000, the District sold Qualified Zone Academy Bonds, Series 2000, with a face amount of \$6,052,477, and net proceeds of \$5,922,379 (after payment of an immaterial amount of underwriting and other issuance costs). Simultaneous to this transaction, the District purchased U.S. Treasury "Strip" obligations which will mature in thirteen years in the amount of \$6,052,477 with a cost of \$2,759,464, and placed these investments in an irrevocable trust with an escrow agent to provide for all future debt service payments. As a result, the Qualified Zone Academy Bonds, Series 2000, are considered to be defeased and the liability for those bonds is not included in the financial statements.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements

For the Year Ended June 30, 2003

The following is a summary of the future annual debt service requirements for long-term obligations.

Fiscal Year	General Obligation	Limited Tax	Certificates of Participation	Refunding Special Obligations	SELP Loans	Totals
Principal:						
2004	\$ 30,700,000	\$ 11,421,022	\$ 4,205,000	\$ 1,200,000	\$ 552,243	\$ 48,078,265
2005	34,675,000	12,367,418	4,375,000	1,255,000	591,819	53,264,237
2006	-	6,452,674	4,555,000	1,320,000	634,050	12,961,724
2007	-	6,817,111	4,750,000	1,385,000	679,314	13,631,425
2008	-	8,252,172	4,955,000	-	727,703	13,934,875
2009-2013	-	49,530,057	5,175,000	-	3,009,451	57,714,508
2014-2018	-	58,861,357	-	-	-	58,861,357
2019-2023	-	94,667,086	-	-	-	94,667,086
2024-2028	-	265,105,000	-	-	-	265,105,000
Total	65,375,000	513,473,897	28,015,000	5,160,000	6,194,580	618,218,477
Interest:						
2004	3,442,125	18,813,364	1,239,683	253,200	408,141	24,156,513
2005	1,907,125	18,252,093	1,071,483	198,000	368,565	21,797,266
2006	-	18,155,649	889,920	135,250	326,334	19,507,153
2007	-	18,591,212	696,333	69,250	281,070	19,637,865
2008	-	19,351,151	489,708	-	232,681	20,073,540
2009-2013	-	112,506,553	271,688	-	427,546	113,205,787
2014-2018	-	154,265,257	-	-	-	154,265,257
2019-2023	-	177,609,955	-	-	-	177,609,955
2024-2028	-	36,291,337	-	-	-	36,291,337
Interest Total	5,349,250	573,836,571	4,658,815	655,700	2,044,337	586,544,673
Total Debt Service	\$ 70,724,250	\$ 1,087,310,468	\$ 32,673,815	\$ 5,815,700	\$ 8,238,917	\$ 1,204,763,150

NOTE 11 – UNUSED LINE OF CREDIT

The District maintains a \$20 million line of credit with the Oregon Department of Energy Small Scale Energy Loan Program to finance energy retrofits in District buildings. Funds, which are drawn on the line of credit at the time that related retrofit costs are incurred, are recorded as proceeds of borrowing in a special revenue fund and are repayable from future energy cost savings. The unused line as of June 30, 2003 was approximately \$11.6 million.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. Public Employees Retirement System (PERS)

Plan Description. The District contributes 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 healthcare benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS is administered under Oregon Revised Statute Chapter 238, which 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. The report may be obtained by writing to PERS, PO Box 23700, Tigard, OR, 97281-3700 or by calling 503-598-7377.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements

For the Year Ended June 30, 2003

Funding Policy. Members of PERS are required to contribute 6.00% of their salary covered under the plan. The District is required by ORS 238.225 to contribute at an actuarially determined rate. The rates in effect for the year ended June 30, 2003 ranged from 8.00% to 12.73%. The contribution requirements for plan members are established by ORS Chapter 238 and may be amended by an act of the Oregon Legislature. The District's contributions to PERS for the years ending December 31, 2000, 2001, and 2002 were \$29,244,553, \$32,449,905 and \$29,155,710 respectively, which equaled the required contribution for the year. During 2002-03, the District issued limited tax pension bonds, the proceeds of which were used to finance a portion of its estimated unfunded actuarial liability. (See Note 10)

B. Early Retirement Benefits

Plan Description. The District provides a single-employer defined benefit early retirement program for its certificated employees, which was established under separate collective bargaining agreements with certificated employees. Certificated employees who are at least 55 years of age with 15 consecutive years of service with the District or at any age with 30 years of service and who retire before age 62 are eligible for the early retirement benefits. Eligible employees are entitled to a monthly benefit of \$425 to \$475 commencing on the first month after the retirement. Benefits are payable up to the earlier of attaining age 62 or receiving 60 monthly payments. All financial information relating to the early retirement benefits is reported in the General Fund. The District does not issue a stand-alone financial report.

Funding Policy. The District pays for the benefits without any cost to employees. The contributions are financed on a pay-as-you-go basis. Therefore, the District is not required to fund the program in advance. During fiscal year 2003 the General Fund incurred expenditures of \$2,972,147 for early retirement benefits.

C. Tax Deferred Annuities

The District provides tax-deferred annuity contracts established under Section 403(b) of the Internal Revenue Code.

Participation in the program is voluntary. Contributions are made from salary deductions from participating employees within the limits specified in the Code.

NOTE 13 - OTHER POST-EMPLOYMENT BENEFITS

Plan Description. The District provides a post retirement health and welfare benefits program for employees who have retired from the District with a minimum of fifteen consecutive years of service or with completion of 30 years of service. Covered employees under the plan are eligible to receive District-paid benefits for up to 60 months or until reaching the age 65, whichever comes first. The District also pays for one-half of the dependent benefit costs during the benefit period. The program was established under separate collective bargaining agreements with certificated and classified employees and by precedent for all other District employees.

Funding Policy. The District pays for the benefits without any cost to employees. The contributions are financed on a pay-as-you-go basis. Therefore, the District is not required to fund the program in advance. During fiscal year 2003 the General Fund recognized expenditures of \$2,152,062 for the post-employment healthcare benefits.

NOTE 14 - RISK MANAGEMENT

The Self-Insurance Fund charges other funds for the costs incurred for workers' compensation claims, general liability claims, and property and fire loss claims. Charges to other funds by the Self-Insurance Fund are recognized as revenues in the Self-Insurance Fund and as expenditures/expenses in the fund incurring the charges.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements

For the Year Ended June 30, 2003

The Self-Insurance Fund recognized the following amounts of revenues from other funds for the year ended June 30, 2003.

General Fund	\$ 3,330,212
Cafeteria Fund	80,645
Grant Fund	514,630
Special Revenue Funds	52,288
BESC Cafeteria Fund	3,184
System Project Fund	9,933
Facilities Improvement/Technology Fund	7,080
Total	<u><u>\$ 3,997,972</u></u>

Changes in the balances of claims liabilities during the years ended June 30, 1999 through June 30, 2003 were as follows:

<u>Year</u>	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
1999	\$ 5,271,833	\$ 3,385,797	\$ 3,385,795	\$ 5,271,835
2000	5,271,835	3,805,405	3,384,240	5,693,000
2001	5,693,000	3,231,164	3,231,164	5,693,000
2002	5,693,000	3,617,617	4,264,617	5,046,000
2003	5,046,000	4,020,205	4,020,205	5,046,000

NOTE 15 – CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

The District has commitments for several capital construction projects to enhance and repair the District's educational facilities. Such commitments will be paid from existing capital projects funds. The outstanding commitments for these projects at June 30, 2003 total \$8,392,771. In addition, the District has a contract for custodial services extending through July 14, 2004 that will require a minimum payment of \$9,712,586 after June 30, 2003.

Additionally, the District entered into a five year contract to provide duplication services to various District facilities which will require minimum payments of \$857,704, \$1,279,087, \$1,279,087, \$1,279,087 and \$1,279,087 in the years ending June 30, 2004, 2005, 2006, 2007 and 2008, respectively.

NOTE 16 - REVENUE VOLATILITY

State Revenue Adjustments

In a special session in June 2002, the Oregon Legislature, in response to unprecedented shortfall of state revenues, passed Senate Bill 1022, which provided modifications to the funding of state schools. This bill was modified and clarified by House Bill 2650 in the 2003 regular session of the Legislature. The changes effected by these bills that most significantly impact the District are:

- Decreasing the amount of state school funding.
- Allowing districts to accrue up to a maximum of \$309 per weighted average daily membership (ADMw) from the 2003-04 fiscal year appropriation to the 2002-03 fiscal year. This amount was capped at \$18,471,450 for the District.
- Providing a formula for future revenues allowed to be accrued to the previous year's revenues.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements

For the Year Ended June 30, 2003

The authority for this accrual continues unless it is amended by the Legislature.

Under the District's budgetary basis of accounting, as authorized by the above-mentioned state laws, the District accrued \$17,100,000 of State School Fund support that was recorded as both a revenue and a receivable. Generally accepted accounting principles do not allow such an accrual. Accordingly, the government-wide and the fund financial statements, included in the basic financial statements, do not include this accrual.

District Responses to Funding Issues

The enactment of Senate Bill 1022 indicates that the State intended to avoid significant service reductions caused by funding reductions. Despite this legislation, the District faced such drastic revenue shortfalls during the 2003-03 fiscal year that in February 2003 the District announced a 24-day furlough for all District personnel, which would have brought operational costs more in line with resources. The prospect of such disruptions on the educational process caused District leadership, teachers, employees, political and community stakeholders to respond with significant changes in both resources and costs for the year. Specifically the non-represented employees and members of the SEIU Local 140 accepted a redesign of healthcare benefits with a premium cap of \$600 per month. The members of the Portland Association of Teachers agreed to a 5.263% retroactive salary reduction, which was the equivalent of ten days of salary in the year. Additionally, the City of Portland increased its Business License Fees and provided the District with \$14,000,000 in cash during the year.

Note 17 – COMPONENT UNITS AND OTHER ACTIVITIES

The District sponsors three charter schools under the provisions of the Oregon Revised Statutes. The students attending these charter schools are primarily District students. The District is required by ORS 338.155 and the charters with the schools to provide approximately 95% of the general purpose grant per ADMw, as calculated by ODE, to the charter schools for each student enrolled in them. Under the requirements of the Governmental Accounting Standards Board (GASB), such schools are component units of the District. These charter schools are not included as component units of the District, because they are individually and collectively immaterial to the District's financial statements. The pass-through of the State School Fund revenue provided to these charter schools is included in the expenditures of the District. Financial information on the charter schools can be obtained by contacting the Office of Educational Options at Portland Public Schools.

Health and welfare benefits for District employees who are members of the Portland Association of Teachers (PAT), the Portland Federation of Teachers and Classified Employees (PFTCE), and the District Council of Unions (DCU) are provided by the School District No. 1 Health and Welfare Trust (the "Trust"). The Trust was established by collective bargaining agreements. The governing Board of Trustees is composed of trustees appointed by management of the District and of each bargaining unit, respectively, such that management-designated Trustees and union-designated Trustees have an equal number of votes. The Trust does not meet the criteria of GASB Statement No. 14 or 39 for inclusion in the financial statements as a component unit.

The Portland Schools Foundation is an independent, non-profit organization dedicated to providing leadership and funding for excellence, innovation and equity in education for children attending Portland Public Schools; engaging students, teachers, parents and the community in support of quality public education; and advocating for resources, policies and legislation to improve public schools in Portland. The Portland Schools Foundation does not meet the criteria of GASB Statements No. 14 or 39 for inclusion in the financial statements as a component unit.

NOTE 18 – SUBSEQUENT EVENTS

- On October 28, 2003, the District entered into a Note Facility Agreement with U.S. Bank National Association relating to the District's \$45,000,000 Tax and Revenue Anticipation Line of Credit Note, Series 2003. The District drew \$8,000,000 on October 31, 2003 and \$10,000,000 on November 3, 2003. Outstanding amounts accrue interest at the rate of 45% of prime and are due July 31, 2004. Prepayment is allowed without penalty.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements For the Year Ended June 30, 2003

- The most recent legislative session passed several bills to effect significant PERS reform. HB 2003 eliminates the 6% member contribution, eliminates the guaranteed assumed earnings rates to Tier One accounts, and suspends cost-of-living increases for members retiring between 4/1/2000 and 4/1/2004. HB 2004 requires PERS to adopt mortality tables every two years. HB 2020 establishes the Oregon Public Service Retirement Plan for persons hired on or after August 29, 2003, who have no prior PERS membership. HB 3020 makes numerous technical corrections to PERS statutes to effect the 2003 legislative changes.

Based on these new laws, PERS reduced the previously announced 18.58% rate for school districts down to 11.11%. Based on the District's payment of the PERS unfunded actuarial liability, the rate charged the District for 2003-05 is further reduced to 0.64%. The legality of these changes is currently under review by the Oregon Supreme Court, as provided by HB 2409. If some or all of these new laws are overturned by the Court, the District could be exposed to substantial financial impact. To mitigate, although not alleviate, this exposure, the Board adopted a resolution to amend the 2003-04 adopted budget on October 27, 2003, to allocate \$8 million from the General Fund to the PERS Rate Stabilization Reserve Fund.

- On November 6, 2003, the Board ratified a new contract with the Portland Association of Teachers ("PAT") for its substitute teachers for the 2003-2005 school years. The new contract is substantially a rollover of the previous contract. The District's classified employees represented by the Portland Federation of Teachers and Classified Employees ("PFTCE") have been working without a contract, but under the terms of the previous contract, since June 30, 2003. Negotiations are ongoing and both parties are hopeful that negotiations will be successful. The outcome of these negotiations may significantly impact District operations.

- HB 5077 appropriates \$5.2 billion in state resources to the Department of Education for the 2003-05 biennium K-12 State School Fund ("SSF") for all Oregon public schools. An additional \$100 million may be allocated in 2004-05 if certain state revenue targets are met. The bill reduces the 2004-05 SSF appropriation by \$285 million, if the graduated income tax assessment component of the legislature's revenue package (HB 2152) is referred by petition to voters and rejected. It reduces the 2004-05 appropriation by \$414 million, if the entire revenue package is referred and rejected. HB 2825 sets a special election for February 3, 2004, if HB 2152, or any part thereof, is referred to voters by petition. The potential impact on the District's revenues for 2004-05 is expected to be partially or fully offset by the Multnomah County Income Tax (Measure 26-48 passed by the voters in Multnomah County on May 20, 2003), which assesses a 1.25% income tax rate on taxable personal income for 2003, 2004, and 2005.

REQUIRED SUPPLEMENTARY INFORMATION

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual (Non-GAAP Basis)
For the year ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property and other taxes	\$ 132,050,969	\$ 132,050,969	\$ 131,120,992	\$ (929,977)
State School Fund (See Note 16)	189,835,000	189,835,000	167,805,317	(22,029,683)
Local option taxes	17,020,459	17,020,459	16,263,204	(757,255)
County and intermediate sources	15,262,778	15,262,778	23,419,710	8,156,932
State Common School Fund	1,454,844	1,454,844	3,100,444	1,645,600
Investment earnings	1,728,929	1,728,929	1,134,924	(594,005)
Other	2,772,000	2,772,000	7,830,133	5,058,133
Total revenues	<u>360,124,979</u>	<u>360,124,979</u>	<u>350,674,724</u>	<u>(9,450,255)</u>
EXPENDITURES				
Current operating:				
Instruction:				
Regular programs:				
Salaries and benefits	145,074,664	149,810,528	145,774,041	4,036,487
Materials and services	4,509,504	4,952,885	4,029,245	923,640
Total regular programs	<u>149,584,168</u>	<u>154,763,413</u>	<u>149,803,286</u>	<u>4,960,127</u>
Special programs:				
Salaries and benefits	44,914,127	44,946,158	45,051,534	(105,376)
Materials and services	12,450,300	12,369,024	10,469,100	1,899,924
Total special programs	<u>57,364,427</u>	<u>57,315,182</u>	<u>55,520,634</u>	<u>1,794,548</u>
Total instruction	<u>206,948,595</u>	<u>212,078,595</u>	<u>205,323,920</u>	<u>6,754,675</u>
Supporting services:				
Students:				
Salaries and benefits	27,457,946	26,924,947	27,313,506	(388,559)
Materials and services	2,660,386	2,643,396	853,864	1,789,532
Total students	<u>30,118,332</u>	<u>29,568,343</u>	<u>28,167,370</u>	<u>1,400,973</u>
Instructional staff:				
Salaries and benefits	9,852,136	9,769,176	9,234,177	534,999
Materials and services	3,207,770	2,753,863	1,871,401	882,462
Total instructional staff	<u>13,059,906</u>	<u>12,523,039</u>	<u>11,105,578</u>	<u>1,417,461</u>
General administration:				
Salaries and benefits	2,118,991	2,118,991	1,614,771	504,220
Materials and services	1,292,939	1,284,339	1,078,714	205,625
Total general administration	<u>3,411,930</u>	<u>3,403,330</u>	<u>2,693,485</u>	<u>709,845</u>
School administration:				
Salaries and benefits	26,005,830	25,780,301	25,813,032	(32,731)
Materials and services	565,183	559,636	287,071	272,565
Total school administration	<u>26,571,013</u>	<u>26,339,937</u>	<u>26,100,103</u>	<u>239,834</u>

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
General Fund (Continued)
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual (Non-GAAP Basis)
For the year ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Supporting services (continued):				
Business:				
Salaries and benefits	21,318,670	22,592,658	17,509,874	5,082,784
Materials and services	33,148,064	32,453,565	33,948,750	(1,495,185)
Total business	54,466,734	55,046,223	51,458,624	3,587,599
Central:				
Salaries and benefits	9,232,056	6,635,938	8,166,500	(1,530,562)
Materials and services	2,520,768	2,522,993	2,163,501	359,492
Total central	11,752,824	9,158,931	10,330,001	(1,171,070)
Total supporting services	139,380,739	136,039,803	129,855,161	6,184,642
Other expenditures:				
Debt Service				
Principal	-	516,000	515,661	339
Interest	1,724,674	1,724,674	759,648	965,026
Bond Issuance Costs	-	4,500,000	4,314,271	185,729
Total debt service	1,724,674	6,740,674	5,589,580	1,151,094
Total current expenditures	348,054,008	354,859,072	340,768,661	14,090,411
Operating contingency	4,955,357	4,955,357	-	4,955,357
Total expenditures	353,009,365	359,814,429	340,768,661	19,045,768
Excess of revenues over expenditures	7,115,614	310,550	9,906,063	9,595,513
OTHER FINANCING SOURCES (USES)				
Transfers out	(7,115,614)	(8,915,614)	(8,850,365)	65,249
PERS bond proceeds	-	510,000,000	490,933,461	(19,066,539)
PERS unfunded actuarial liability payment	-	(501,394,936)	(486,617,609)	14,777,327
Sale of property	-	-	995,922	995,922
Total other financing sources and (uses)	(7,115,614)	(310,550)	(3,538,591)	(3,228,041)
Net change in fund balance	-	-	6,367,472	6,367,472
Fund balance (deficit) - beginning of year	-	-	(2,819,020)	(2,819,020)
Fund balance - end of year	\$ -	\$ -	3,548,452	\$ 3,548,452
Less State School Fund accrual (See Note 16)			(17,100,000)	
Fund balance (deficit) at end of year, GAAP basis			\$ (13,551,548)	

Note: Bolded lines indicate legally required appropriation budget levels of control

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Grant Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive/</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
County and Intermediate sources	\$ 5,068,571	\$ 1,055,986	\$ 1,021,193	\$ (34,793)
Federal and state support	64,070,922	69,373,886	53,932,428	(15,441,458)
Other	1,332,573	1,766,386	1,259,410	(506,976)
Total revenues	<u>70,472,066</u>	<u>72,196,258</u>	<u>56,213,031</u>	<u>(15,983,227)</u>
EXPENDITURES				
Current Operating:				
Instruction:				
Regular programs:				
Salaries and benefits	6,933,016	5,463,846	4,797,321	666,525
Materials and services	1,417,886	3,039,952	1,924,272	1,115,680
Total regular programs	<u>8,350,902</u>	<u>8,503,798</u>	<u>6,721,593</u>	<u>1,782,205</u>
Special programs:				
Salaries and benefits	30,339,079	28,848,089	27,685,133	1,162,956
Materials and services	13,782,490	5,198,811	3,986,060	1,212,751
Total special programs	<u>44,121,569</u>	<u>34,046,900</u>	<u>31,671,193</u>	<u>2,375,707</u>
Summer school programs:				
Salaries and benefits	406	-	-	-
Materials and services	1,480	-	-	-
Total summer school programs	<u>1,886</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total instruction	<u>52,474,357</u>	<u>42,550,698</u>	<u>38,392,786</u>	<u>4,157,912</u>
Supporting Services:				
Students:				
Salaries and benefits	6,188,568	4,479,124	3,323,527	1,155,597
Materials and services	632,932	5,412,044	2,557,123	2,854,921
Total students	<u>6,821,500</u>	<u>9,891,168</u>	<u>5,880,650</u>	<u>4,010,518</u>
Instructional staff:				
Salaries and benefits	4,131,082	7,824,605	4,957,839	2,866,766
Materials and services	2,647,777	4,151,256	2,552,792	1,598,464
Total instructional staff	<u>6,778,859</u>	<u>11,975,861</u>	<u>7,510,631</u>	<u>4,465,230</u>
School administration:				
Salaries and benefits	326,494	288,609	307,616	(19,007)
Materials and services	77,387	152,710	146,376	6,334
Total school administration	<u>403,881</u>	<u>441,319</u>	<u>453,992</u>	<u>(12,673)</u>
Business:				
Salaries and benefits	200,684	103,074	82,431	20,643
Materials and services	36,579	160,967	127,755	33,212
Total business	<u>237,263</u>	<u>264,041</u>	<u>210,186</u>	<u>53,855</u>

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Grant Fund (Continued)
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Supporting Services (continued):				
Central:				
Salaries and benefits	1,553,284	1,282,022	832,211	449,811
Materials and services	237,562	3,717,663	1,297,930	2,419,733
Total central	1,790,846	4,999,685	2,130,141	2,869,544
Total supporting services	16,032,349	27,572,074	16,185,600	11,386,474
Food Services:				
Salaries and benefits	328,573	-	-	-
Materials and services	59,768	375,133	330,366	44,767
Total food services	388,341	375,133	330,366	44,767
Community Services:				
Salaries and benefits	1,287,296	1,469,361	1,198,529	270,832
Materials and services	289,723	228,992	105,750	123,242
Total community services	1,577,019	1,698,353	1,304,279	394,074
Total current expenditures	70,472,066	72,196,258	56,213,031	15,983,227
Excess of revenues over expenditures	-	-	-	-
Fund balance - beginning of year	-	-	-	-
Fund balance - end of year	\$ -	\$ -	\$ -	\$ -

Note: Bolded lines indicate legally required appropriation budget levels of control

COMBINING STATEMENTS

Nonmajor Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for certain revenues that are restricted to expenditures for designated purposes.

Student Body Activities

Accounts for the receipts and disbursements of funds by schools for each school's activities. Principal revenue sources are donations, fund raisers, individual support from PTA's and booster clubs, sales in student stores, and club dues.

Cafeteria

Accounts for revenues and expenditures of the District's food service programs. Principal revenue sources are cash sales and federal subsidies under the National School Lunch and Breakfast Programs.

PERS Rate Stabilization Reserve Fund

Accounts for the reserves needed to help minimize large fluctuations in the PERS rate assessed on salaries and wages to repay the PERS unfunded actuarial liability borrowing relative to the District's participation in the Oregon School Boards Association Pension Bond Program. Sole revenue source is operating transfers from the General Fund.

Special Revenue

Accounts for revenues and expenditures of special revenue restricted for specific projects. Principal revenue sources are state grants, foundations, charges to participants, and donations.

BESC Cafeteria

Accounts for the operations of the employee cafeteria in the Blanchard Education Service Center. The primary source of revenues is the sale of meals.

Debt Service Funds

Debt service funds are used to account for the accumulation of financial resources for the payment of long-term debt principal, interest, and related costs.

System Project Debt Service

Accounts for the debt service payments for the 1999 Certificates of Participation. The certificates were issued to finance the implementation process and purchase of equipment upgrades relating to the computer systems used for financial and student information as well as for instructional applications in the classroom. The principal funding source is operating transfers from the General Fund.

Blanchard Education Service Center Special Obligation Debt Service

Accounts for the debt service payments for the 1993 Series A refunding special obligation bonds. The bonds were issued to refund the lease obligations for the Blanchard Education Service Center. The principal funding source is operating transfers from the General Fund.

Bond Sinking

Accounts for the debt service payments of the 1998 limited tax general obligation refunding bond. The principal funding source is property taxes.

General Obligation Bond Debt Service

Accounts for the debt service payments of the 1995 and 1996 series general obligation bonds. The bonds were issued to finance construction of a new elementary school, acquisition and installation of computer software and hardware in classrooms, major renovations and priority building repairs of the District's facilities, including Americans with Disabilities Act and safety requirements. The principal funding source is property taxes.

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Nonmajor Governmental Funds
Combining Balance Sheet by Fund Types
June 30, 2003

	Total Nonmajor Special Revenue Funds	Total Nonmajor Debt Service Funds	Total
ASSETS			
Cash and cash equivalents	\$ 8,076,477	\$ 6,736	\$ 8,083,213
Cash in segregated accounts	2,973,179	-	2,973,179
Cash and cash equivalents with fiscal agents	-	387,257	387,257
Investments	-	1,982,971	1,982,971
Accounts and other receivables	1,458,988	-	1,458,988
Property and other taxes receivable	-	2,655,200	2,655,200
Due from other funds	400,000	-	400,000
Inventories	603,292	-	603,292
Total assets	\$ 13,511,936	\$ 5,032,164	\$ 18,544,100
LIABILITIES			
Accounts payable and other current liabilities	\$ 902,547	\$ -	\$ 902,547
Accrued salaries, wages and benefits payable	1,386,814	-	1,386,814
Deferred revenues	-	2,397,237	2,397,237
Total liabilities	2,289,361	2,397,237	4,686,598
FUND BALANCES			
Unreserved	11,222,575	2,634,927	13,857,502
Total liabilities and fund balances	\$ 13,511,936	\$ 5,032,164	\$ 18,544,100

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Nonmajor Special Revenue Funds
Combining Balance Sheet
June 30, 2003

	Student Body Activities Fund	Cafeteria Fund	PERS Rate Stabilization Reserve Fund	Special Revenue Funds	BESC Cafeteria Fund	Total
ASSETS						
Cash and cash equivalents	\$ -	\$ 304,927	\$ 1,800,000	\$5,947,398	\$ 24,152	\$ 8,076,477
Cash in segregated accounts	2,973,179	-	-	-	-	2,973,179
Accounts and other receivables	69,725	872,890	-	505,200	11,173	1,458,988
Due from other funds	400,000	-	-	-	-	400,000
Inventories	-	592,280	-	-	11,012	603,292
Total assets	<u>\$3,442,904</u>	<u>\$1,770,097</u>	<u>\$ 1,800,000</u>	<u>\$6,452,598</u>	<u>\$ 46,337</u>	<u>\$ 13,511,936</u>
LIABILITIES						
Accounts payable and other current liabilities	\$ 189,971	\$ 537,328	\$ -	\$ 164,932	\$ 10,316	\$ 902,547
Accrued salaries, wages and benefits payable	-	461,309	-	899,183	26,322	1,386,814
Total liabilities	<u>189,971</u>	<u>998,637</u>	<u>-</u>	<u>1,064,115</u>	<u>36,638</u>	<u>2,289,361</u>
FUND BALANCES						
Unreserved	<u>3,252,933</u>	<u>771,460</u>	<u>1,800,000</u>	<u>5,388,483</u>	<u>9,699</u>	<u>11,222,575</u>
Total liabilities and fund balances	<u>\$3,442,904</u>	<u>\$1,770,097</u>	<u>\$ 1,800,000</u>	<u>\$6,452,598</u>	<u>\$ 46,337</u>	<u>\$ 13,511,936</u>

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Nonmajor Debt Service Funds
Combining Balance Sheet
June 30, 2003

	System Project Debt Service Fund	BESC Special Obligation Debt Service Fund	Bond Sinking Fund	General Obligation Bond Debt Service Fund	Total
ASSETS					
Cash and cash equivalents	\$ 6,673	\$ -	\$ -	\$ 63	\$ 6,736
Cash and cash equivalents with fiscal agents	-	-	109,496	277,761	387,257
Investments	-	-	334,819	1,648,152	1,982,971
Property and other taxes receivable	-	-	773,692	1,881,508	2,655,200
Total assets	<u>\$ 6,673</u>	<u>\$ -</u>	<u>\$ 1,218,007</u>	<u>\$ 3,807,484</u>	<u>\$ 5,032,164</u>
LIABILITIES					
Deferred revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 689,510</u>	<u>\$ 1,707,727</u>	<u>\$ 2,397,237</u>
Total liabilities	-	-	689,510	1,707,727	2,397,237
FUND BALANCES					
Unreserved	<u>6,673</u>	<u>-</u>	<u>528,497</u>	<u>2,099,757</u>	<u>2,634,927</u>
Total liabilities and fund balances	<u>\$ 6,673</u>	<u>\$ -</u>	<u>\$ 1,218,007</u>	<u>\$ 3,807,484</u>	<u>\$ 5,032,164</u>

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances by Fund Types
For the year ended June 30, 2003

	Total Nonmajor Special Revenue Funds	Total Nonmajor Debt Service Funds	Total
REVENUES			
Property and other taxes	\$ -	\$ 47,081,715	\$ 47,081,715
Sales	4,213,286	-	4,213,286
Federal and state support	10,183,845	-	10,183,845
Investment earnings	-	233,001	233,001
Extracurricular activities	7,171,159	-	7,171,159
Other	6,443,431	-	6,443,431
Total revenues	28,011,721	47,314,716	75,326,437
EXPENDITURES			
Current Operating:			
Instruction			
Regular programs	9,854,946	-	9,854,946
Special programs	509,407	-	509,407
Summer school programs	262,276	-	262,276
Total instruction	10,626,629	-	10,626,629
Supporting services:			
Students	320,328	-	320,328
Instructional staff	1,189,101	-	1,189,101
General administration	3,856	-	3,856
School administration	451,357	-	451,357
Business	156,969	-	156,969
Central	13,254	-	13,254
Food services	13,182,154	-	13,182,154
Community services	19,892	-	19,892
Total supporting services	15,336,911	-	15,336,911
Debt Service:			
Principal	-	42,465,000	42,465,000
Interest and fiscal charges	-	8,223,050	8,223,050
Total debt service	-	50,688,050	50,688,050
Total current expenditures	25,963,540	50,688,050	76,651,590
Excess (deficiency) of revenues over (under) expenditures	2,048,181	(3,373,334)	(1,325,153)
OTHER FINANCING SOURCES (USES)			
Transfers in	1,948,932	6,901,433	8,850,365
Total other financing sources (uses)	1,948,932	6,901,433	8,850,365
Net change in fund balances	3,997,113	3,528,099	7,525,212
Fund balances (deficit) - beginning of year	7,225,462	(893,172)	6,332,290
Fund balances - end of year	\$ 11,222,575	\$ 2,634,927	\$ 13,857,502

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Nonmajor Special Revenue Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the year ended June 30, 2003

	Student Body Activities Fund	Cafeteria Fund	PERS Rate Stabilization Reserve Fund	Special Revenue Fund	BESC Cafeteria Fund	Total
REVENUES						
Sales	\$ -	\$3,689,619	\$ -	\$ -	\$523,667	\$ 4,213,286
Federal and state support	-	9,490,626	-	693,219	-	10,183,845
Extracurricular activities	7,171,159	-	-	-	-	7,171,159
Other	-	28,309	-	6,415,122	-	6,443,431
Total revenues	<u>7,171,159</u>	<u>13,208,554</u>	<u>-</u>	<u>7,108,341</u>	<u>523,667</u>	<u>28,011,721</u>
EXPENDITURES						
Current operating:						
Instruction						
Regular programs	7,079,098	-	-	2,775,848	-	9,854,946
Special programs	-	-	-	509,407	-	509,407
Summer school programs	-	-	-	262,276	-	262,276
Total instruction	<u>7,079,098</u>	<u>-</u>	<u>-</u>	<u>3,547,531</u>	<u>-</u>	<u>10,626,629</u>
Supporting services:						
Students	-	-	-	320,328	-	320,328
Instructional staff	-	-	-	1,189,101	-	1,189,101
General administration	-	-	-	3,856	-	3,856
School administration	-	-	-	451,357	-	451,357
Business	-	-	-	156,969	-	156,969
Central	-	-	-	13,254	-	13,254
Food services	-	12,658,171	-	3,167	520,816	13,182,154
Community services	-	-	-	19,892	-	19,892
Total supporting services	<u>-</u>	<u>12,658,171</u>	<u>-</u>	<u>2,157,924</u>	<u>520,816</u>	<u>15,336,911</u>
Total current expenditures	<u>7,079,098</u>	<u>12,658,171</u>	<u>-</u>	<u>5,705,455</u>	<u>520,816</u>	<u>25,963,540</u>
Excess of revenues over expenditures	<u>92,061</u>	<u>550,383</u>	<u>-</u>	<u>1,402,886</u>	<u>2,851</u>	<u>2,048,181</u>
OTHER FINANCING SOURCES						
Transfers in	126,891	22,041	1,800,000	-	-	1,948,932
Total other financing sources	<u>126,891</u>	<u>22,041</u>	<u>1,800,000</u>	<u>-</u>	<u>-</u>	<u>1,948,932</u>
Net change in fund balances	218,952	572,424	1,800,000	1,402,886	2,851	3,997,113
Fund balances - beginning of year	3,033,981	199,036	-	3,985,597	6,848	7,225,462
Fund balances - end of year	<u>\$ 3,252,933</u>	<u>\$ 771,460</u>	<u>\$ 1,800,000</u>	<u>\$ 5,388,483</u>	<u>\$ 9,699</u>	<u>\$ 11,222,575</u>

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Nonmajor Debt Service Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the year ended June 30, 2003

	System Project Debt Service Fund	BESC Special Obligation Debt Service Fund	Bond Sinking Fund	General Obligation Bond Debt Service Fund	Total
REVENUES					
Property and other taxes	\$ -	\$ -	\$ 12,853,861	\$ 34,227,854	\$ 47,081,715
Investment earnings	-	-	62,633	170,368	233,001
Total revenues	<u>-</u>	<u>-</u>	<u>12,916,494</u>	<u>34,398,222</u>	<u>47,314,716</u>
EXPENDITURES					
Debt Service:					
Principal	4,045,000	1,150,000	10,470,000	26,800,000	42,465,000
Interest and fiscal charges	<u>1,402,058</u>	<u>304,950</u>	<u>1,846,417</u>	<u>4,669,625</u>	<u>8,223,050</u>
Total expenditures	<u>5,447,058</u>	<u>1,454,950</u>	<u>12,316,417</u>	<u>31,469,625</u>	<u>50,688,050</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(5,447,058)</u>	<u>(1,454,950)</u>	<u>600,077</u>	<u>2,928,597</u>	<u>(3,373,334)</u>
OTHER FINANCING SOURCES					
Transfers in	<u>5,446,483</u>	<u>1,454,950</u>	<u>-</u>	<u>-</u>	<u>6,901,433</u>
Net change in fund balances	(575)	-	600,077	2,928,597	3,528,099
Fund balances (deficit) - beginning of year	<u>7,248</u>	<u>-</u>	<u>(71,580)</u>	<u>(828,840)</u>	<u>(893,172)</u>
Fund balances - end of year	<u>\$ 6,673</u>	<u>\$ -</u>	<u>\$ 528,497</u>	<u>\$ 2,099,757</u>	<u>\$ 2,634,927</u>

BUDGETARY COMPARISON SCHEDULES

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual (Non-GAAP Basis)
For the year ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property and other taxes	\$ 132,050,969	\$ 132,050,969	\$ 131,120,992	\$ (929,977)
State School Fund (See Note 16)	189,835,000	189,835,000	167,805,317	(22,029,683)
Local option taxes	17,020,459	17,020,459	16,263,204	(757,255)
County and intermediate sources	15,262,778	15,262,778	23,419,710	8,156,932
State Common School Fund	1,454,844	1,454,844	3,100,444	1,645,600
Investment earnings	1,728,929	1,728,929	1,134,924	(594,005)
Other	2,772,000	2,772,000	7,830,133	5,058,133
Total revenues	<u>360,124,979</u>	<u>360,124,979</u>	<u>350,674,724</u>	<u>(9,450,255)</u>
EXPENDITURES				
Current Operating:				
Instruction:				
Regular programs:				
Salaries and benefits	145,074,664	149,810,528	145,774,041	4,036,487
Materials and services	4,509,504	4,952,885	4,029,245	923,640
Total regular programs	<u>149,584,168</u>	<u>154,763,413</u>	<u>149,803,286</u>	<u>4,960,127</u>
Special programs:				
Salaries and benefits	44,914,127	44,946,158	45,051,534	(105,376)
Materials and services	12,450,300	12,369,024	10,469,100	1,899,924
Total special programs	<u>57,364,427</u>	<u>57,315,182</u>	<u>55,520,634</u>	<u>1,794,548</u>
Total instruction	<u>206,948,595</u>	<u>212,078,595</u>	<u>205,323,920</u>	<u>6,754,675</u>
Supporting services:				
Students:				
Salaries and benefits	27,457,946	26,924,947	27,313,506	(388,559)
Materials and services	2,660,386	2,643,396	853,864	1,789,532
Total students	<u>30,118,332</u>	<u>29,568,343</u>	<u>28,167,370</u>	<u>1,400,973</u>
Instructional staff:				
Salaries and benefits	9,852,136	9,769,176	9,234,177	534,999
Materials and services	3,207,770	2,753,863	1,871,401	882,462
Total instructional staff	<u>13,059,906</u>	<u>12,523,039</u>	<u>11,105,578</u>	<u>1,417,461</u>
General administration:				
Salaries and benefits	2,118,991	2,118,991	1,614,771	504,220
Materials and services	1,292,939	1,284,339	1,078,714	205,625
Total general administration	<u>3,411,930</u>	<u>3,403,330</u>	<u>2,693,485</u>	<u>709,845</u>
School administration:				
Salaries and benefits	26,005,830	25,780,301	25,813,032	(32,731)
Materials and services	565,183	559,636	287,071	272,565
Total school administration	<u>26,571,013</u>	<u>26,339,937</u>	<u>26,100,103</u>	<u>239,834</u>

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
General Fund (Continued)
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual (Non-GAAP Basis)
For the year ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Supporting services (continued):				
Business:				
Salaries and benefits	21,318,670	22,592,658	17,509,874	5,082,784
Materials and services	33,148,064	32,453,565	33,948,750	(1,495,185)
Total business	54,466,734	55,046,223	51,458,624	3,587,599
Central:				
Salaries and benefits	9,232,056	6,635,938	8,166,500	(1,530,562)
Materials and services	2,520,768	2,522,993	2,163,501	359,492
Total central	11,752,824	9,158,931	10,330,001	(1,171,070)
Total supporting services	139,380,739	136,039,803	129,855,161	6,184,642
Other expenditures:				
Debt Service				
Principal	-	516,000	515,661	339
Interest	1,724,674	1,724,674	759,648	965,026
Bond Issuance Costs	-	4,500,000	4,314,271	185,729
Total debt service	1,724,674	6,740,674	5,589,580	1,151,094
Total current expenditures	348,054,008	354,859,072	340,768,661	14,090,411
Operating contingency	4,955,357	4,955,357	-	4,955,357
Total expenditures	353,009,365	359,814,429	340,768,661	19,045,768
Excess of revenues over expenditures	7,115,614	310,550	9,906,063	9,595,513
OTHER FINANCING SOURCES (USES)				
Transfers out	(7,115,614)	(8,915,614)	(8,850,365)	65,249
PERS bond proceeds	-	510,000,000	490,933,461	(19,066,539)
PERS unfunded actuarial liability payment	-	(501,394,936)	(486,617,609)	14,777,327
Sale of property	-	-	995,922	995,922
Total other financing sources and (uses)	(7,115,614)	(310,550)	(3,538,591)	(3,228,041)
Net change in fund balance	-	-	6,367,472	6,367,472
Fund balance (deficit) - beginning of year	-	-	(2,819,020)	(2,819,020)
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,548,452</u>	<u>\$ 3,548,452</u>
Less State School Fund accrual (See Note 16)			(17,100,000)	
Fund balance at end of year, GAAP basis			<u>\$ (13,551,548)</u>	

Note: Bolded lines indicate legally required appropriation budget levels of control

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Student Body Activity Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
REVENUES				
Extracurricular activities	\$ 7,313,319	\$ 7,313,319	\$ 7,171,159	\$ (142,160)
EXPENDITURES				
Current Operating:				
Instruction:				
Regular programs				
Materials and services	8,000,000	8,000,000	7,079,098	920,902
Excess (deficiency) of revenues over (under) expenditures	(686,681)	(686,681)	92,061	778,742
OTHER FINANCING SOURCES (USES)				
Transfers in	186,681	186,681	126,891	(59,790)
Net change in fund balance	(500,000)	(500,000)	218,952	718,952
Fund balance - beginning of year	3,500,000	3,500,000	3,033,981	(466,019)
Fund balance - end of year	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>	<u>\$ 3,252,933</u>	<u>\$ 252,933</u>

Note: Bolded lines indicate legally required appropriation budget levels of control

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Cafeteria Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
REVENUES				
Sales	\$ 5,113,884	\$ 5,113,884	\$ 3,689,619	\$ (1,424,265)
Federal and state support	11,448,462	11,448,462	9,490,626	(1,957,836)
Other	-	-	28,309	28,309
Total revenues	16,562,346	16,562,346	13,208,554	(3,353,792)
EXPENDITURES				
Current Operating:				
Supporting Services:				
Food services:				
Salaries and benefits	8,323,160	8,323,160	6,985,545	1,337,615
Materials and services	7,999,800	7,999,800	5,672,626	2,327,174
Total food services	16,322,960	16,322,960	12,658,171	3,664,789
Excess of revenues over expenditures	239,386	239,386	550,383	310,997
OTHER FINANCING SOURCES				
Transfers in	27,500	27,500	22,041	(5,459)
Net change in fund balance	266,886	266,886	572,424	305,538
Fund balance - beginning of year	-	-	199,036	199,036
Fund balance - end of year	\$ 266,886	\$ 266,886	\$ 771,460	\$ 504,574

Note: Bolded lines indicate legally required appropriation budget levels of control

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Grant Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive/</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
County and Intermediate sources	\$ 5,068,571	\$ 1,055,986	\$ 1,021,193	\$ (34,793)
Federal and state support	64,070,922	69,373,886	53,932,428	(15,441,458)
Other	1,332,573	1,766,386	1,259,410	(506,976)
Total revenues	<u>70,472,066</u>	<u>72,196,258</u>	<u>56,213,031</u>	<u>(15,983,227)</u>
EXPENDITURES				
Current Operating:				
Instruction:				
Regular programs:				
Salaries and benefits	6,933,016	5,463,846	4,797,321	666,525
Materials and services	1,417,886	3,039,952	1,924,272	1,115,680
Total regular programs	<u>8,350,902</u>	<u>8,503,798</u>	<u>6,721,593</u>	<u>1,782,205</u>
Special programs:				
Salaries and benefits	30,339,079	28,848,089	27,685,133	1,162,956
Materials and services	13,782,490	5,198,811	3,986,060	1,212,751
Total special programs	<u>44,121,569</u>	<u>34,046,900</u>	<u>31,671,193</u>	<u>2,375,707</u>
Summer school programs:				
Salaries and benefits	406	-	-	-
Materials and services	1,480	-	-	-
Total summer school programs	<u>1,886</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total instruction	<u>52,474,357</u>	<u>42,550,698</u>	<u>38,392,786</u>	<u>4,157,912</u>
Supporting Services:				
Students:				
Salaries and benefits	6,188,568	4,479,124	3,323,527	1,155,597
Materials and services	632,932	5,412,044	2,557,123	2,854,921
Total students	<u>6,821,500</u>	<u>9,891,168</u>	<u>5,880,650</u>	<u>4,010,518</u>
Instructional staff:				
Salaries and benefits	4,131,082	7,824,605	4,957,839	2,866,766
Materials and services	2,647,777	4,151,256	2,552,792	1,598,464
Total instructional staff	<u>6,778,859</u>	<u>11,975,861</u>	<u>7,510,631</u>	<u>4,465,230</u>
School administration:				
Salaries and benefits	326,494	288,609	307,616	(19,007)
Materials and services	77,387	152,710	146,376	6,334
Total school administration	<u>403,881</u>	<u>441,319</u>	<u>453,992</u>	<u>(12,673)</u>
Business:				
Salaries and benefits	200,684	103,074	82,431	20,643
Materials and services	36,579	160,967	127,755	33,212
Total business	<u>237,263</u>	<u>264,041</u>	<u>210,186</u>	<u>53,855</u>

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Grant Fund (Continued)
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Supporting Services (continued):				
Central:				
Salaries and benefits	1,553,284	1,282,022	832,211	449,811
Materials and services	237,562	3,717,663	1,297,930	2,419,733
Total central	1,790,846	4,999,685	2,130,141	2,869,544
Total supporting services	16,032,349	27,572,074	16,185,600	11,386,474
Food Services:				
Salaries and benefits	328,573	-	-	-
Materials and services	59,768	375,133	330,366	44,767
Total food services	388,341	375,133	330,366	44,767
Community Services:				
Salaries and benefits	1,287,296	1,469,361	1,198,529	270,832
Materials and services	289,723	228,992	105,750	123,242
Total community services	1,577,019	1,698,353	1,304,279	394,074
Total current expenditures	70,472,066	72,196,258	56,213,031	15,983,227
Excess of revenues over expenditures	-	-	-	-
Fund balance - beginning of year	-	-	-	-
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Note: Bolded lines indicate legally required appropriation budget levels of control

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
PERS Rate Stabilization Reserve Fund
Schedule of Changes in Fund Balance -
Budget and Actual
For the year ended June 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
OTHER FINANCING SOURCES				
Transfers in	\$ -	\$ 1,800,000	\$ 1,800,000	\$ -
Net change in fund balance	-	1,800,000	1,800,000	-
Fund balance - beginning of year	-	-	-	-
Fund balance - end of year	<u>\$ -</u>	<u>\$ 1,800,000</u>	<u>\$ 1,800,000</u>	<u>\$ -</u>

Note: Bolded line indicates legally required appropriation budget level of control

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Special Revenue Funds
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Federal and state support	\$ 527,625	\$ 1,701,325	\$ 693,219	\$ (1,008,106)
Other	5,439,736	8,539,023	6,415,122	(2,123,901)
Total revenues	<u>5,967,361</u>	<u>10,240,348</u>	<u>7,108,341</u>	<u>(3,132,007)</u>
EXPENDITURES				
Current Operating:				
Instruction:				
Regular programs:				
Salaries and benefits	2,385,394	3,031,968	2,476,691	555,277
Materials and services	233,982	810,561	299,157	511,404
Total regular programs	<u>2,619,376</u>	<u>3,842,529</u>	<u>2,775,848</u>	<u>1,066,681</u>
Special programs:				
Salaries and benefits	792,522	2,277,642	397,208	1,880,434
Materials and services	71,234	359,912	112,199	247,713
Total special programs	<u>863,756</u>	<u>2,637,554</u>	<u>509,407</u>	<u>2,128,147</u>
Summer school programs:				
Salaries and benefits	201,982	334,238	234,369	99,869
Materials and services	48,188	47,548	27,907	19,641
Total summer school programs	<u>250,170</u>	<u>381,786</u>	<u>262,276</u>	<u>119,510</u>
Total instruction	<u>3,733,302</u>	<u>6,861,869</u>	<u>3,547,531</u>	<u>3,314,338</u>
Supporting Services:				
Students:				
Salaries and benefits	47,408	297,881	250,895	46,986
Materials and services	4,081	204,951	69,433	135,518
Total students	<u>51,489</u>	<u>502,832</u>	<u>320,328</u>	<u>182,504</u>
Instructional staff:				
Salaries and benefits	1,079,201	937,114	874,283	62,831
Materials and services	87,391	637,027	314,818	322,209
Total instructional staff	<u>1,166,592</u>	<u>1,574,141</u>	<u>1,189,101</u>	<u>385,040</u>
General administration:				
Salaries and benefits	-	8,047	1,401	6,646
Materials and services	-	28,206	2,455	25,751
Total general administration	<u>-</u>	<u>36,253</u>	<u>3,856</u>	<u>32,397</u>
School administration:				
Salaries and benefits	307,138	432,636	358,587	74,049
Materials and services	33,297	82,000	92,770	(10,770)
Total school administration	<u>340,435</u>	<u>514,636</u>	<u>451,357</u>	<u>63,279</u>

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Special Revenue Funds (Continued)
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Supporting Services (continued):				
Business:				
Materials and services	623,778	683,563	156,969	526,594
Central:				
Materials and services	-	16,840	13,254	3,586
Total supporting services	2,182,294	3,328,265	2,134,865	1,193,400
Food Services:				
Materials and services	-	11,962	3,167	8,795
Community Services:				
Salaries and benefits	33,997	13,089	5,209	7,880
Materials and services	17,768	25,163	14,683	10,480
Total community services	51,765	38,252	19,892	18,360
Total current expenditures	5,967,361	10,240,348	5,705,455	4,534,893
Excess of revenues over expenditures	-	-	1,402,886	1,402,886
Fund balance - beginning of year	-	-	3,985,597	3,985,597
Fund balance - end of year	\$ -	\$ -	\$ 5,388,483	\$ 5,388,483

Note: Bolded lines indicate legally required appropriation budget levels of control

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
BESC Cafeteria Fund
Budgeted As: Blanchard Education Service Center Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Sales	\$ 552,641	\$ 552,641	\$ 523,667	\$ (28,974)
EXPENDITURES				
Current Operating:				
Supporting Services:				
Food services:				
Salaries and benefits	297,193	297,193	276,553	20,640
Materials and services	238,100	238,100	244,263	(6,163)
Total food services	535,293	535,293	520,816	14,477
Excess of revenues over expenditures	17,348	17,348	2,851	(14,497)
Fund balance - beginning of year	-	-	6,848	6,848
Fund balance - end of year	<u>\$ 17,348</u>	<u>\$ 17,348</u>	<u>\$ 9,699</u>	<u>\$ (7,649)</u>

Note: Bolded lines indicate legally required appropriation budget levels of control

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
System Project Debt Service Fund
Schedule of Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES				
Debt Service:				
Principal	\$ 4,045,000	\$ 4,045,000	\$ 4,045,000	\$ -
Interest and fiscal charges	1,408,983	1,408,983	1,402,058	6,925
Total expenditures	5,453,983	5,453,983	5,447,058	6,925
OTHER FINANCING SOURCES				
Transfers in	5,446,483	5,446,483	5,446,483	-
Net change in fund balances	(7,500)	(7,500)	(575)	6,925
Fund balance - beginning of year	7,500	7,500	7,248	(252)
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,673</u>	<u>\$ 6,673</u>

Note: Bolded line indicates legally required appropriation budget level of control

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
BESC Special Obligation Debt Service Fund
Schedule of Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES				
Debt Service:				
Principal	\$ 1,150,000	\$ 1,150,000	\$ 1,150,000	\$ -
Interest and fiscal charges	304,950	304,950	304,950	-
Total expenditures	1,454,950	1,454,950	1,454,950	-
OTHER FINANCING SOURCES				
Transfers in	1,454,950	1,454,950	1,454,950	-
Net change in fund balances	-	-	-	-
Fund balance - beginning of year	-	-	-	-
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Note: Bolded line indicates legally required appropriation budget level of control

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Bond Sinking Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive/</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property and other taxes	\$ 12,455,125	\$ 12,455,125	\$ 12,853,861	\$ 398,736
Investment earnings	110,741	110,741	62,633	(48,108)
Total revenues	12,565,866	12,565,866	12,916,494	350,628
EXPENDITURES				
Debt Service:				
Principal	10,470,000	10,470,000	10,470,000	-
Interest and fiscal charges	2,095,866	2,095,866	1,846,417	249,449
Total expenditures	12,565,866	12,565,866	12,316,417	249,449
Excess of revenues over expenditures	-	-	600,077	600,077
Fund balance (deficit) - beginning of year	-	-	(71,580)	(71,580)
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 528,497</u>	<u>\$ 528,497</u>

Note: Bolded line indicates legally required appropriation budget level of control

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
General Obligation Bonds Debt Service Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
REVENUES				
Property and other taxes	\$ 32,745,000	\$ 32,745,000	\$ 34,227,854	\$ 1,482,854
Investment earnings	254,625	254,625	170,368	(84,257)
Total revenues	32,999,625	32,999,625	34,398,222	1,398,597
EXPENDITURES				
Debt Service:				
Principal	26,800,000	26,800,000	26,800,000	-
Interest	5,869,625	5,869,625	4,669,625	1,200,000
Total expenditures	32,669,625	32,669,625	31,469,625	1,200,000
Excess of revenues over expenditures	330,000	330,000	2,928,597	2,598,597
Fund balance (deficit) - beginning of year	-	-	(828,840)	(828,840)
Fund balance - end of year	\$ 330,000	\$ 330,000	\$ 2,099,757	\$ 1,769,757

Note: Bolded line indicates legally required appropriation budget level of control

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
System Project Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
REVENUES				
Investment earnings	\$ 64,915	\$ 81,186	\$ 154,990	\$ 73,804
EXPENDITURES				
Current Operating:				
Supporting Services:				
Central:				
Salaries and benefits	723,579	723,579	860,198	(136,619)
Materials and services	3,834,248	3,617,491	2,967,359	650,132
Total central	4,557,827	4,341,070	3,827,557	513,513
Facilities Acquisition & Construction:				
Materials and services	80,000	120,000	98,086	21,914
Total current expenditures	4,637,827	4,461,070	3,925,643	535,427
Excess of expenditures over revenues	(4,572,912)	(4,379,884)	(3,770,653)	609,231
Fund balance - beginning of year	4,572,912	5,606,418	5,606,418	-
Fund balance - end of year	<u>\$ -</u>	<u>\$ 1,226,534</u>	<u>\$ 1,835,765</u>	<u>\$ 609,231</u>

Note: Bolded line indicates legally required appropriation budget level of control

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Facilities Improvement/Technology Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Investment earnings	\$ 282,675	\$ 282,675	\$ 528,670	\$ 245,995
EXPENDITURES				
Current Operating:				
Supporting Services:				
Instructional staff:				
Materials and services	2,260,163	2,260,163	1,775,707	484,456
Business:				
Materials and services	-	3,000	2,000	1,000
Central:				
Materials and services	582,778	2,334,889	2,409,564	(74,675)
Total supporting services	2,842,941	4,598,052	4,187,271	410,781
Facilities Acquisition & Construction:				
Salaries and benefits	525,267	525,267	578,075	(52,808)
Materials and services	25,244,420	23,489,309	15,060,182	8,429,127
Total Facilities Acquisition & Construction	25,769,687	24,014,576	15,638,257	8,376,319
Total expenditures	28,612,628	28,612,628	19,825,528	8,787,100
Excess of expenditures over revenues	(28,329,953)	(28,329,953)	(19,296,858)	9,033,095
Fund balance - beginning of year	29,329,953	29,329,953	35,338,299	6,008,346
Fund balance - end of year	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>	<u>\$ 16,041,441</u>	<u>\$ 15,041,441</u>

Note: Bolded line indicates legally required appropriation budget level of control

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Facilities Improvement II Fund
Budgeted As: Facilities Improvement II/Technology Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Investment earnings	\$ 95,670	\$ 95,670	\$ 76,347	\$ (19,323)
EXPENDITURES				
Current Operating:				
Supporting Services:				
Business:				
Materials and services	-	6,500	3,705	2,795
Facilities Acquisition & Construction:				
Salaries and benefits	-	-	1,915	(1,915)
Materials and services	400,000	393,500	387,880	5,620
Total Facilities Acquisition & Construction:	400,000	393,500	389,795	3,705
Total expenditures	400,000	400,000	393,500	6,500
Excess of expenditures over revenues	(304,330)	(304,330)	(317,153)	(25,823)
Fund balance - beginning of year	4,959,346	4,959,346	5,668,527	709,181
Fund balance - end of year	<u>\$ 4,655,016</u>	<u>\$ 4,655,016</u>	<u>\$ 5,351,374</u>	<u>\$ 683,358</u>

Note: Bolded line indicates legally required appropriation budget level of control

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Self-Insurance Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual (Non-GAAP Basis)
For the year ended June 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
REVENUES				
Charges for services	\$ 2,694,899	\$ 3,846,500	\$ 3,997,972	\$ 151,472
Investments	136,000	136,000	59,619	(76,381)
Insurance recoveries	-	-	385,825	385,825
Other	125,000	125,000	72,993	(52,007)
Total revenues	2,955,899	4,107,500	4,516,409	408,909
EXPENDITURES				
Current Operating:				
Supporting Services:				
Salaries and benefits	365,291	365,291	391,384	(26,093)
Materials and services	558,700	558,700	1,053,692	(494,992)
Claims expense	3,914,500	5,014,500	4,409,852	604,648
Total expenditures	4,838,491	5,938,491	5,854,928	83,563
Excess of expenditures over revenues	(1,882,592)	(1,830,991)	(1,338,519)	492,472
Fund balance - beginning of year	1,902,110	1,965,525	1,965,525	-
Fund balance - end of year	\$ 19,518	\$ 134,534	627,006	\$ 492,472
Less salaries and benefits accrued under GAAP			(2,294)	
Retained earnings at end of year, GAAP basis			\$ 624,713	

Note: Bolded line indicates legally required appropriation budget level of control

OTHER FINANCIAL SCHEDULES

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON
 Schedule of Property Tax Transactions
General Fund
 For the Year Ended June 30, 2003

DISTRICT LEVIES	Tax Year	Taxes			Levy as Extended by Assessor	Discounts Allowed	Interest	Cancellations and Adjustments	Property Tax Collections	Taxes	
		Uncollected June 30, 2002	Uncollected June 30, 2003	Uncollected June 30, 2002						Uncollected June 30, 2003	
Multnomah County:											
General Tax:											
Current Year	2002-2003	\$ -	\$ -	\$ 147,114,018	\$ (3,462,985)	\$ 93,393	\$ (793,850)	\$ (137,900,060)	\$	\$ 5,050,516	
Prior Years	2001-2002	5,014,848		-	-	172,992	(863,500)	(2,406,674)		1,917,666	
	2000-2001	2,176,681		-	-	189,861	(187,047)	(1,152,194)		1,027,301	
	1999-2000	1,047,609		-	-	164,464	(154,600)	(699,191)		358,282	
	1998-1999	390,587		-	-	84,719	(94,806)	(316,267)		64,233	
	1997-1998	101,118		-	-	10,068	(60,115)	(10,068)		41,003	
	1996-1997	31,282		-	-	2,236	2,135	(20,189)		15,464	
	1995-1996	10,813		-	-	324	(836)	(1,129)		9,172	
	1994-1995	13,211		-	-	464	(1,322)	(2,228)		10,125	
	and prior	150,374		-	-	17,359	(7,660)	(30,558)		129,515	
Total General Tax:		8,936,523		147,114,018	(3,462,985)	735,880	(2,161,601)	(142,538,558)		8,623,277	
											(769,886)
											7,853,391
Local Option Taxes:											
Current Year	2002-2003	-		16,789,671	(395,220)	10,659	(90,600)	(15,738,110)		576,400	
Prior Year	2001-2002	546,442		-	-	18,850	(94,091)	(262,243)		208,958	
	2000-2001	218,284		-	-	19,040	(18,758)	(115,546)		103,020	
Total Local Option Taxes:		764,726		16,789,671	(395,220)	48,549	(203,449)	(16,115,899)		888,378	
Total Multnomah County:		9,701,249		163,903,689	(3,858,205)	784,429	(2,365,050)	(158,654,457)		8,741,769	
Washington County:											
All Years ¹				1,112,217				(1,112,217)			
Clackamas County:											
All Years ¹				143,172				(143,172)			
Total All Counties:		\$ 9,701,249		\$ 165,159,078	\$ (3,858,205)	\$ 784,429	\$ (2,365,050)	\$ (159,909,846)		\$ 8,741,769	

¹ The total collections from Washington and Clackamas Counties were less than one percent of the District's total property tax collections. The taxes receivable from the two counties at June 30, 2003 were considered immaterial.

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON

Schedule of Property Tax Transactions

General Fund (continued)

For the Year Ended June 30, 2003

Reconciliation to Financial Statements:

Property tax collections during the year ended June 30, 2003	\$ 159,909,846	
Non-levied tax revenue received during year ended June 30, 2003	315,180	
Uncollected property taxes at June 30, 2003	\$ 8,741,769	
Uncollected property taxes susceptible to accrual at June 30, 2003	841,014	(758,828)
Non-levied tax revenue susceptible to accrual at June 30, 2003	169,228	(153,891)
Property taxes & non-levy rev susceptible to accrual at June 30, 2002, and collected during the year ended June 30, 2003	(997,212)	
Less property tax revenues allocated to Bond Sinking Debt Service Fund	<u>(12,853,860)</u>	
Total property taxes - General Fund	<u>\$ 147,384,197</u>	
Total Deferred Revenues - General Fund		<u>\$ 7,829,050</u>

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON
 Schedule of Property Tax Transactions
Debt Service Funds
 For the Year Ended June 30, 2003

DISTRICT LEVIES	Tax Year	Taxes Uncollected June 30, 2002	Levy as Extended by Assessor	Discounts Allowed	Interest	Cancellations and Adjustments	Property Tax Collections	Taxes Uncollected June 30, 2003	
Multnomah County:									
Bond Tax:									
Current Year	2002-2003	\$ -	\$ 35,210,079	\$ (828,826)	\$ 22,352	\$ (189,999)	\$ (33,004,822)	\$ 1,208,784	
Prior Years	2001-2002	980,964	-	-	33,839	(168,911)	(470,774)	375,118	
	2000-2001	418,989	-	-	36,546	(36,005)	(221,786)	197,745	
	1999-2000	214,565	-	-	33,685	(31,664)	(143,204)	73,381	
	1998-1999	76,137	-	-	16,514	(18,480)	(61,650)	12,521	
	1997-1998	25,459	-	-	2,535	(15,135)	(2,535)	10,323	
	1996-1997	4,616	-	-	330	315	(2,979)	2,282	
Total Multnomah County:		<u>1,720,728</u>	<u>35,210,079</u>	<u>(828,826)</u>	<u>145,802</u>	<u>(459,879)</u>	<u>(33,907,749)</u>	<u>1,880,154</u>	
			Plus 8.928% allocation from the General Fund to the Bond Sinking Debt Service Fund:						<u>769,886</u>
								<u>2,650,040</u>	
Washington County:									
All Years ¹			237,590				(237,590)		
Clackamas County:									
All Years ¹			29,413				(29,413)		
Total All Counties:		<u>\$ 1,720,728</u>	<u>\$ 35,477,082</u>	<u>\$ (828,826)</u>	<u>\$ 145,802</u>	<u>\$ (459,879)</u>	<u>\$ (34,174,752)</u>	<u>\$ 2,650,040</u>	
Reconciliation to Financial Statements:									
							\$ 34,174,752		
Property tax collections during the year ended June 30, 2003							31,018		
Non-levied tax revenue received during year ended June 30, 2003								\$ 2,650,040	
Uncollected property taxes at June 30, 2003							172,287	(237,106)	
Uncollected property taxes susceptible to accrual at June 30, 2003							701	(15,697)	
Non-levied tax revenue susceptible to accrual at June 30, 2003							(150,904)		
Property taxes & non-levy rev susceptible to accrual at June 30, 2002, and collected during the year ended June 30, 2003							12,853,860		
Plus property tax revenues allocated from the General Fund to the Bond Sinking Debt Service Fund							<u>\$ 47,081,714</u>		
Total property taxes - Debt Service Funds								<u>\$ 2,397,237</u>	
Total Deferred Revenues - Debt Service Funds									

¹ The total collections from Washington and Clackamas Counties were less than one percent of the District's total property tax collections. The taxes receivable from the two counties at June 30, 2003 were considered immaterial.

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Capital Assets Used in the Operation of Governmental Funds
Schedules By Source
June 30, 2003

Governmental funds capital assets:	
Land	\$ 9,049,378
Buildings and site improvements	295,611,876
Vehicles and equipment	24,263,531
Construction in progress	14,764,671
Total governmental funds capital assets	<u>\$ 343,689,456</u>

Investments in governmental funds capital assets by source:	
General fund	\$ 146,375,144
Special Revenue funds	903,412
Capital Projects funds	196,410,900
Total governmental funds capital assets	<u>\$ 343,689,456</u>

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Capital Assets Used in the Operation of Governmental Funds
Schedule By Function and Activity
June 30, 2003

<u>Function and Activity</u>	<u>Land</u>	<u>Buildings and Site Improvements</u>	<u>Vehicles and Equipment</u>	<u>Construction in Progress</u>	<u>Total</u>
General government:					
Instruction	\$ 7,041,878	\$ 270,062,445	\$ 537,571	\$ 14,764,671	\$ 292,406,565
Supporting services	2,007,500	25,549,431	23,401,000	-	50,957,931
Food services	-	-	324,960	-	324,960
Total governmental funds capital assets	<u>\$ 9,049,378</u>	<u>\$ 295,611,876</u>	<u>\$ 24,263,531</u>	<u>\$ 14,764,671</u>	<u>\$ 343,689,456</u>

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes By Function and Activity
For the fiscal year ended June 30, 2003

<u>Function and Activity</u>	<u>Governmental Funds Capital Assets July 1, 2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>Governmental Funds Capital Assets June 30, 2003</u>
General government				
Instruction	\$ 275,777,512	\$ 31,648,872	\$ 15,019,819	\$ 292,406,565
Supporting services	50,270,544	939,665	252,278	50,957,931
Food services	210,398	114,562	-	324,960
Total governmental funds capital assets	<u>\$ 326,258,454</u>	<u>\$ 32,703,099</u>	<u>\$ 15,272,097</u>	<u>\$ 343,689,456</u>

SCHOOL DISTRICT NO. 1, MULTNOMAH COUNTY, OREGON Management's Discussion And Analysis

As management of the School District No.1, Multnomah County, Oregon (Portland Public Schools or the District), we offer readers this narrative overview and analysis of the financial activities of the Portland Public Schools for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-v of this report.

Financial Highlights

- The net assets of Portland Public Schools in the government-wide financial statements were \$132,688,368. Of this amount, \$123,871,911 was invested in capital assets, net of related debt and the remainder, \$8,816,457, is technically considered to be unreserved, but the District has \$23,228,580 committed to debt-financed programs.
- At June 30, 2003, the General Fund had an unreserved fund balance deficit of (\$13,551,548), caused by unprecedented state revenue declines, which resulted in significant mid-year cuts in state school funding. A 24-day furlough was averted.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Portland Public Schools' basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

- 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 Portland Public Schools 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, Portland Public Schools has governmental activities, which include instruction, supporting services, facilities, food services, community service, and debt service. Portland Public Schools currently does not have any business-type activities.

The government-wide financial statements can be found on pages 12-13 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. All of the funds of the Portland Public Schools can be divided into two categories: governmental funds and proprietary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term* inflows and outflows of available resources, as well as on 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*.

Portland Public Schools maintains five different individual 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, the Grant Fund, and three capital projects funds, all of which are considered to be major funds. Data from the other nine governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

Portland Public Schools adopts an annual appropriated budget for all of its funds. A budgetary comparison statement has been provided for each fund individually in supplementary information to demonstrate compliance with their budgets.

The basic governmental fund financial statements can be found on pages 14-18 of this report.

Proprietary funds are used to account for a government's business-type activities. The District maintains only one type of proprietary fund, which is an internal service fund.

Internal service funds are accounting devices used to accumulate and allocate costs internally among various functions. The District uses an internal service fund to account for its Self-Insurance activities. Because Portland Public Schools has no business-type functions, this service benefits governmental functions and has been included within the governmental activities in the governmental-wide financial statements.

Internal service funds provide the same type of information as the government-wide financial statements. The internal service fund financial statements provide separate information for the Self-Insurance Fund, which is considered to be a major fund of Portland Public Schools.

The basic internal service fund financial statements can be found on pages 19-21 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 22-37 of this report.

Required Supplemental Information (RSI) is located directly after the notes to the basic financial statements and represent the required comparison of the General Fund and the only major special revenue fund, the Grants Funds, budget and actual results on the District's budgetary basis. This information is on pages 39-42.

The **Combining Statements** referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 44-49 of this report.

Government-Wide Financial Analysis

Net assets. As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. In the case of Portland Public Schools, assets exceeded liabilities by \$132,688,368 at the close of the most recent fiscal year.

Condensed Statement of Net Assets

	Total School District Governmental Activities		Percentage Change
	<u>2002</u>	<u>2003</u>	<u>2002-2003</u>
Assets			
Current and other assets	\$ 138,570,096	\$ 103,758,133	-25.1%
Prepaid PERS unfunded actuarial liability	-	486,617,609	n/a
Net capital assets	<u>223,642,208</u>	<u>228,616,491</u>	2.2%
Total assets	<u>362,212,304</u>	<u>818,992,233</u>	126.1%
Liabilities			
Long-term debt outstanding	169,925,241	78,866,315	-53.6%
PERS unfunded actuarial liability debt outstanding	-	491,273,897	n/a
Other liabilities	<u>78,923,488</u>	<u>116,163,653</u>	47.2%
Total liabilities	<u>248,848,729</u>	<u>686,303,865</u>	175.8%
Net Assets			
Invested in capital assets, net of related debt	87,514,912	123,871,911	41.5%
Unrestricted	<u>25,848,663</u>	<u>8,816,457</u>	-65.9%
Total net assets	<u>\$113,363,575</u>	<u>\$ 132,688,368</u>	17.0%

By far the largest portion of the District's net assets (93%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets for classrooms and supporting services for providing K-12 education; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

At the end of the current fiscal year, Portland Public Schools is able to report positive balances in both categories of net assets for governmental activities. The District's net assets increased by \$19,324,793 during the current fiscal year. By far the largest portion of this increase represents the degree to which the capitalization of assets coupled with the liquidating of related debt exceeds depreciation expense. The remainder of this growth largely reflects increases in operating grants and contributions.

The revenues and expenses shown below explain changes in net assets for the fiscal years 2002 and 2003.

Changes in Net Assets

	Total School District Governmental Activities		
	<u>2002</u>	<u>2003</u>	
Revenues			
Program Revenues			
Charges for services	\$ 12,858,442	\$ 10,532,039	2.3%
Operating grants & contributions	83,955,434	75,616,763	16.2%
Total Program Revenues	<u>96,813,876</u>	<u>86,148,802</u>	18.5%
General Revenues			
Property taxes	182,765,788	194,401,235	41.7%
State school fund	193,284,103	150,705,317	32.3%
Common school fund	1,527,383	3,100,444	0.6%
County and intermediate sources	10,863,837	24,440,903	5.2%
Investment earnings	5,310,974	2,187,551	0.5%
Other	2,278,644	5,343,708	1.1%
Gain on disposal of fixed assets	2,098,078	239,238	0.1%
Total General Revenues	<u>398,128,807</u>	<u>380,418,396</u>	81.5%
Total Revenues	<u>494,942,683</u>	<u>466,567,198</u>	100.0%
Expenses			
Instruction	278,299,538	246,091,005	55.0%
Supporting services	159,969,208	160,169,734	35.8%
Facilities	7,031,606	15,638,257	3.5%
Food services	13,261,350	13,411,985	3.0%
Community services	1,617,719	1,324,171	0.3%
Interest on long-term debt	12,209,958	10,607,253	2.4%
Total Expenses	<u>472,389,379</u>	<u>447,242,405</u>	100.0%
Increase in net assets	22,553,304	19,324,793	
Net assets - beginning	<u>90,810,171</u>	<u>113,363,575</u>	
Net assets - ending	<u>\$ 113,363,475</u>	<u>\$ 132,688,368</u>	

Revenues. Since the District's mission is to provide a free and appropriate public education for K-12 students within its boundaries, the District may not charge for its core services. As expected, therefore, general revenues provide 81.5% of the funding required for governmental programs. Property taxes and State school fund combined account for 90.7% of general revenues and 74.0% of total revenues.

Charges for services are only 2.3% of total revenues and are composed of the following items for which it is appropriate that the District charge tuition or fees:

- Food services charge not only for lunch and breakfast, but also for catering and contract services. \$ 4,213,286

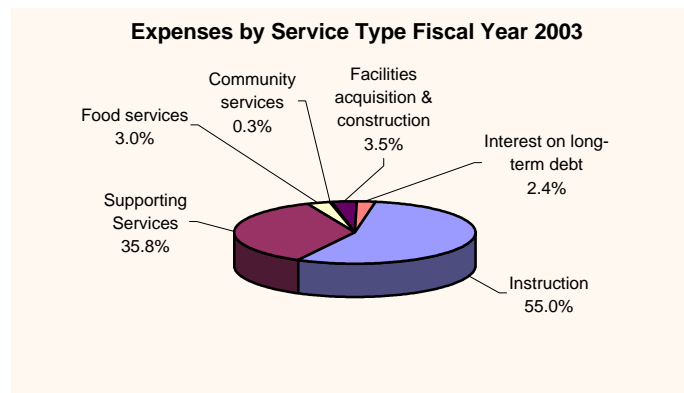
- Tuition is charged for all-day kindergarten, evening high school, out-of-district students, summer school, and driver's education. 2,237,757
 - Facilities leverages District buildings by leasing and renting classrooms, cafeterias, gymnasiums, swimming pools, auditoriums, and entire vacant buildings. 1,847,893
 - The District is under contract with the State to provide certain services for special needs children for four other Districts in the region, who or are charged accordingly. 980,221
 - Athletics charges pay-to-play fees and sells tickets to events and games. 673,691
 - Inventory sales.
 - Other sales, royalties, and events generate revenue. 579,191
- \$ 10,532,039**
- Total Charges for Services:

Operating grants and contributions represent 16.2% of total revenues. Included in this category are \$9.5 million for federal reimbursement under the school lunch program and \$7.3 million raised or donated by student body activities. Federal and state grants for designated programs totaled \$54.6 million.

Expenses. Expenses related to governmental activities are presented in six broad functional categories. Costs of direct classroom instruction activities account for 55.0% of the total expenses of \$447,242,405. In addition, approximately half of the costs in supporting services relate to students, instructional staff and school administration.

Net Cost of Governmental Activities

	<u>Total Cost of Services</u>		<u>Percentage</u>	<u>Net Cost of</u>		<u>Percentage</u>
	<u>2002</u>	<u>2003</u>	<u>Change</u>	<u>(Profit from) Services</u>		<u>Change</u>
	<u>2002</u>	<u>2003</u>	<u>2002-2003</u>	<u>2002</u>	<u>2003</u>	<u>2002-2003</u>
Instruction	\$ 278,299,538	\$ 246,091,005	-11.6%	\$ 214,518,928	\$ 191,466,360	-10.7%
Supporting Services	159,969,208	160,169,734	0.1%	141,719,289	143,984,134	1.6%
Food services	13,261,350	13,411,985	1.1%	73,623	(622,293)	n/a
Community services	1,617,719	1,324,171	-18.1%	22,099	19,892	-10.0%
Facilities acquisition & construction	7,031,606	15,638,257	122.4%	7,031,606	15,638,257	122.4%
Interest on long-term debt	<u>12,209,858</u>	<u>10,607,253</u>	-13.1%	<u>12,209,858</u>	<u>10,607,253</u>	-13.1%
Total	<u>\$ 472,389,279</u>	<u>\$ 447,242,405</u>	-5.3%	<u>\$ 375,575,403</u>	<u>\$ 361,093,603</u>	-3.9%



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.

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$23,534,534. Of this amount, \$23,228,580 is committed to capital projects.

A. State Revenue Shortfalls

Portland Public Schools was subject to unprecedented fluctuations in revenue during 2002-03, the second year of the State's biennial appropriation. Revenue shortfalls at the state level, primarily the result of Oregon having the highest unemployment in the nation, drove legislative leaders to be called into five special sessions to adjust operating budgets and re-balance the State budget. During the third special session in June 2002, Senate Bill 1022 was passed. During the 2003 regular legislative session House Bill 2650 was passed, amending SB 1022. Of the variety of changes accomplished by these bills, those impacting the District most significantly include:

- ◆ Decreasing the total amount available in the State School Fund for distribution to K-12 schools
- ◆ Allowing districts to accrue up to a maximum of \$309 per ADMw from 2003-04 revenue into the 2002-03 fiscal year. The maximum accrual allowed the District for 2003-04 was \$18,471,450.
- ◆ Providing a formula to calculate the amount per ADMw of future revenues allowed to be accrued to the previous year's revenues.

Authority for this accrual continues, unless the statute is amended in a future legislative session.

The amount of the State School Fund not paid in fiscal year 2002-03 may be accrued as if it were a receivable and revenue using the modified accrual method on the budgetary basis of accounting. However, under generally accepted accounting principles (GAAP) such an accrual is not appropriate. Therefore, the State School Fund revenue reported in accordance with GAAP on the government-wide statement (p.12) and the governmental funds statement (p.14) reflect no such accrual. State School Fund revenue reported in the General Fund on a budgetary, non-GAAP basis (p. 52) does include \$17,100,000 accrual as allowed under SB 1022.

B. District Revenue Shortfalls

All indications support a conclusion that the State enacted the plan embodied in SB 1022 to avoid severe budget cuts resulting from the decrease in State revenues. Despite this legislation, the District faced such drastic revenue shortfalls during 2002-03, that in February 2003 the District announced a 24-day furlough during which all schools and offices of the District would be closed. The prospect of the negative impact such a long furlough would have on the educational experience of the students dismayed District leadership, teachers, employees, political leaders and community stakeholders alike. In response, non-represented employees and members of the SEIU Local 140 accepted a redesign of their health care benefits with a premium cap of \$600 per month. The members of the Portland Association of Teachers agreed to a 5.263% retroactive salary reduction, which was the equivalent of 10-days salary. The City of Portland increased its Business License Fees and provided the District \$14 million in cash.

General Fund Budgetary Highlights

The budget was adjusted during the year to react to changing resources, primarily, declines in state funding. The changes can be briefly summarized as follows:

- \$5.1 million increase in instruction
- (\$3.3) million decrease in student supporting services
- \$5.0 million increase in debt service, to correct a budgeting error
- \$1.8 million increase in transfers out, to establish the PERS Rate Stabilization Reserve fund
- \$501 million increase in PERS unfunded actuarial liability payment, to reflect the District's participation in pooled limited tax pension bonds to effect a reduction in the PERS rate charged to expense.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2003, amounts to \$228,616,491 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles & equipment, and construction in progress. The District's investment in capital assets for the current fiscal year reflects a 2.2% increase over the prior year.

Capital Assets (net of depreciation)

	Total School District Governmental Activities		Total Percentage Change
	<u>2002</u>	<u>2003</u>	<u>2002-2003</u>
Land	\$ 9,049,378	\$ 9,049,378	0.0%
Buildings	184,355,422	189,869,181	3.0%
Vehicles & Equipment	16,304,996	14,933,261	-8.4%
Construction in Progress	13,932,412	14,764,671	6.0%
Total	\$ 223,642,208	\$ 228,616,491	2.2%

Major capital asset events during the current fiscal year included the following:

- Building improvements continue in the areas of seismic upgrades, fire, life and safety, ADA compliance, and priority building repairs.
- Completed projects added cost of \$15.7 million to buildings and site improvements. Construction in progress as of the close of fiscal year had reached \$14.7 million.

Additional information on the District's capital assets can be found in note 7 on page 30 of this report.

Long-term debt. At the end of the current fiscal year, the District had total debt outstanding of \$618,218,477. Of this amount, \$65,375,000 comprises general obligation debt and \$513,473,897 represents limited tax obligation debt, and \$39,369,580 comprises debt backed by the full faith and credit of the District. The District's total debt increased by \$448,293,236 during the current fiscal year.

Outstanding Long-term Debt

	Total School District		Percentage
	2002	2003	Change
General obligation bonds	\$ 124,845,000	\$ 87,575,000	-29.9%
PERS limited tax general obligation bonds	-	491,273,897	n/a
Other Long-term debt	45,080,241	39,369,580	-12.7%
Total	\$ 169,925,241	\$ 618,218,477	263.8%

Standard & Poor's gave the District's debt a single A rating on its outstanding limited tax general obligation refunding debt (the gap bond) in 1999, and an A+ rating on the unlimited tax general obligation debt outstanding at June 30, 1999. Moody's Investors Service confirmed the rating on the District's outstanding gap bond is A1 and on the unlimited tax general obligation bonds is Aa3 in 1999. The ratings are primarily based on the District's large and diverse tax base, which continues to grow. These ratings remain unchanged at June 30, 2003. At the time of issuance, the Limited Tax Pension Obligation, Series 2002 and Series 2003, received a Standard & Poor's rating of AA-, which shadow the credit rating for the State of Oregon. In November 2003, Standard & Poor's downgraded the State of Oregon's credit rating, which consequently changed the rating for the Limited Tax Pension Obligations, Series 2003 from AA- to "A+".

State statutes limit the amount of general obligation debt a school district may issue based on a formula for determining the percentage of the Real Market Value of all taxable properties within the District. The District's general obligation bond debt capacity is 7.95% of Real Market Value or \$3,542,847,741, which is significantly in excess of the District's outstanding general obligation debt.

PERS is Oregon's public pension system. Under a pension plan, the actuarial liability is the present value of the plan's current and expected benefits payments (plus administrative expenses). If a fund's actuarial liability exceeds its assets, then the fund has a shortfall that is known as an unfunded actuarial liability ("UAL"). The portion of the PERS UAL attributable to Oregon education districts was estimated at over \$1.73 billion based on the 2000 valuation and is expected to increase when the 2001 and 2002 actuarial valuation reports are released. PERS requires that school districts pay (or "amortize") this UAL over a period of approximately 26 years with interest at 8% a year. Since interest rates have been at historic lows, an opportunity to benefit from interest rate arbitrage was created.

The District participated in the Oregon School Board Association ("OSBA") sponsored pooled pension obligation bond program, in which the proceeds from bond issues were used to offset a portion of the UAL. The details of the District's borrowing are in Note 10 to the Basic Financial Statements. The benefits of the arbitrage are seen in a substantial reduction in the District's PERS employer rate. This reduction in rates should dampen the effects of future increases in the District's UAL. As long as PERS' investment returns exceed the costs of servicing the bonds, the benefits of this program will exceed the costs. The District's UAL was reduced, but was not eliminated, by these borrowing transactions. Statutes, legislation, regulations, and rules regarding PERS can change at any time. These changes may improve or reduce the benefits of participation in the bond program.

Additional information on the District's long-term debt can be found in note 10 on page 31 of this report.

Economic Factors and Next Year's Budgets

- In recent years, unemployment rates in the Portland-Vancouver area had been lower than those in the rest of the State and in the nation. However, during the current fiscal year unemployment rates in Oregon remained over 7%, which are among the highest in the nation.
- HB 5077 appropriates \$5.2 billion in state resources to the Department of Education for the 2003-05 biennium K-12 State School Fund ("SSF") for all Oregon public schools. An additional \$100 million may be allocated in 2004-05 if certain state revenue targets are met. The bill reduces the 2004-05 SSF appropriation by \$285 million, if the graduated income tax assessment component of the legislature's revenue package (HB 2152) is referred by petition to voters and rejected. It reduces the 2004-05 appropriation by \$414 million, if the entire revenue package is referred and rejected. HB 2825 sets a special election for February 3, 2004, if HB 2152, or any part thereof, is referred to voters by petition. The potential impact on the District's revenues for 2004-05 is expected to be partially or fully offset by the Multnomah County Income Tax (Measure 26-48 passed by the voters in Multnomah County on May 20, 2003), which assesses a 1.25% income tax rate on taxable personal income for 2003, 2004, and 2005.
- When the District and the Portland Association of Teachers (PAT) reached a tentative agreement in February 2003, it called for the creation of the Compensation & Health Benefits Advisory Committee. The Committee was charged with making findings and recommendations for the creation of a balanced and competitive compensation package that reduces cost of benefits and increases teacher salaries. The Committee issued its report on October 31, 2003. The specific recommendations may only be implemented through agreements reached during collective bargaining. The PAT contract expires June 30, 2004.

Requests for Information

This financial report is designed to provide a general overview of the Portland Public Schools' finances for all those with an interest in the District's finances. Questions concerning any of the information provided in the report or requests for additional financial information should be addressed to the Office of the Controller, Portland Public Schools, 501 N Dixon, Portland, OR, 97227.

BASIC FINANCIAL STATEMENTS

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Statement of Net Assets
June 30, 2003

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 31,824,571
Cash in segregated accounts	2,979,730
Cash and cash equivalents held by fiscal agents	1,630,707
Investments	32,776,064
Accounts and other receivables	16,405,523
Property taxes and other taxes receivable	11,396,969
Inventories	1,542,291
Prepaid items	607,861
Prepaid PERS unfunded actuarial liability	486,617,609
Bond issue costs, net of accumulated amortization	4,594,417
Capital Assets, net of accumulated depreciation:	
Land	9,049,378
Buildings and capital improvements	189,883,030
Vehicles and equipment	14,919,412
Construction in progress	14,764,671
Total assets	<u>818,992,233</u>
LIABILITIES	
Accounts payable	9,266,850
Accrued wages and benefits	49,851,069
Claims payable	5,046,000
Accrued bond interest payable	2,253,387
Arbitrage rebate	672,698
Deferred revenues	995,384
Noncurrent Liabilities:	
Bonds payable - Due within one year	48,078,265
Bonds payable - Due in more than one year	570,140,212
Total liabilities	<u>686,303,865</u>
NET ASSETS	
Invested in capital assets, net of related debt	123,871,911
Unrestricted	8,816,457
Total net assets	<u><u>\$ 132,688,368</u></u>

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

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Statement of Activities
For the year ended June 30, 2003

Functions/Programs	Expenses	PROGRAM REVENUES		Net (Expense) Revenue and Changes in Net Assets
		Charges for services	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction	\$ 246,091,005	\$ 6,318,753	\$ 48,305,892	\$ (191,466,360)
Supporting services	160,169,734	-	16,185,600	(143,984,134)
Food services	13,411,985	4,213,286	9,820,992	622,293
Community services	1,324,171	-	1,304,279	(19,892)
Facilities acquisition & construction	15,638,257	-	-	(15,638,257)
Interest and fees on long-term debt	10,607,253	-	-	(10,607,253)
Total governmental activities	<u>\$ 447,242,405</u>	<u>\$ 10,532,039</u>	<u>\$ 75,616,763</u>	<u>(361,093,603)</u>
GENERAL REVENUES:				
Property taxes, levies for operations				131,056,316
Property taxes, levies for debt service				47,081,715
Local option taxes				16,263,204
State School Fund				150,705,317
State Common School Fund				3,100,444
County and intermediate sources				24,440,903
Investment earnings				2,187,551
Other				5,343,708
Gain on disposal of capital assets				239,238
Total general revenues				<u>380,418,396</u>
Change in net assets				19,324,793
Net assets - beginning of year				<u>113,363,575</u>
Net assets - end of year				<u>\$ 132,688,368</u>

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

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Governmental Funds
Balance Sheet
June 30, 2003

	<u>General Fund</u>	<u>Grant Fund</u>
ASSETS		
Cash and cash equivalents	\$ 21,619,672	\$ -
Cash in segregated accounts	6,551	-
Cash and cash equivalents held by fiscal agents	1,243,450	-
Investments	138,093	-
Accounts and other receivables	5,706,194	9,080,369
Property taxes and other taxes receivable	8,741,769	-
Due from other funds	461,818	-
Inventories	938,999	-
Prepaid Items	607,861	-
Total assets	<u>\$ 39,464,407</u>	<u>\$ 9,080,369</u>
LIABILITIES		
Accounts payable	\$ 3,902,878	\$ 1,171,345
Accrued wages and benefits	40,884,027	6,451,822
Due to other funds	400,000	461,818
Arbitrage rebate	-	-
Deferred revenues	7,829,050	995,384
Total liabilities	<u>53,015,955</u>	<u>9,080,369</u>
FUND BALANCES (DEFICIT)		
Unreserved, reported in:		
General Fund	(13,551,548)	-
Special revenue funds	-	-
Capital projects funds	-	-
Debt service funds	-	-
Total fund balances (deficit)	<u>(13,551,548)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 39,464,407</u>	<u>\$ 9,080,369</u>

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

System Project Fund	Facilities Improvement/Technology Fund	Facilities Improvement II Fund	Other Governmental Funds	Total Governmental Funds
\$ 2,215	\$ 508,568	\$ 160,947	\$ 8,083,213	\$ 30,374,615
-	-	-	2,973,179	2,979,730
-	-	-	387,257	1,630,707
2,719,000	17,792,000	5,320,000	1,982,971	27,952,064
2,370	14,224	2,610	1,458,988	16,264,755
-	-	-	2,655,200	11,396,969
-	-	-	400,000	861,818
-	-	-	603,292	1,542,291
-	-	-	-	607,861
<u>\$ 2,723,585</u>	<u>\$ 18,314,792</u>	<u>\$ 5,483,557</u>	<u>\$ 18,544,100</u>	<u>\$ 93,610,810</u>
\$ 191,396	\$ 2,265,603	\$ 115,809	\$ 902,547	\$ 8,549,578
23,726	7,748	16,374	1,386,814	48,770,511
-	-	-	-	861,818
672,698	-	-	-	672,698
-	-	-	2,397,237	11,221,671
<u>887,820</u>	<u>2,273,351</u>	<u>132,183</u>	<u>4,686,598</u>	<u>70,076,276</u>
-	-	-	-	(13,551,548)
-	-	-	11,222,575	11,222,575
1,835,765	16,041,441	5,351,374	-	23,228,580
-	-	-	2,634,927	2,634,927
<u>1,835,765</u>	<u>16,041,441</u>	<u>5,351,374</u>	<u>13,857,502</u>	<u>23,534,534</u>
<u>\$ 2,723,585</u>	<u>\$ 18,314,792</u>	<u>\$ 5,483,557</u>	<u>\$ 18,544,100</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	228,616,491
Long-term taxes receivable are not available to pay for current-period expenditures and therefore, are deferred in the funds.	10,226,287
The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	624,713
Bonds payable are not due and payable in the current period and therefore are not reported in the funds.	(618,218,477)
PERS unfunded liability payment is not reported as a prepayment in the funds and therefore, is expensed in the the funds.	486,617,609
Bond issue costs are not amortized over the life of the bonds in the funds and therefore are expensed in the year of the bond issue.	4,594,417
Accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(1,053,819)
Bond interest is not accrued as a liability in the government funds.	(2,253,387)
Net assets of governmental activities	\$ 132,688,368

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the year ended June 30, 2003

	<u>General Fund</u>	<u>Grant Fund</u>
REVENUES		
Property and other taxes	\$ 131,120,992	\$ -
State School Fund (See Note 15)	150,705,317	-
Local option taxes	16,263,204	-
County and intermediate sources	23,419,710	1,021,193
State Common School Fund	3,100,444	-
Sales	-	-
Federal and state support	-	53,932,428
Investment earnings	1,134,924	-
Extracurricular activities	-	-
Other	7,830,133	1,259,410
Total revenues	<u>333,574,724</u>	<u>56,213,031</u>
EXPENDITURES		
Current Operating:		
Instruction	205,323,920	38,392,786
Supporting services	129,855,161	16,185,600
Food services	-	330,366
Community services	-	1,304,279
Facilities acquisition & construction	-	-
Debt Service:		
Principal	515,661	-
Interest	759,648	-
Bond issue costs	4,314,271	-
Total expenditures	<u>340,768,661</u>	<u>56,213,031</u>
Excess of expenditures over revenues	<u>(7,193,937)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	-	-
Transfers out	(8,850,365)	-
PERS bond proceeds	490,933,461	-
PERS unfunded actuarial liability payment	(486,617,609)	-
Proceeds from the sale of property	995,922	-
Total other financing sources (uses)	<u>(3,538,591)</u>	<u>-</u>
Net change in fund balances	(10,732,528)	-
Fund balances (deficit) - beginning of year	(2,819,020)	-
Fund balances (deficit) - end of year	<u>\$ (13,551,548)</u>	<u>\$ -</u>

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

System Project Fund	Facilities Improvement/ Technology Fund	Facilities Improvement II Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 47,081,715	\$ 178,202,707
-	-	-	-	150,705,317
-	-	-	-	16,263,204
-	-	-	-	24,440,903
-	-	-	-	3,100,444
-	-	-	4,213,286	4,213,286
-	-	-	10,183,845	64,116,273
154,990	528,670	76,347	233,001	2,127,932
-	-	-	7,171,159	7,171,159
-	-	-	6,443,431	15,532,974
<u>154,990</u>	<u>528,670</u>	<u>76,347</u>	<u>75,326,437</u>	<u>465,874,199</u>
-	-	-	10,626,629	254,343,335
3,925,643	4,187,271	393,500	2,134,865	156,682,040
-	-	-	13,182,154	13,512,520
-	-	-	19,892	1,324,171
-	15,638,257	-	-	15,638,257
-	-	-	42,465,000	42,980,661
-	-	-	8,223,050	8,982,698
-	-	-	-	4,314,271
<u>3,925,643</u>	<u>19,825,528</u>	<u>393,500</u>	<u>76,651,590</u>	<u>497,777,953</u>
<u>(3,770,653)</u>	<u>(19,296,858)</u>	<u>(317,153)</u>	<u>(1,325,153)</u>	<u>(31,903,754)</u>
-	-	-	8,850,365	8,850,365
-	-	-	-	(8,850,365)
-	-	-	-	490,933,461
-	-	-	-	(486,617,609)
-	-	-	-	995,922
<u>-</u>	<u>-</u>	<u>-</u>	<u>8,850,365</u>	<u>5,311,774</u>
<u>(3,770,653)</u>	<u>(19,296,858)</u>	<u>(317,153)</u>	<u>7,525,212</u>	<u>(26,591,980)</u>
<u>5,606,418</u>	<u>35,338,299</u>	<u>5,668,527</u>	<u>6,332,290</u>	<u>50,126,514</u>
<u>\$ 1,835,765</u>	<u>\$ 16,041,441</u>	<u>\$ 5,351,374</u>	<u>\$ 13,857,502</u>	<u>\$ 23,534,534</u>

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2003

Net change in fund balances - total governmental funds (page 17) \$ (26,591,980)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report all capital outlays as expenditures. However, in the statement of activities the cost of certain assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays of \$18,770,688 exceeded depreciation in the current period of \$12,845,619 and a reclass of \$194,102. 5,730,967

Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This is the change in deferred revenue related to property taxes. (64,676)

An internal service fund is used to account for all costs incurred for claims arising from workers' compensation, general liabilities, and property and fire losses. The primary funding sources are charges to other funds. This amount is the net loss of that fund for the year. (1,322,922)

Revenues need to be reduced by the net book value of capital assets sold. This equates to the cost of assets sold. (756,684)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. (443,698,819)

Governmental funds reports the prepayment of the PERS unfunded actuarial liability as an other financing use. However, in the statement of activities the expense is the reduction of the prepaid asset. 486,617,609

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Change in compensated absences	975,563
Change in bond interest payable	(1,564,265)

Change in net assets of governmental activities (page 13) \$ 19,324,793

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

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Statement of Net Assets
Proprietary Fund
June 30, 2003

	Internal Service
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 1,449,956
Investments	4,824,000
Accounts and other receivables	140,768
Total assets	6,414,724
 LIABILITIES	
Current Liabilities	
Accounts payable and other current liabilities	717,272
Accrued salaries, wages and benefits payable	26,739
Claims payable	5,046,000
Total liabilities	5,790,011
 NET ASSETS	
Unrestricted	624,713
Total net assets	\$ 6,414,724

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

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended June 30, 2003

	Internal Service
REVENUES	
Current Operating:	
Charges for services	\$ 3,997,972
Insurance recoveries	385,825
Other	72,993
Total revenues	4,456,790
 EXPENSES	
Current Operating:	
Salaries and benefits	375,787
Materials and services	1,053,692
Claims expense	4,409,852
Total expenses	5,839,331
Operating Loss	(1,382,541)
 NON OPERATING REVENUES	
Investment earnings	59,619
Net loss	(1,322,922)
Net assets - beginning of year	1,947,635
Net assets - end of year	\$ 624,713

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

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2003

	Internal Service
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from quasi-external transactions with other funds	\$ 3,997,972
Cash received from insurance recoveries	246,895
Cash received from miscellaneous transactions	72,993
Cash payments for salaries and benefits	(403,526)
Cash payments for goods and services	(4,903,707)
Net cash used by operating activities	(989,373)
CASH FLOWS FROM INVESTING ACTIVITIES	
Sale of investments	1,885,000
Investment earnings	59,619
Net cash provided by investing activities	1,944,619
Net increase in cash and cash equivalents	955,246
Cash and cash equivalents at beginning of year	494,710
Cash and cash equivalents at end of year	\$ 1,449,956
RECONCILIATION OF OPERATING LOSS TO CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (1,382,541)
Adjustment to reconcile operating loss to net cash used by operating activities:	
Increase in accounts receivable	(138,930)
Increase in accounts payable	559,837
Decrease in accrued salaries, and wages and benefits payable	(27,739)
Total adjustments	393,168
Net cash used by operating activities	\$ (989,373)
Non cash activities: None	

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

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements

For the Year Ended June 30, 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

School District No. 1, Multnomah County, Oregon, known as Portland Public Schools or the District, is governed by a seven-member elected board. The District is the special-purpose primary government exercising financial accountability for all public K-12 education within its boundaries. As required by generally accepted accounting principles, the accompanying financial statements present all significant activities and organizations of the District. The District reports no component units, entities for which the government is considered to be financially accountable, and is not a component unit of any other entity and specifically has no relationship or connection with Multnomah County.

The financial statements of the District 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 District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

A. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements.

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. Program revenues include 1) charges to customers who purchase or use goods, services, or privileges provided by a given function, 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and the Self-Insurance Fund, an internal service fund, even though the fund is excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

B. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary 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, the District considers revenues 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 are considered to be susceptible to accrual, if received in cash by the District 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. Measurable means the amount of the transaction can be determined and available means collectible within the current year or soon thereafter. The available period for the District is 60 days after year-end.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements
For the Year Ended June 30, 2003

The District reports the following major governmental funds:

General – Accounts for the general operations of the District. The General Fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund's resources are available to the District for any purpose provided they are expended or transferred according to a resolution of the District and/or the general laws of Oregon.

Grant – Accounts for revenues and expenditures of grants restricted for specific projects. Principal revenue sources are federal and state grants.

System Project - Accounts for the acquisition and installation of new multi-tiered computer systems, including hardware, peripherals, software, integration of business and instructional applications, related infrastructure and training. The System Project Fund also accounts for the acquisition and installation of furniture and equipment, repair and reconstruction of District facilities, construction and preparation of facilities for interactive distance learning, and related costs and improvements. Primary resources for the fund are bond proceeds in prior years and interest earnings.

Facilities Improvement/ Technology - Accounts for the acquisition and installation of desktop computers in classroom, installation of wiring and relocated infrastructure to support computers in classrooms, and for construction related to major renovations and building repairs to the District's facilities, including American with Disabilities Act and safety requirements. Primary resources for the fund are bond proceeds in prior years and interest earnings.

Facilities Improvement II - Accounts for the construction of a new elementary school, and for construction related to major renovations and priority building repairs of the District's facilities, including Americans with Disabilities Act and safety requirements. Primary resources for the fund are bond proceeds in prior years and interest earnings.

Additionally, the District reports the following proprietary internal service fund:

Self-Insurance – Accounts for all costs incurred for claims arising from workers' compensation, general liabilities, and property and fire losses. The primary resources for the fund are charges to other funds and investment earnings. The activity and balances of this fund are included in the governmental activities in the government-wide financial statements. All revenues except for investment revenue is considered operating revenue.

Furthermore, the District established a new fund called the PERS Rate Stabilization Reserve Fund:

PERS Rate Stabilization Reserve Fund – The combination of recent economic events, legislative actions, and circumstances at PERS has seemed to magnify PERS issues and concerns. Just within the 2002-03 year, for example, the PERS rate assessed on payroll was announced to change from 12.73% to 18.58% and then changed again to 11.11%. In addition, the District took certain actions to effect further reductions in the PERS rate. The PERS Rate Stabilization Reserve Fund accounts for amounts set aside by the Board to minimize the financial impact of such rate fluctuations in future years. The primary resources for the fund are transfers from the General Fund.

C. Appropriations and Budgetary Controls

The District prepares a budget for all funds in accordance with the modified accrual basis of accounting, with certain adjustments, and legal requirements set forth in Oregon Local Budget Law.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements

For the Year Ended June 30, 2003

Consistent with Oregon law, expenditures are appropriated by fund for each legally adopted annual operating budget at the following levels of control, as appropriate:

- Instruction
- Supporting Services
- Community Services
- Food Services
- Debt Service
- Operating Contingencies
- Fund Transfers

Capital outlay expenditures are appropriated within the instruction and supporting services levels of control. Debt service expenditures in the General Fund are appropriated within the supporting services level of control. For reporting purposes debt service expenditures of General Fund are segregated from the supporting services budgetary control levels and are presented in the debt service expenditures category. Capital outlay is not segregated.

After the original budget is adopted, the Board of Education may approve appropriation transfers between the levels of control without limitation. Supplemental appropriations may be approved by the Board of Education if any occurrence, condition, or need exists which had not been anticipated at the time the budget was adopted. An appropriations transfer, which alters estimated total expenditures by less than 10% of any individual fund, may be adopted at the regular meeting of the Board of Education. For conditions which require either supplemental appropriations or an increase in expenditures greater than 10% of an individual fund, a supplemental budget must be adopted, which requires public hearings, publications in newspapers and approval by the Board of Education. Supplemental budgets must be submitted, reviewed and certified, similar to the original budget, by the Multnomah County Tax Supervising and Conservation Commission subsequent to approval by the Board of Education. Appropriations lapse at the end of each fiscal year.

D. Encumbrances

During the year encumbrances are recorded in the accounting records when purchase orders are issued. The use of encumbrances indicates to District employees that appropriations are committed, however, all encumbrances expire at year-end.

E. 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, demand deposits and cash with county treasurer 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. Other investments are stated at amortized cost, which approximates fair value.

F. Property Taxes

Uncollected real and personal property taxes are reflected on the statement of net assets and the balance sheet as receivables.

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.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements
For the Year Ended June 30, 2003

G. 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 Cafeteria Fund are included in the District's inventories at USDA wholesale value. The District accounts for the inventory based on the consumption method. Under the consumption method inventory is recorded when purchased and expenditures/expenses are recorded when inventory items are used. 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 for reporting purposes. Prepaid assets are recognized as expenditures when their use benefits the District.

H. Capital Assets

Capital assets, which include land, buildings and site improvements, construction in progress, and vehicles and equipment, are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000, and an estimated useful life in excess of one year. Such assets are recorded at historical cost, or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are completed.

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

<u>Asset</u>	<u>Years</u>
Buildings	100
Site Improvements	5 to 25
Equipment	5 to 15

I. Grant Accounting

Unreimbursed expenditures due from grantor agencies are recorded in the financial statements as accounts receivable and revenues. Cash received from grantor agencies in excess of related grant expenditures is reflected as a deferred revenue liability on the statement of net assets and the balance sheet.

J. Self-insurance

The District operates the Self-Insurance Fund to account for the costs of workers' compensation claims, general liability claims, property and fire loss claims, and the payment of premiums. Charges to other funds by the Self-Insurance Fund are recognized as revenues in the Self-Insurance Fund and as expenditures in the fund incurring the charges.

The District recognizes the liabilities for estimated losses to be incurred from pending claims and for claims incurred but not reported (IBNR). IBNR claims are estimates of claims that are incurred through the end of the fiscal year but have not yet been reported. These liabilities are based on actuarial valuations.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements

For the Year Ended June 30, 2003

The District is self-insured for costs up to policy deductible limits as follows:

	Self-insured Retention	Coverage per Occurrence	Excess Coverage
General and Automobile Liabilities	\$1,000,000	\$ 1,000,000	\$4,000,000
Property and Fire Liabilities	1,000,000	100,000,000	
Earthquake and Flood Liabilities		10,000,000	
Workers' Compensation Liabilities	1,000,000		1,000,000

The District has not exceeded the claims limitation on its insurance policies for the last five years.

K. Compensated Absences

Classified and hourly employees earn annual vacation leave at a rate of 10 days for one to five years of service and one additional day for each additional year of service up to a maximum of 22 days per year. Administrators earn 22 days of annual vacation leave. Employees are allowed to carry over their maximum yearly earned balances from one fiscal year to another. All outstanding vacation leave is payable upon resignation, retirement, or death.

Vested compensated absences, which include accrued vacation and salary related payments, are accrued in the Self-Insurance Fund as they are earned by employees. In governmental fund types, the amounts expected to be liquidated with expendable available financial resources are accrued in the fund. The amount payable is recorded in the statement of net assets.

Sick leave hours accumulate at the rate of eight hours per month without a limit on the total hours that can be accumulated. Accumulated sick leave does not vest and is forfeited at resignation, retirement or death. Sick leave is recorded as an expenditure/expense when leave is taken and no liability is recorded.

L. Receivables and Payables

Receivables expected to be collected within sixty days following year-end are considered measurable and available and are recognized as revenues in the fund financial statements. Other receivables, except grants, are offset by deferred revenues and, accordingly, have not been recorded as revenue. Receivables, net of any allowance for doubtful accounts, are recorded as assets for the statement of net assets.

Activity between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" in the fund financial statements, and is eliminated in the government-wide statements.

M. Long-term Obligations

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

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

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements

For the Year Ended June 30, 2003

N. Retirement Plans

Most of the District employees participate in Oregon Public Employees Retirement System (PERS). PERS requires plan contributions on a current basis. Contributions are recorded as expenditures in individual funds.

In addition, certificated employees with fifteen consecutive years of service with the District and who have attained age 55 or 30 years of service with the District are eligible for early retirement benefits. All employees with a minimum of fifteen consecutive years of service who are age 55 or older upon retirement are eligible for health and welfare benefits.

NOTE 2- BUDGETARY BASIS OF ACCOUNTING

While the District reports financial position, results of operations, and changes in fund balance/net assets/retained earnings on the basis of generally accepted accounting principles (GAAP), the District's budgetary basis of accounting differs from generally accepted accounting principles. The budgetary statements provided as part of supplementary information are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The primary difference between the District's budgetary basis and GAAP basis is that certain State School Fund revenue received in July 2003 is recorded as revenue and a receivable at June 30, 2003, as allowed under SB 1022 for budgetary purposes, but which do not meet the criteria for accrual on a GAAP basis. See Note 16.

NOTE 3 – RECLASSIFICATION OF APPROPRIATION

As more fully described in Note 10, during the year the District funded a portion of its unfunded actuarial liability (UAL) to the Oregon Public Employee Retirement System (PERS), by selling two series of limited tax pension bonds. The District enacted supplemental budgets to allow the payment of the net proceeds of the debt (\$490,933,461) to PERS. As a part of those supplemental budgets, the payments to PERS were appropriated as if they were pension payments and included as operational expenditures. However, management believes that it is more appropriate, as well as prevents misleading implications, to categorize those payments as other financing uses, similar to the treatment that would be appropriate for the repayment of refunded debt obligations. Accordingly, the appropriation for the payment to PERS of \$501,394,936, as well as the payments themselves, have been reclassified as other financing uses in the District's budgetary accounts.

NOTE 4 - STATE CONSTITUTIONAL PROPERTY TAX LIMITS

The State of Oregon has a constitutional limit on property taxes for schools and non-school government operations. Under the provisions of the limitation, tax revenues are separated into those for the public school system and those for local government operations other than the public school system. Property taxes levied for the payment of bonded indebtedness are exempt from the limitation, provided such bonds are either authorized by a specific provision of the Oregon Constitution or approved by the voters of the District for capital construction or improvements.

During May 1997, Oregon voters approved Measure 50 which limits taxes on each property by reducing the "assessed value" of each unit of property for the tax year 1998-99 to its 1995-96 value, less ten percent. Then, a "permanent tax rate", representing the product of dividing the tax levy by the assessed value, was calculated. The new tax rates are the permanent constitutional rate limit for each jurisdiction and are used to calculate future maximum tax rates. As a result of the establishment of permanent tax rates, the pre-existing levy-based tax system has effectively been replaced by a rate-based tax system.

The District's permanent tax rate for the year ended June 30, 2003 was \$4.7743 per \$1,000 of assessed value.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements

For the Year Ended June 30, 2003

NOTE 5 – DEPOSITS AND INVESTMENTS

A. Deposits

Deposits with financial institutions include bank demand deposits, deposits in the local government investment pool, time certificates of deposits, and savings account deposits as authorized by Oregon statutes. At June 30, 2003, the carrying amount of the District's deposits was \$34,804,301 and the statement balance was \$33,100,244. Of the statement balance, \$100,000 was covered by federal depository insurance, certificates of collateral were available up to \$13,000,000, and \$29,696,803 was on deposit in the local government investment pool and was exempt from collateralization. Oregon Revised Statutes require governmental funds in banks to be either protected by federal depository insurance or the financial institution is required to maintain on deposit with collateral pool manager securities having a value of not less than 25% of the face value of the certificate issued by the pool manager. When such securities are deposited, covered funds are considered fully collateralized under Oregon law. The collateral is held by a state-sponsored pool manager which is a commercial bank in the name of the pool manager, with the collateral certificate issued by the pool manager in the name of the District.

B. Investments

Oregon Revised Statutes authorize school districts to invest in obligations of the U.S. Treasury, agencies and instrumentalities of the United States, commercial paper, bankers' acceptances guaranteed by a qualified financial institution, repurchase agreements, interest bearing bonds of any city, county, port or school district in Oregon (subject to specific standards), and the Oregon State Local Government Investment Pool, among others. The Board of Education has adopted an investment policy for the District, which complies with state statutes.

In accordance with Governmental Accounting Standards Board (GASB) Statement No.31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments with a remaining maturity of more than one year at the time of purchase are stated at fair value at June 30, 2003. Fair value is determined at the quoted market price, if available, otherwise the fair value is estimated based on the amount at which the investment could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale. Investments in the State of Oregon Local Government Investment Pool (LGIP) are stated at share value, which approximates fair value.

The LGIP is administered by the Oregon State Treasury. The LGIP is an open-ended no-load diversified portfolio offered to any agency, political subdivision or public corporation of the state who by law is made the custodian of, or has control of, any fund. The LGIP is commingled with the State's short-term funds. In seeking to best serve local governments of Oregon, the Oregon Legislature established the Oregon Short-Term Fund Board. The purpose of the Board is to advise the Oregon State Treasury in the management and investment of the LGIP.

At June 30, 2003, the LGIP did not report all investments at fair value in accordance with the provisions of GASB Statement No. 31. The LGIP is required by Oregon Revised Statutes (ORS) to compute the fair value of all investments maturing more than 270 days from the date the computation is made. If the fair value totals more than one percent of the balance of the LGIP in terms of unrealized gain or loss, the amount is required to be distributed to the pool participants. Fifty percent of the LGIP portfolio must mature within 93 days. Up to 25% of the LGIP portfolio may mature in over one year and no investment may mature in over three years. At June 30, 2003, the District's share of the amount of unrealized gain reported by the LGIP, in accordance with ORS, was considered immaterial.

The District's investments at June 30, 2003 are categorized below to give an indication of the level of custodial credit risk assumed by the District. Category 1 includes investments that are insured or registered for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the trust department of the bank that acquired the security for the District in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the bank selling the security to the District.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements

For the Year Ended June 30, 2003

The District requires all securities, except for overnight investments used in conjunction with the District's demand deposit account, to be purchased in the District's name and held in third party safekeeping. During the year, the District invested in overnight commercial paper for which the underlying securities were held by the dealer.

	Category 1	Carrying Value
U.S government agency securities	\$32,776,064	\$32,776,064
Local Government Investment Pool		29,696,803
Cash with county Treasurer		1,630,707
Demand accounts		5,103,038
Petty cash		4,460
Total cash, cash equivalents and investments		\$69,211,072
Balance sheet classification:		
Cash and cash equivalents		
Governmental funds		\$ 30,374,616
Proprietary fund		1,449,956
Total cash and cash equivalents		31,824,572
Cash in segregated accounts		
Governmental funds		2,979,729
Cash and cash equivalents held by fiscal agents		
Governmental funds		1,630,707
Investments		
Governmental funds		27,952,064
Proprietary fund		4,824,000
Total Investments		32,776,064
Total cash, cash equivalents and investments		\$ 69,211,072

NOTE 6 – RECEIVABLES

Receivables as of year-end are summarized as follows:

	General	Special Revenue	Debt Service	Capital Projects	Internal Service	Total
Receivables:						
Taxes	\$ 8,741,769	\$ -	\$ 2,655,200	\$ -	\$ -	\$ 11,396,969
Interest	67	-	-	10,059	140,768	150,894
Accounts	5,641,640	1,458,988	-	9,145	-	7,109,773
Federal, state and local grants	-	9,080,369	-	-	-	9,080,369
Advances to employees	64,487	-	-	-	-	64,487
Accounts and other receivables	5,706,194	10,539,357	-	19,204	140,768	16,405,523
Total Receivables	\$ 14,447,963	\$ 10,539,357	\$ 2,655,200	\$ 19,204	\$ 140,768	\$ 27,802,492

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 7 – CAPITAL ASSETS AND DEPRECIATION

A summary of changes in capital assets for the year ended June 30, 2003, follows:

Description	Balance June 30, 2002	Additions	Reclassifications and Deletions	Balance June 30, 2003
Land (non-depreciable)	\$ 9,049,378	\$ -	\$ -	\$ 9,049,378
Buildings and site improvements	279,889,561	2,971,740	12,750,575	295,611,876
Vehicles and equipment	23,387,103	1,034,277	(157,849)	24,263,531
Construction in progress	13,932,412	14,764,671	(13,932,412)	14,764,671
Total General Fixed Assets	326,258,454	18,770,688	(1,339,686)	343,689,456
Accumulated depreciation:				
Buildings and site improvements	(95,534,139)	(10,444,581)	249,875	(105,728,845)
Vehicles and equipment	(7,082,107)	(2,401,038)	139,025	(9,344,120)
Total accumulated depreciation	(102,616,246)	(12,845,619)	388,900	(115,072,965)
Total governmental assets	\$ 223,642,208	\$ 5,925,069	\$ (950,786)	\$ 228,616,491

Depreciation expense for governmental activities is charged to functions as follows:

Instruction	\$ 9,933,412
Supporting services	2,898,180
Food services	14,027
	<u>\$ 12,845,619</u>

NOTE 8 – INTERFUND BALANCES

The interfund balances are in place to eliminate a temporary negative cash position in the Grant Fund and to invest a portion of the fund balance of the Student Body Activities Fund monies in a higher yielding investments held by the General Fund.

The composition of interfund balances as of June 30, 2003, is as follows:

	Due From	Due To
General Fund	<u>\$ 461,818</u>	<u>\$ 400,000</u>
Special revenue funds:		
Student Body Activities Fund	400,000	-
Grant Fund	-	461,818
Total special revenue funds	<u>400,000</u>	<u>461,818</u>
Total all funds	<u><u>\$ 861,818</u></u>	<u><u>\$ 861,818</u></u>

NOTE 9 – SHORT TERM DEBT

During the year, the District borrowed and repaid \$45,000,000 of tax anticipation notes at a rate of 1.93% to offset untimely cash flows.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements
For the Year Ended June 30, 2003

NOTE 10 - BONDED AND OTHER LONG-TERM DEBT

Changes in long-term debt of the District during fiscal year 2003 were as follows:

	Principal Balance July 1, 2002	Additions	Repayments	Principal Balance June 30, 2003
General Obligation Bonds				
General Obligation Bonds, Series 1995	\$ 15,000,000	\$ -	\$ (15,000,000)	\$ -
General Obligation Bonds, Series 1996	77,175,000	-	(11,800,000)	65,375,000
Subtotal	<u>92,175,000</u>	<u>-</u>	<u>(26,800,000)</u>	<u>65,375,000</u>
Limited Tax General Obligation Refunding Bonds, Series 1998	32,670,000	-	(10,470,000)	22,200,000
Limited Tax General Obligation Refunding Bonds, Series 2002	-	210,103,857	-	210,103,857
Limited Tax General Obligation Refunding Bonds, Series 2003	-	281,170,040	-	281,170,040
Certificates of Participation (COP) COP, 1999	32,060,000	-	(4,045,000)	28,015,000
Refunding Special Obligations, 1993 Series A	6,310,000	-	(1,150,000)	5,160,000
Small Scale Energy Loan Programs	6,710,241	-	(515,661)	6,194,580
Total General Long-term Obligations	<u>\$ 169,925,241</u>	<u>\$ 491,273,897</u>	<u>\$ (42,980,661)</u>	<u>\$ 618,218,477</u>

In 1995, voters approved for the issuance of \$196,700,000 of general obligation bonds. The District issued \$100,000,000 general obligation bonds in December 1995. The bonds are payable annually through June 2003. Interest is payable semi-annually at rates ranging from 4.25% to 4.50%. The District issued the remaining \$96,700,000 bonds in September 1996. The bonds are payable annually beginning June 1, 1999 through June 1, 2005. Interest is payable semi-annually at rates ranging from 4.25% to 5.50%. The bonds are not subject to redemption prior to their stated maturities.

The 1987 series refunding bonds were called and redeemed in 1998, with the proceeds of the Limited Tax General Obligation Refunding Bonds, Series 1998. The 1998 series refunding bonds are payable annually through June 15, 2005. Interest is payable semi-annually at rates ranging from 5.27% to 5.75%. The bonds are federally taxable and are not subject to redemption prior to their stated maturities.

In October 2002 Portland Public Schools participated as one of forty-one Oregon school districts and education service districts in issuing limited tax pension bonds, the proceeds of which were used to finance a portion of the estimated unfunded actuarial liability of each participating school district with the Oregon Public Employees Retirement System ("PERS"). The Oregon School Boards Association ("OSBA") sponsored this pooled limited tax pension bond program. OSBA does not have a financial obligation in connection with the bonds issued under the program. Except for the payment of its pension bond payments and additional charges when due, each participating school district has no obligation or liability to any other participating school district's pension bonds or liabilities to PERS. In April 2003 OSBA sponsored another pooled limited tax pension bond program with thirty school districts and education service districts. The District records the amounts deposited with PERS as a prepayment on its actuarial obligation, and accounts for the payment of principal, interest and the amortization of the prepayment as pension expense over the life of the bonds. The District anticipates that the total costs of financing the District's actuarial obligation in this way will result in a significant savings to the District when compared to paying for such costs in additional contribution rates to PERS.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements

For the Year Ended June 30, 2003

The District issued \$210,103,857 Limited Tax Pension Obligations, Series 2002 (Federally Taxable), of which \$53,523,857 are Series 2002A (deferred interest obligations) and \$156,580,000 are Series 2002B (current interest obligations). The 2002 series Limited Tax Pensions Obligations were issued on October 31, 2002, and are payable annually through June 2028. Interest on the deferred interest bonds is accreted semiannually at yields ranging from 2.06% to 6.10%. Interest on the current coupon bonds is payable semiannually at rates ranging from 5.48% to 5.55%. The Series 2002B Obligations is subject to mandatory prepayment, which is included in the maturity schedule presented below. The bonds are federally taxable and, except for the 2021 maturity, are not subject to optional prepayment prior to their stated maturities. The 2021 maturity is subject to optional prepayment on and after June 30, 2007 at par.

The District issued \$281,170,040 Limited Tax Pension Obligations, Series 2003 (Federally Taxable), of which \$124,800,040 are Series 2003A (deferred interest obligations) and \$156,370,000 are Series 2003B (current interest obligations). The Series 2003 Limited Tax Pensions Obligations were issued on April 30, 2003, and are payable annually through June 2028. Interest on the deferred interest bonds is accreted semiannually at yields ranging from 1.50% to 6.27%. Interest on the current coupon bonds is payable semiannually at rates ranging from 5.63% to 5.68%. The bonds are federally taxable and are not subject to optional prepayment prior to their stated maturities.

The 1999 series Certificates of Participation (COP) were issued in 1999 and are payable annually through June 2009. Interest is payable semi-annually at rates ranging from 3.29% to 5.25%. The certificates of participation are not subject to redemption prior to their stated maturities.

The 1993 Series A refunding special obligations are payable annually through March 2007. Interest is payable semi-annually at rates ranging from 3.75% to 5.10%. Obligations maturing in years through 2003 are not subject to redemption prior to maturity. Obligations maturing on or after March 1, 2004 are subject to redemption in whole or in part at the option of the District on or after March 1, 2003. The obligations are also subject to redemption by lot within a maturity at the option of the District on or after March 1, 2003 on any interest date at a price of par plus accrued interest to the date of redemption.

The District borrowed from the Oregon Department of Energy Small Scale Energy Loan Program (SELP) in several increments beginning in 1993 at various interest rates. The obligations are payable monthly by the General Fund. The payment amounts are based on anticipated savings related to retrofitting and other energy conservation measures implemented with the proceeds of the loans. Such loans are not collateralized. (See note 11.)

In prior fiscal years, the District defeased general obligation and certain advance refunding bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trusts' assets and the liabilities for the defeased bonds are not included in the District's general purpose financial statements. At June 30, 2003, \$24,938,769 of bonds outstanding is considered defeased.

In 2000, the District sold Qualified Zone Academy Bonds, Series 2000, with a face amount of \$6,052,477, and net proceeds of \$5,922,379 (after payment of an immaterial amount of underwriting and other issuance costs). Simultaneous to this transaction, the District purchased U.S. Treasury "Strip" obligations which will mature in thirteen years in the amount of \$6,052,477 with a cost of \$2,759,464, and placed these investments in an irrevocable trust with an escrow agent to provide for all future debt service payments. As a result, the Qualified Zone Academy Bonds, Series 2000, are considered to be defeased and the liability for those bonds is not included in the financial statements.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements

For the Year Ended June 30, 2003

The following is a summary of the future annual debt service requirements for long-term obligations.

Fiscal Year	General Obligation	Limited Tax	Certificates of Participation	Refunding Special Obligations	SELP Loans	Totals
Principal:						
2004	\$ 30,700,000	\$ 11,421,022	\$ 4,205,000	\$ 1,200,000	\$ 552,243	\$ 48,078,265
2005	34,675,000	12,367,418	4,375,000	1,255,000	591,819	53,264,237
2006	-	6,452,674	4,555,000	1,320,000	634,050	12,961,724
2007	-	6,817,111	4,750,000	1,385,000	679,314	13,631,425
2008	-	8,252,172	4,955,000	-	727,703	13,934,875
2009-2013	-	49,530,057	5,175,000	-	3,009,451	57,714,508
2014-2018	-	58,861,357	-	-	-	58,861,357
2019-2023	-	94,667,086	-	-	-	94,667,086
2024-2028	-	265,105,000	-	-	-	265,105,000
Total	65,375,000	513,473,897	28,015,000	5,160,000	6,194,580	618,218,477
Interest:						
2004	3,442,125	18,813,364	1,239,683	253,200	408,141	24,156,513
2005	1,907,125	18,252,093	1,071,483	198,000	368,565	21,797,266
2006	-	18,155,649	889,920	135,250	326,334	19,507,153
2007	-	18,591,212	696,333	69,250	281,070	19,637,865
2008	-	19,351,151	489,708	-	232,681	20,073,540
2009-2013	-	112,506,553	271,688	-	427,546	113,205,787
2014-2018	-	154,265,257	-	-	-	154,265,257
2019-2023	-	177,609,955	-	-	-	177,609,955
2024-2028	-	36,291,337	-	-	-	36,291,337
Interest Total	5,349,250	573,836,571	4,658,815	655,700	2,044,337	586,544,673
Total Debt Service	\$ 70,724,250	\$ 1,087,310,468	\$ 32,673,815	\$ 5,815,700	\$ 8,238,917	\$ 1,204,763,150

NOTE 11 – UNUSED LINE OF CREDIT

The District maintains a \$20 million line of credit with the Oregon Department of Energy Small Scale Energy Loan Program to finance energy retrofits in District buildings. Funds, which are drawn on the line of credit at the time that related retrofit costs are incurred, are recorded as proceeds of borrowing in a special revenue fund and are repayable from future energy cost savings. The unused line as of June 30, 2003 was approximately \$11.6 million.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. Public Employees Retirement System (PERS)

Plan Description. The District contributes 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 healthcare benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS is administered under Oregon Revised Statute Chapter 238, which 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. The report may be obtained by writing to PERS, PO Box 23700, Tigard, OR, 97281-3700 or by calling 503-598-7377.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements

For the Year Ended June 30, 2003

Funding Policy. Members of PERS are required to contribute 6.00% of their salary covered under the plan. The District is required by ORS 238.225 to contribute at an actuarially determined rate. The rates in effect for the year ended June 30, 2003 ranged from 8.00% to 12.73%. The contribution requirements for plan members are established by ORS Chapter 238 and may be amended by an act of the Oregon Legislature. The District's contributions to PERS for the years ending December 31, 2000, 2001, and 2002 were \$29,244,553, \$32,449,905 and \$29,155,710 respectively, which equaled the required contribution for the year. During 2002-03, the District issued limited tax pension bonds, the proceeds of which were used to finance a portion of its estimated unfunded actuarial liability. (See Note 10)

B. Early Retirement Benefits

Plan Description. The District provides a single-employer defined benefit early retirement program for its certificated employees, which was established under separate collective bargaining agreements with certificated employees. Certificated employees who are at least 55 years of age with 15 consecutive years of service with the District or at any age with 30 years of service and who retire before age 62 are eligible for the early retirement benefits. Eligible employees are entitled to a monthly benefit of \$425 to \$475 commencing on the first month after the retirement. Benefits are payable up to the earlier of attaining age 62 or receiving 60 monthly payments. All financial information relating to the early retirement benefits is reported in the General Fund. The District does not issue a stand-alone financial report.

Funding Policy. The District pays for the benefits without any cost to employees. The contributions are financed on a pay-as-you-go basis. Therefore, the District is not required to fund the program in advance. During fiscal year 2003 the General Fund incurred expenditures of \$2,972,147 for early retirement benefits.

C. Tax Deferred Annuities

The District provides tax-deferred annuity contracts established under Section 403(b) of the Internal Revenue Code.

Participation in the program is voluntary. Contributions are made from salary deductions from participating employees within the limits specified in the Code.

NOTE 13 - OTHER POST-EMPLOYMENT BENEFITS

Plan Description. The District provides a post retirement health and welfare benefits program for employees who have retired from the District with a minimum of fifteen consecutive years of service or with completion of 30 years of service. Covered employees under the plan are eligible to receive District-paid benefits for up to 60 months or until reaching the age 65, whichever comes first. The District also pays for one-half of the dependent benefit costs during the benefit period. The program was established under separate collective bargaining agreements with certificated and classified employees and by precedent for all other District employees.

Funding Policy. The District pays for the benefits without any cost to employees. The contributions are financed on a pay-as-you-go basis. Therefore, the District is not required to fund the program in advance. During fiscal year 2003 the General Fund recognized expenditures of \$2,152,062 for the post-employment healthcare benefits.

NOTE 14 - RISK MANAGEMENT

The Self-Insurance Fund charges other funds for the costs incurred for workers' compensation claims, general liability claims, and property and fire loss claims. Charges to other funds by the Self-Insurance Fund are recognized as revenues in the Self-Insurance Fund and as expenditures/expenses in the fund incurring the charges.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements

For the Year Ended June 30, 2003

The Self-Insurance Fund recognized the following amounts of revenues from other funds for the year ended June 30, 2003.

General Fund	\$ 3,330,212
Cafeteria Fund	80,645
Grant Fund	514,630
Special Revenue Funds	52,288
BESC Cafeteria Fund	3,184
System Project Fund	9,933
Facilities Improvement/Technology Fund	7,080
Total	<u><u>\$ 3,997,972</u></u>

Changes in the balances of claims liabilities during the years ended June 30, 1999 through June 30, 2003 were as follows:

<u>Year</u>	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
1999	\$ 5,271,833	\$ 3,385,797	\$ 3,385,795	\$ 5,271,835
2000	5,271,835	3,805,405	3,384,240	5,693,000
2001	5,693,000	3,231,164	3,231,164	5,693,000
2002	5,693,000	3,617,617	4,264,617	5,046,000
2003	5,046,000	4,020,205	4,020,205	5,046,000

NOTE 15 – CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

The District has commitments for several capital construction projects to enhance and repair the District's educational facilities. Such commitments will be paid from existing capital projects funds. The outstanding commitments for these projects at June 30, 2003 total \$8,392,771. In addition, the District has a contract for custodial services extending through July 14, 2004 that will require a minimum payment of \$9,712,586 after June 30, 2003.

Additionally, the District entered into a five year contract to provide duplication services to various District facilities which will require minimum payments of \$857,704, \$1,279,087, \$1,279,087, \$1,279,087 and \$1,279,087 in the years ending June 30, 2004, 2005, 2006, 2007 and 2008, respectively.

NOTE 16 - REVENUE VOLATILITY

State Revenue Adjustments

In a special session in June 2002, the Oregon Legislature, in response to unprecedented shortfall of state revenues, passed Senate Bill 1022, which provided modifications to the funding of state schools. This bill was modified and clarified by House Bill 2650 in the 2003 regular session of the Legislature. The changes effected by these bills that most significantly impact the District are:

- Decreasing the amount of state school funding.
- Allowing districts to accrue up to a maximum of \$309 per weighted average daily membership (ADMw) from the 2003-04 fiscal year appropriation to the 2002-03 fiscal year. This amount was capped at \$18,471,450 for the District.
- Providing a formula for future revenues allowed to be accrued to the previous year's revenues.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements

For the Year Ended June 30, 2003

The authority for this accrual continues unless it is amended by the Legislature.

Under the District's budgetary basis of accounting, as authorized by the above-mentioned state laws, the District accrued \$17,100,000 of State School Fund support that was recorded as both a revenue and a receivable. Generally accepted accounting principles do not allow such an accrual. Accordingly, the government-wide and the fund financial statements, included in the basic financial statements, do not include this accrual.

District Responses to Funding Issues

The enactment of Senate Bill 1022 indicates that the State intended to avoid significant service reductions caused by funding reductions. Despite this legislation, the District faced such drastic revenue shortfalls during the 2003-03 fiscal year that in February 2003 the District announced a 24-day furlough for all District personnel, which would have brought operational costs more in line with resources. The prospect of such disruptions on the educational process caused District leadership, teachers, employees, political and community stakeholders to respond with significant changes in both resources and costs for the year. Specifically the non-represented employees and members of the SEIU Local 140 accepted a redesign of healthcare benefits with a premium cap of \$600 per month. The members of the Portland Association of Teachers agreed to a 5.263% retroactive salary reduction, which was the equivalent of ten days of salary in the year. Additionally, the City of Portland increased its Business License Fees and provided the District with \$14,000,000 in cash during the year.

Note 17 – COMPONENT UNITS AND OTHER ACTIVITIES

The District sponsors three charter schools under the provisions of the Oregon Revised Statutes. The students attending these charter schools are primarily District students. The District is required by ORS 338.155 and the charters with the schools to provide approximately 95% of the general purpose grant per ADMw, as calculated by ODE, to the charter schools for each student enrolled in them. Under the requirements of the Governmental Accounting Standards Board (GASB), such schools are component units of the District. These charter schools are not included as component units of the District, because they are individually and collectively immaterial to the District's financial statements. The pass-through of the State School Fund revenue provided to these charter schools is included in the expenditures of the District. Financial information on the charter schools can be obtained by contacting the Office of Educational Options at Portland Public Schools.

Health and welfare benefits for District employees who are members of the Portland Association of Teachers (PAT), the Portland Federation of Teachers and Classified Employees (PFTCE), and the District Council of Unions (DCU) are provided by the School District No. 1 Health and Welfare Trust (the "Trust"). The Trust was established by collective bargaining agreements. The governing Board of Trustees is composed of trustees appointed by management of the District and of each bargaining unit, respectively, such that management-designated Trustees and union-designated Trustees have an equal number of votes. The Trust does not meet the criteria of GASB Statement No. 14 or 39 for inclusion in the financial statements as a component unit.

The Portland Schools Foundation is an independent, non-profit organization dedicated to providing leadership and funding for excellence, innovation and equity in education for children attending Portland Public Schools; engaging students, teachers, parents and the community in support of quality public education; and advocating for resources, policies and legislation to improve public schools in Portland. The Portland Schools Foundation does not meet the criteria of GASB Statements No. 14 or 39 for inclusion in the financial statements as a component unit.

NOTE 18 – SUBSEQUENT EVENTS

- On October 28, 2003, the District entered into a Note Facility Agreement with U.S. Bank National Association relating to the District's \$45,000,000 Tax and Revenue Anticipation Line of Credit Note, Series 2003. The District drew \$8,000,000 on October 31, 2003 and \$10,000,000 on November 3, 2003. Outstanding amounts accrue interest at the rate of 45% of prime and are due July 31, 2004. Prepayment is allowed without penalty.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements For the Year Ended June 30, 2003

- The most recent legislative session passed several bills to effect significant PERS reform. HB 2003 eliminates the 6% member contribution, eliminates the guaranteed assumed earnings rates to Tier One accounts, and suspends cost-of-living increases for members retiring between 4/1/2000 and 4/1/2004. HB 2004 requires PERS to adopt mortality tables every two years. HB 2020 establishes the Oregon Public Service Retirement Plan for persons hired on or after August 29, 2003, who have no prior PERS membership. HB 3020 makes numerous technical corrections to PERS statutes to effect the 2003 legislative changes.

Based on these new laws, PERS reduced the previously announced 18.58% rate for school districts down to 11.11%. Based on the District's payment of the PERS unfunded actuarial liability, the rate charged the District for 2003-05 is further reduced to 0.64%. The legality of these changes is currently under review by the Oregon Supreme Court, as provided by HB 2409. If some or all of these new laws are overturned by the Court, the District could be exposed to substantial financial impact. To mitigate, although not alleviate, this exposure, the Board adopted a resolution to amend the 2003-04 adopted budget on October 27, 2003, to allocate \$8 million from the General Fund to the PERS Rate Stabilization Reserve Fund.

- On November 6, 2003, the Board ratified a new contract with the Portland Association of Teachers ("PAT") for its substitute teachers for the 2003-2005 school years. The new contract is substantially a rollover of the previous contract. The District's classified employees represented by the Portland Federation of Teachers and Classified Employees ("PFTCE") have been working without a contract, but under the terms of the previous contract, since June 30, 2003. Negotiations are ongoing and both parties are hopeful that negotiations will be successful. The outcome of these negotiations may significantly impact District operations.

- HB 5077 appropriates \$5.2 billion in state resources to the Department of Education for the 2003-05 biennium K-12 State School Fund ("SSF") for all Oregon public schools. An additional \$100 million may be allocated in 2004-05 if certain state revenue targets are met. The bill reduces the 2004-05 SSF appropriation by \$285 million, if the graduated income tax assessment component of the legislature's revenue package (HB 2152) is referred by petition to voters and rejected. It reduces the 2004-05 appropriation by \$414 million, if the entire revenue package is referred and rejected. HB 2825 sets a special election for February 3, 2004, if HB 2152, or any part thereof, is referred to voters by petition. The potential impact on the District's revenues for 2004-05 is expected to be partially or fully offset by the Multnomah County Income Tax (Measure 26-48 passed by the voters in Multnomah County on May 20, 2003), which assesses a 1.25% income tax rate on taxable personal income for 2003, 2004, and 2005.

REQUIRED SUPPLEMENTARY INFORMATION

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual (Non-GAAP Basis)
For the year ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property and other taxes	\$ 132,050,969	\$ 132,050,969	\$ 131,120,992	\$ (929,977)
State School Fund (See Note 16)	189,835,000	189,835,000	167,805,317	(22,029,683)
Local option taxes	17,020,459	17,020,459	16,263,204	(757,255)
County and intermediate sources	15,262,778	15,262,778	23,419,710	8,156,932
State Common School Fund	1,454,844	1,454,844	3,100,444	1,645,600
Investment earnings	1,728,929	1,728,929	1,134,924	(594,005)
Other	2,772,000	2,772,000	7,830,133	5,058,133
Total revenues	360,124,979	360,124,979	350,674,724	(9,450,255)
EXPENDITURES				
Current operating:				
Instruction:				
Regular programs:				
Salaries and benefits	145,074,664	149,810,528	145,774,041	4,036,487
Materials and services	4,509,504	4,952,885	4,029,245	923,640
Total regular programs	149,584,168	154,763,413	149,803,286	4,960,127
Special programs:				
Salaries and benefits	44,914,127	44,946,158	45,051,534	(105,376)
Materials and services	12,450,300	12,369,024	10,469,100	1,899,924
Total special programs	57,364,427	57,315,182	55,520,634	1,794,548
Total instruction	206,948,595	212,078,595	205,323,920	6,754,675
Supporting services:				
Students:				
Salaries and benefits	27,457,946	26,924,947	27,313,506	(388,559)
Materials and services	2,660,386	2,643,396	853,864	1,789,532
Total students	30,118,332	29,568,343	28,167,370	1,400,973
Instructional staff:				
Salaries and benefits	9,852,136	9,769,176	9,234,177	534,999
Materials and services	3,207,770	2,753,863	1,871,401	882,462
Total instructional staff	13,059,906	12,523,039	11,105,578	1,417,461
General administration:				
Salaries and benefits	2,118,991	2,118,991	1,614,771	504,220
Materials and services	1,292,939	1,284,339	1,078,714	205,625
Total general administration	3,411,930	3,403,330	2,693,485	709,845
School administration:				
Salaries and benefits	26,005,830	25,780,301	25,813,032	(32,731)
Materials and services	565,183	559,636	287,071	272,565
Total school administration	26,571,013	26,339,937	26,100,103	239,834

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
General Fund (Continued)
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual (Non-GAAP Basis)
For the year ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Supporting services (continued):				
Business:				
Salaries and benefits	21,318,670	22,592,658	17,509,874	5,082,784
Materials and services	33,148,064	32,453,565	33,948,750	(1,495,185)
Total business	54,466,734	55,046,223	51,458,624	3,587,599
Central:				
Salaries and benefits	9,232,056	6,635,938	8,166,500	(1,530,562)
Materials and services	2,520,768	2,522,993	2,163,501	359,492
Total central	11,752,824	9,158,931	10,330,001	(1,171,070)
Total supporting services	139,380,739	136,039,803	129,855,161	6,184,642
Other expenditures:				
Debt Service				
Principal	-	516,000	515,661	339
Interest	1,724,674	1,724,674	759,648	965,026
Bond Issuance Costs	-	4,500,000	4,314,271	185,729
Total debt service	1,724,674	6,740,674	5,589,580	1,151,094
Total current expenditures	348,054,008	354,859,072	340,768,661	14,090,411
Operating contingency	4,955,357	4,955,357	-	4,955,357
Total expenditures	353,009,365	359,814,429	340,768,661	19,045,768
Excess of revenues over expenditures	7,115,614	310,550	9,906,063	9,595,513
OTHER FINANCING SOURCES (USES)				
Transfers out	(7,115,614)	(8,915,614)	(8,850,365)	65,249
PERS bond proceeds	-	510,000,000	490,933,461	(19,066,539)
PERS unfunded actuarial liability payment	-	(501,394,936)	(486,617,609)	14,777,327
Sale of property	-	-	995,922	995,922
Total other financing sources and (uses)	(7,115,614)	(310,550)	(3,538,591)	(3,228,041)
Net change in fund balance	-	-	6,367,472	6,367,472
Fund balance (deficit) - beginning of year	-	-	(2,819,020)	(2,819,020)
Fund balance - end of year	\$ -	\$ -	3,548,452	\$ 3,548,452
Less State School Fund accrual (See Note 16)			(17,100,000)	
Fund balance (deficit) at end of year, GAAP basis			\$ (13,551,548)	

Note: Bolded lines indicate legally required appropriation budget levels of control

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Grant Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive/</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
County and Intermediate sources	\$ 5,068,571	\$ 1,055,986	\$ 1,021,193	\$ (34,793)
Federal and state support	64,070,922	69,373,886	53,932,428	(15,441,458)
Other	1,332,573	1,766,386	1,259,410	(506,976)
Total revenues	<u>70,472,066</u>	<u>72,196,258</u>	<u>56,213,031</u>	<u>(15,983,227)</u>
EXPENDITURES				
Current Operating:				
Instruction:				
Regular programs:				
Salaries and benefits	6,933,016	5,463,846	4,797,321	666,525
Materials and services	1,417,886	3,039,952	1,924,272	1,115,680
Total regular programs	<u>8,350,902</u>	<u>8,503,798</u>	<u>6,721,593</u>	<u>1,782,205</u>
Special programs:				
Salaries and benefits	30,339,079	28,848,089	27,685,133	1,162,956
Materials and services	13,782,490	5,198,811	3,986,060	1,212,751
Total special programs	<u>44,121,569</u>	<u>34,046,900</u>	<u>31,671,193</u>	<u>2,375,707</u>
Summer school programs:				
Salaries and benefits	406	-	-	-
Materials and services	1,480	-	-	-
Total summer school programs	<u>1,886</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total instruction	<u>52,474,357</u>	<u>42,550,698</u>	<u>38,392,786</u>	<u>4,157,912</u>
Supporting Services:				
Students:				
Salaries and benefits	6,188,568	4,479,124	3,323,527	1,155,597
Materials and services	632,932	5,412,044	2,557,123	2,854,921
Total students	<u>6,821,500</u>	<u>9,891,168</u>	<u>5,880,650</u>	<u>4,010,518</u>
Instructional staff:				
Salaries and benefits	4,131,082	7,824,605	4,957,839	2,866,766
Materials and services	2,647,777	4,151,256	2,552,792	1,598,464
Total instructional staff	<u>6,778,859</u>	<u>11,975,861</u>	<u>7,510,631</u>	<u>4,465,230</u>
School administration:				
Salaries and benefits	326,494	288,609	307,616	(19,007)
Materials and services	77,387	152,710	146,376	6,334
Total school administration	<u>403,881</u>	<u>441,319</u>	<u>453,992</u>	<u>(12,673)</u>
Business:				
Salaries and benefits	200,684	103,074	82,431	20,643
Materials and services	36,579	160,967	127,755	33,212
Total business	<u>237,263</u>	<u>264,041</u>	<u>210,186</u>	<u>53,855</u>

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Grant Fund (Continued)
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Supporting Services (continued):				
Central:				
Salaries and benefits	1,553,284	1,282,022	832,211	449,811
Materials and services	237,562	3,717,663	1,297,930	2,419,733
Total central	1,790,846	4,999,685	2,130,141	2,869,544
Total supporting services	16,032,349	27,572,074	16,185,600	11,386,474
Food Services:				
Salaries and benefits	328,573	-	-	-
Materials and services	59,768	375,133	330,366	44,767
Total food services	388,341	375,133	330,366	44,767
Community Services:				
Salaries and benefits	1,287,296	1,469,361	1,198,529	270,832
Materials and services	289,723	228,992	105,750	123,242
Total community services	1,577,019	1,698,353	1,304,279	394,074
Total current expenditures	70,472,066	72,196,258	56,213,031	15,983,227
Excess of revenues over expenditures	-	-	-	-
Fund balance - beginning of year	-	-	-	-
Fund balance - end of year	\$ -	\$ -	\$ -	\$ -

Note: Bolded lines indicate legally required appropriation budget levels of control

COMBINING STATEMENTS

Nonmajor Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for certain revenues that are restricted to expenditures for designated purposes.

Student Body Activities

Accounts for the receipts and disbursements of funds by schools for each school's activities. Principal revenue sources are donations, fund raisers, individual support from PTA's and booster clubs, sales in student stores, and club dues.

Cafeteria

Accounts for revenues and expenditures of the District's food service programs. Principal revenue sources are cash sales and federal subsidies under the National School Lunch and Breakfast Programs.

PERS Rate Stabilization Reserve Fund

Accounts for the reserves needed to help minimize large fluctuations in the PERS rate assessed on salaries and wages to repay the PERS unfunded actuarial liability borrowing relative to the District's participation in the Oregon School Boards Association Pension Bond Program. Sole revenue source is operating transfers from the General Fund.

Special Revenue

Accounts for revenues and expenditures of special revenue restricted for specific projects. Principal revenue sources are state grants, foundations, charges to participants, and donations.

BESC Cafeteria

Accounts for the operations of the employee cafeteria in the Blanchard Education Service Center. The primary source of revenues is the sale of meals.

Debt Service Funds

Debt service funds are used to account for the accumulation of financial resources for the payment of long-term debt principal, interest, and related costs.

System Project Debt Service

Accounts for the debt service payments for the 1999 Certificates of Participation. The certificates were issued to finance the implementation process and purchase of equipment upgrades relating to the computer systems used for financial and student information as well as for instructional applications in the classroom. The principal funding source is operating transfers from the General Fund.

Blanchard Education Service Center Special Obligation Debt Service

Accounts for the debt service payments for the 1993 Series A refunding special obligation bonds. The bonds were issued to refund the lease obligations for the Blanchard Education Service Center. The principal funding source is operating transfers from the General Fund.

Bond Sinking

Accounts for the debt service payments of the 1998 limited tax general obligation refunding bond. The principal funding source is property taxes.

General Obligation Bond Debt Service

Accounts for the debt service payments of the 1995 and 1996 series general obligation bonds. The bonds were issued to finance construction of a new elementary school, acquisition and installation of computer software and hardware in classrooms, major renovations and priority building repairs of the District's facilities, including Americans with Disabilities Act and safety requirements. The principal funding source is property taxes.

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Nonmajor Governmental Funds
Combining Balance Sheet by Fund Types
June 30, 2003

	Total Nonmajor Special Revenue Funds	Total Nonmajor Debt Service Funds	Total
ASSETS			
Cash and cash equivalents	\$ 8,076,477	\$ 6,736	\$ 8,083,213
Cash in segregated accounts	2,973,179	-	2,973,179
Cash and cash equivalents with fiscal agents	-	387,257	387,257
Investments	-	1,982,971	1,982,971
Accounts and other receivables	1,458,988	-	1,458,988
Property and other taxes receivable	-	2,655,200	2,655,200
Due from other funds	400,000	-	400,000
Inventories	603,292	-	603,292
Total assets	\$ 13,511,936	\$ 5,032,164	\$ 18,544,100
LIABILITIES			
Accounts payable and other current liabilities	\$ 902,547	\$ -	\$ 902,547
Accrued salaries, wages and benefits payable	1,386,814	-	1,386,814
Deferred revenues	-	2,397,237	2,397,237
Total liabilities	2,289,361	2,397,237	4,686,598
FUND BALANCES			
Unreserved	11,222,575	2,634,927	13,857,502
Total liabilities and fund balances	\$ 13,511,936	\$ 5,032,164	\$ 18,544,100

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Nonmajor Special Revenue Funds
Combining Balance Sheet
June 30, 2003

	Student Body Activities Fund	Cafeteria Fund	PERS Rate Stabilization Reserve Fund	Special Revenue Funds	BESC Cafeteria Fund	Total
ASSETS						
Cash and cash equivalents	\$ -	\$ 304,927	\$ 1,800,000	\$ 5,947,398	\$ 24,152	\$ 8,076,477
Cash in segregated accounts	2,973,179	-	-	-	-	2,973,179
Accounts and other receivables	69,725	872,890	-	505,200	11,173	1,458,988
Due from other funds	400,000	-	-	-	-	400,000
Inventories	-	592,280	-	-	11,012	603,292
Total assets	<u>\$3,442,904</u>	<u>\$1,770,097</u>	<u>\$ 1,800,000</u>	<u>\$6,452,598</u>	<u>\$ 46,337</u>	<u>\$ 13,511,936</u>
LIABILITIES						
Accounts payable and other current liabilities	\$ 189,971	\$ 537,328	\$ -	\$ 164,932	\$ 10,316	\$ 902,547
Accrued salaries, wages and benefits payable	-	461,309	-	899,183	26,322	1,386,814
Total liabilities	<u>189,971</u>	<u>998,637</u>	<u>-</u>	<u>1,064,115</u>	<u>36,638</u>	<u>2,289,361</u>
FUND BALANCES						
Unreserved	<u>3,252,933</u>	<u>771,460</u>	<u>1,800,000</u>	<u>5,388,483</u>	<u>9,699</u>	<u>11,222,575</u>
Total liabilities and fund balances	<u>\$3,442,904</u>	<u>\$1,770,097</u>	<u>\$ 1,800,000</u>	<u>\$6,452,598</u>	<u>\$ 46,337</u>	<u>\$ 13,511,936</u>

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Nonmajor Debt Service Funds
Combining Balance Sheet
June 30, 2003

	System Project Debt Service Fund	BESC Special Obligation Debt Service Fund	Bond Sinking Fund	General Obligation Bond Debt Service Fund	Total
ASSETS					
Cash and cash equivalents	\$ 6,673	\$ -	\$ -	\$ 63	\$ 6,736
Cash and cash equivalents with fiscal agents	-	-	109,496	277,761	387,257
Investments	-	-	334,819	1,648,152	1,982,971
Property and other taxes receivable	-	-	773,692	1,881,508	2,655,200
Total assets	<u>\$ 6,673</u>	<u>\$ -</u>	<u>\$ 1,218,007</u>	<u>\$ 3,807,484</u>	<u>\$ 5,032,164</u>
LIABILITIES					
Deferred revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 689,510</u>	<u>\$ 1,707,727</u>	<u>\$ 2,397,237</u>
Total liabilities	-	-	689,510	1,707,727	2,397,237
FUND BALANCES					
Unreserved	<u>6,673</u>	<u>-</u>	<u>528,497</u>	<u>2,099,757</u>	<u>2,634,927</u>
Total liabilities and fund balances	<u>\$ 6,673</u>	<u>\$ -</u>	<u>\$ 1,218,007</u>	<u>\$ 3,807,484</u>	<u>\$ 5,032,164</u>

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances by Fund Types
For the year ended June 30, 2003

	Total Nonmajor Special Revenue Funds	Total Nonmajor Debt Service Funds	Total
REVENUES			
Property and other taxes	\$ -	\$ 47,081,715	\$ 47,081,715
Sales	4,213,286	-	4,213,286
Federal and state support	10,183,845	-	10,183,845
Investment earnings	-	233,001	233,001
Extracurricular activities	7,171,159	-	7,171,159
Other	6,443,431	-	6,443,431
Total revenues	28,011,721	47,314,716	75,326,437
EXPENDITURES			
Current Operating:			
Instruction			
Regular programs	9,854,946	-	9,854,946
Special programs	509,407	-	509,407
Summer school programs	262,276	-	262,276
Total instruction	10,626,629	-	10,626,629
Supporting services:			
Students	320,328	-	320,328
Instructional staff	1,189,101	-	1,189,101
General administration	3,856	-	3,856
School administration	451,357	-	451,357
Business	156,969	-	156,969
Central	13,254	-	13,254
Food services	13,182,154	-	13,182,154
Community services	19,892	-	19,892
Total supporting services	15,336,911	-	15,336,911
Debt Service:			
Principal	-	42,465,000	42,465,000
Interest and fiscal charges	-	8,223,050	8,223,050
Total debt service	-	50,688,050	50,688,050
Total current expenditures	25,963,540	50,688,050	76,651,590
Excess (deficiency) of revenues over (under) expenditures	2,048,181	(3,373,334)	(1,325,153)
OTHER FINANCING SOURCES (USES)			
Transfers in	1,948,932	6,901,433	8,850,365
Total other financing sources (uses)	1,948,932	6,901,433	8,850,365
Net change in fund balances	3,997,113	3,528,099	7,525,212
Fund balances (deficit) - beginning of year	7,225,462	(893,172)	6,332,290
Fund balances - end of year	\$ 11,222,575	\$ 2,634,927	\$ 13,857,502

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Nonmajor Special Revenue Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the year ended June 30, 2003

	Student Body		PERS		BESC	
	Activities	Cafeteria	Rate	Stabilization	Special	Cafeteria
	Fund	Fund	Reserve	Fund	Revenue	Fund
	Fund	Fund	Fund	Fund	Fund	Fund
						Total
REVENUES						
Sales	\$ -	\$3,689,619	\$ -	\$ -	\$523,667	\$ 4,213,286
Federal and state support	-	9,490,626	-	693,219	-	10,183,845
Extracurricular activities	7,171,159	-	-	-	-	7,171,159
Other	-	28,309	-	6,415,122	-	6,443,431
Total revenues	<u>7,171,159</u>	<u>13,208,554</u>	<u>-</u>	<u>7,108,341</u>	<u>523,667</u>	<u>28,011,721</u>
EXPENDITURES						
Current operating:						
Instruction						
Regular programs	7,079,098	-	-	2,775,848	-	9,854,946
Special programs	-	-	-	509,407	-	509,407
Summer school programs	-	-	-	262,276	-	262,276
Total instruction	<u>7,079,098</u>	<u>-</u>	<u>-</u>	<u>3,547,531</u>	<u>-</u>	<u>10,626,629</u>
Supporting services:						
Students	-	-	-	320,328	-	320,328
Instructional staff	-	-	-	1,189,101	-	1,189,101
General administration	-	-	-	3,856	-	3,856
School administration	-	-	-	451,357	-	451,357
Business	-	-	-	156,969	-	156,969
Central	-	-	-	13,254	-	13,254
Food services	-	12,658,171	-	3,167	520,816	13,182,154
Community services	-	-	-	19,892	-	19,892
Total supporting services	<u>-</u>	<u>12,658,171</u>	<u>-</u>	<u>2,157,924</u>	<u>520,816</u>	<u>15,336,911</u>
Total current expenditures	<u>7,079,098</u>	<u>12,658,171</u>	<u>-</u>	<u>5,705,455</u>	<u>520,816</u>	<u>25,963,540</u>
Excess of revenues over expenditures	<u>92,061</u>	<u>550,383</u>	<u>-</u>	<u>1,402,886</u>	<u>2,851</u>	<u>2,048,181</u>
OTHER FINANCING SOURCES						
Transfers in	126,891	22,041	1,800,000	-	-	1,948,932
Total other financing sources	<u>126,891</u>	<u>22,041</u>	<u>1,800,000</u>	<u>-</u>	<u>-</u>	<u>1,948,932</u>
Net change in fund balances	218,952	572,424	1,800,000	1,402,886	2,851	3,997,113
Fund balances - beginning of year	3,033,981	199,036	-	3,985,597	6,848	7,225,462
Fund balances - end of year	<u>\$ 3,252,933</u>	<u>\$ 771,460</u>	<u>\$ 1,800,000</u>	<u>\$ 5,388,483</u>	<u>\$ 9,699</u>	<u>\$ 11,222,575</u>

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Nonmajor Debt Service Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the year ended June 30, 2003

	System Project Debt Service Fund	BESC Special Obligation Debt Service Fund	Bond Sinking Fund	General Obligation Bond Debt Service Fund	Total
REVENUES					
Property and other taxes	\$ -	\$ -	\$ 12,853,861	\$ 34,227,854	\$ 47,081,715
Investment earnings	-	-	62,633	170,368	233,001
Total revenues	<u>-</u>	<u>-</u>	<u>12,916,494</u>	<u>34,398,222</u>	<u>47,314,716</u>
EXPENDITURES					
Debt Service:					
Principal	4,045,000	1,150,000	10,470,000	26,800,000	42,465,000
Interest and fiscal charges	<u>1,402,058</u>	<u>304,950</u>	<u>1,846,417</u>	<u>4,669,625</u>	<u>8,223,050</u>
Total expenditures	<u>5,447,058</u>	<u>1,454,950</u>	<u>12,316,417</u>	<u>31,469,625</u>	<u>50,688,050</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(5,447,058)</u>	<u>(1,454,950)</u>	<u>600,077</u>	<u>2,928,597</u>	<u>(3,373,334)</u>
OTHER FINANCING SOURCES					
Transfers in	<u>5,446,483</u>	<u>1,454,950</u>	<u>-</u>	<u>-</u>	<u>6,901,433</u>
Net change in fund balances	(575)	-	600,077	2,928,597	3,528,099
Fund balances (deficit) - beginning of year	<u>7,248</u>	<u>-</u>	<u>(71,580)</u>	<u>(828,840)</u>	<u>(893,172)</u>
Fund balances - end of year	<u>\$ 6,673</u>	<u>\$ -</u>	<u>\$ 528,497</u>	<u>\$ 2,099,757</u>	<u>\$ 2,634,927</u>

BUDGETARY COMPARISON SCHEDULES

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual (Non-GAAP Basis)
For the year ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property and other taxes	\$ 132,050,969	\$ 132,050,969	\$ 131,120,992	\$ (929,977)
State School Fund (See Note 16)	189,835,000	189,835,000	167,805,317	(22,029,683)
Local option taxes	17,020,459	17,020,459	16,263,204	(757,255)
County and intermediate sources	15,262,778	15,262,778	23,419,710	8,156,932
State Common School Fund	1,454,844	1,454,844	3,100,444	1,645,600
Investment earnings	1,728,929	1,728,929	1,134,924	(594,005)
Other	2,772,000	2,772,000	7,830,133	5,058,133
Total revenues	<u>360,124,979</u>	<u>360,124,979</u>	<u>350,674,724</u>	<u>(9,450,255)</u>
EXPENDITURES				
Current Operating:				
Instruction:				
Regular programs:				
Salaries and benefits	145,074,664	149,810,528	145,774,041	4,036,487
Materials and services	4,509,504	4,952,885	4,029,245	923,640
Total regular programs	<u>149,584,168</u>	<u>154,763,413</u>	<u>149,803,286</u>	<u>4,960,127</u>
Special programs:				
Salaries and benefits	44,914,127	44,946,158	45,051,534	(105,376)
Materials and services	12,450,300	12,369,024	10,469,100	1,899,924
Total special programs	<u>57,364,427</u>	<u>57,315,182</u>	<u>55,520,634</u>	<u>1,794,548</u>
Total instruction	<u>206,948,595</u>	<u>212,078,595</u>	<u>205,323,920</u>	<u>6,754,675</u>
Supporting services:				
Students:				
Salaries and benefits	27,457,946	26,924,947	27,313,506	(388,559)
Materials and services	2,660,386	2,643,396	853,864	1,789,532
Total students	<u>30,118,332</u>	<u>29,568,343</u>	<u>28,167,370</u>	<u>1,400,973</u>
Instructional staff:				
Salaries and benefits	9,852,136	9,769,176	9,234,177	534,999
Materials and services	3,207,770	2,753,863	1,871,401	882,462
Total instructional staff	<u>13,059,906</u>	<u>12,523,039</u>	<u>11,105,578</u>	<u>1,417,461</u>
General administration:				
Salaries and benefits	2,118,991	2,118,991	1,614,771	504,220
Materials and services	1,292,939	1,284,339	1,078,714	205,625
Total general administration	<u>3,411,930</u>	<u>3,403,330</u>	<u>2,693,485</u>	<u>709,845</u>
School administration:				
Salaries and benefits	26,005,830	25,780,301	25,813,032	(32,731)
Materials and services	565,183	559,636	287,071	272,565
Total school administration	<u>26,571,013</u>	<u>26,339,937</u>	<u>26,100,103</u>	<u>239,834</u>

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
General Fund (Continued)
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual (Non-GAAP Basis)
For the year ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Supporting services (continued):				
Business:				
Salaries and benefits	21,318,670	22,592,658	17,509,874	5,082,784
Materials and services	33,148,064	32,453,565	33,948,750	(1,495,185)
Total business	54,466,734	55,046,223	51,458,624	3,587,599
Central:				
Salaries and benefits	9,232,056	6,635,938	8,166,500	(1,530,562)
Materials and services	2,520,768	2,522,993	2,163,501	359,492
Total central	11,752,824	9,158,931	10,330,001	(1,171,070)
Total supporting services	139,380,739	136,039,803	129,855,161	6,184,642
Other expenditures:				
Debt Service				
Principal	-	516,000	515,661	339
Interest	1,724,674	1,724,674	759,648	965,026
Bond Issuance Costs	-	4,500,000	4,314,271	185,729
Total debt service	1,724,674	6,740,674	5,589,580	1,151,094
Total current expenditures	348,054,008	354,859,072	340,768,661	14,090,411
Operating contingency	4,955,357	4,955,357	-	4,955,357
Total expenditures	353,009,365	359,814,429	340,768,661	19,045,768
Excess of revenues over expenditures	7,115,614	310,550	9,906,063	9,595,513
OTHER FINANCING SOURCES (USES)				
Transfers out	(7,115,614)	(8,915,614)	(8,850,365)	65,249
PERS bond proceeds	-	510,000,000	490,933,461	(19,066,539)
PERS unfunded actuarial liability payment	-	(501,394,936)	(486,617,609)	14,777,327
Sale of property	-	-	995,922	995,922
Total other financing sources and (uses)	(7,115,614)	(310,550)	(3,538,591)	(3,228,041)
Net change in fund balance	-	-	6,367,472	6,367,472
Fund balance (deficit) - beginning of year	-	-	(2,819,020)	(2,819,020)
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,548,452</u>	<u>\$ 3,548,452</u>
Less State School Fund accrual (See Note 16)			(17,100,000)	
Fund balance at end of year, GAAP basis			<u>\$ (13,551,548)</u>	

Note: Bolded lines indicate legally required appropriation budget levels of control

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Student Body Activity Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
REVENUES				
Extracurricular activities	\$ 7,313,319	\$ 7,313,319	\$ 7,171,159	\$ (142,160)
EXPENDITURES				
Current Operating:				
Instruction:				
Regular programs				
Materials and services	8,000,000	8,000,000	7,079,098	920,902
Excess (deficiency) of revenues over (under) expenditures	(686,681)	(686,681)	92,061	778,742
OTHER FINANCING SOURCES (USES)				
Transfers in	186,681	186,681	126,891	(59,790)
Net change in fund balance	(500,000)	(500,000)	218,952	718,952
Fund balance - beginning of year	3,500,000	3,500,000	3,033,981	(466,019)
Fund balance - end of year	\$ 3,000,000	\$ 3,000,000	\$ 3,252,933	\$ 252,933

Note: Bolded lines indicate legally required appropriation budget levels of control

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Cafeteria Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
REVENUES				
Sales	\$ 5,113,884	\$ 5,113,884	\$ 3,689,619	\$ (1,424,265)
Federal and state support	11,448,462	11,448,462	9,490,626	(1,957,836)
Other	-	-	28,309	28,309
Total revenues	16,562,346	16,562,346	13,208,554	(3,353,792)
EXPENDITURES				
Current Operating:				
Supporting Services:				
Food services:				
Salaries and benefits	8,323,160	8,323,160	6,985,545	1,337,615
Materials and services	7,999,800	7,999,800	5,672,626	2,327,174
Total food services	16,322,960	16,322,960	12,658,171	3,664,789
Excess of revenues over expenditures	239,386	239,386	550,383	310,997
OTHER FINANCING SOURCES				
Transfers in	27,500	27,500	22,041	(5,459)
Net change in fund balance	266,886	266,886	572,424	305,538
Fund balance - beginning of year	-	-	199,036	199,036
Fund balance - end of year	\$ 266,886	\$ 266,886	\$ 771,460	\$ 504,574

Note: Bolded lines indicate legally required appropriation budget levels of control

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Grant Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive/</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
County and Intermediate sources	\$ 5,068,571	\$ 1,055,986	\$ 1,021,193	\$ (34,793)
Federal and state support	64,070,922	69,373,886	53,932,428	(15,441,458)
Other	1,332,573	1,766,386	1,259,410	(506,976)
Total revenues	<u>70,472,066</u>	<u>72,196,258</u>	<u>56,213,031</u>	<u>(15,983,227)</u>
EXPENDITURES				
Current Operating:				
Instruction:				
Regular programs:				
Salaries and benefits	6,933,016	5,463,846	4,797,321	666,525
Materials and services	1,417,886	3,039,952	1,924,272	1,115,680
Total regular programs	<u>8,350,902</u>	<u>8,503,798</u>	<u>6,721,593</u>	<u>1,782,205</u>
Special programs:				
Salaries and benefits	30,339,079	28,848,089	27,685,133	1,162,956
Materials and services	13,782,490	5,198,811	3,986,060	1,212,751
Total special programs	<u>44,121,569</u>	<u>34,046,900</u>	<u>31,671,193</u>	<u>2,375,707</u>
Summer school programs:				
Salaries and benefits	406	-	-	-
Materials and services	1,480	-	-	-
Total summer school programs	<u>1,886</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total instruction	<u>52,474,357</u>	<u>42,550,698</u>	<u>38,392,786</u>	<u>4,157,912</u>
Supporting Services:				
Students:				
Salaries and benefits	6,188,568	4,479,124	3,323,527	1,155,597
Materials and services	632,932	5,412,044	2,557,123	2,854,921
Total students	<u>6,821,500</u>	<u>9,891,168</u>	<u>5,880,650</u>	<u>4,010,518</u>
Instructional staff:				
Salaries and benefits	4,131,082	7,824,605	4,957,839	2,866,766
Materials and services	2,647,777	4,151,256	2,552,792	1,598,464
Total instructional staff	<u>6,778,859</u>	<u>11,975,861</u>	<u>7,510,631</u>	<u>4,465,230</u>
School administration:				
Salaries and benefits	326,494	288,609	307,616	(19,007)
Materials and services	77,387	152,710	146,376	6,334
Total school administration	<u>403,881</u>	<u>441,319</u>	<u>453,992</u>	<u>(12,673)</u>
Business:				
Salaries and benefits	200,684	103,074	82,431	20,643
Materials and services	36,579	160,967	127,755	33,212
Total business	<u>237,263</u>	<u>264,041</u>	<u>210,186</u>	<u>53,855</u>

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Grant Fund (Continued)
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Supporting Services (continued):				
Central:				
Salaries and benefits	1,553,284	1,282,022	832,211	449,811
Materials and services	237,562	3,717,663	1,297,930	2,419,733
Total central	1,790,846	4,999,685	2,130,141	2,869,544
Total supporting services	16,032,349	27,572,074	16,185,600	11,386,474
Food Services:				
Salaries and benefits	328,573	-	-	-
Materials and services	59,768	375,133	330,366	44,767
Total food services	388,341	375,133	330,366	44,767
Community Services:				
Salaries and benefits	1,287,296	1,469,361	1,198,529	270,832
Materials and services	289,723	228,992	105,750	123,242
Total community services	1,577,019	1,698,353	1,304,279	394,074
Total current expenditures	70,472,066	72,196,258	56,213,031	15,983,227
Excess of revenues over expenditures	-	-	-	-
Fund balance - beginning of year	-	-	-	-
Fund balance - end of year	\$ -	\$ -	\$ -	\$ -

Note: Bolded lines indicate legally required appropriation budget levels of control

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
PERS Rate Stabilization Reserve Fund
Schedule of Changes in Fund Balance -
Budget and Actual
For the year ended June 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
OTHER FINANCING SOURCES				
Transfers in	\$ -	\$ 1,800,000	\$ 1,800,000	\$ -
Net change in fund balance	-	1,800,000	1,800,000	-
Fund balance - beginning of year	-	-	-	-
Fund balance - end of year	<u>\$ -</u>	<u>\$ 1,800,000</u>	<u>\$ 1,800,000</u>	<u>\$ -</u>

Note: Bolded line indicates legally required appropriation budget level of control

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Special Revenue Funds
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Federal and state support	\$ 527,625	\$ 1,701,325	\$ 693,219	\$ (1,008,106)
Other	5,439,736	8,539,023	6,415,122	(2,123,901)
Total revenues	<u>5,967,361</u>	<u>10,240,348</u>	<u>7,108,341</u>	<u>(3,132,007)</u>
EXPENDITURES				
Current Operating:				
Instruction:				
Regular programs:				
Salaries and benefits	2,385,394	3,031,968	2,476,691	555,277
Materials and services	233,982	810,561	299,157	511,404
Total regular programs	<u>2,619,376</u>	<u>3,842,529</u>	<u>2,775,848</u>	<u>1,066,681</u>
Special programs:				
Salaries and benefits	792,522	2,277,642	397,208	1,880,434
Materials and services	71,234	359,912	112,199	247,713
Total special programs	<u>863,756</u>	<u>2,637,554</u>	<u>509,407</u>	<u>2,128,147</u>
Summer school programs:				
Salaries and benefits	201,982	334,238	234,369	99,869
Materials and services	48,188	47,548	27,907	19,641
Total summer school programs	<u>250,170</u>	<u>381,786</u>	<u>262,276</u>	<u>119,510</u>
Total instruction	<u>3,733,302</u>	<u>6,861,869</u>	<u>3,547,531</u>	<u>3,314,338</u>
Supporting Services:				
Students:				
Salaries and benefits	47,408	297,881	250,895	46,986
Materials and services	4,081	204,951	69,433	135,518
Total students	<u>51,489</u>	<u>502,832</u>	<u>320,328</u>	<u>182,504</u>
Instructional staff:				
Salaries and benefits	1,079,201	937,114	874,283	62,831
Materials and services	87,391	637,027	314,818	322,209
Total instructional staff	<u>1,166,592</u>	<u>1,574,141</u>	<u>1,189,101</u>	<u>385,040</u>
General administration:				
Salaries and benefits	-	8,047	1,401	6,646
Materials and services	-	28,206	2,455	25,751
Total general administration	<u>-</u>	<u>36,253</u>	<u>3,856</u>	<u>32,397</u>
School administration:				
Salaries and benefits	307,138	432,636	358,587	74,049
Materials and services	33,297	82,000	92,770	(10,770)
Total school administration	<u>340,435</u>	<u>514,636</u>	<u>451,357</u>	<u>63,279</u>

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Special Revenue Funds (Continued)
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Supporting Services (continued):				
Business:				
Materials and services	623,778	683,563	156,969	526,594
Central:				
Materials and services	-	16,840	13,254	3,586
Total supporting services	2,182,294	3,328,265	2,134,865	1,193,400
Food Services:				
Materials and services	-	11,962	3,167	8,795
Community Services:				
Salaries and benefits	33,997	13,089	5,209	7,880
Materials and services	17,768	25,163	14,683	10,480
Total community services	51,765	38,252	19,892	18,360
Total current expenditures	5,967,361	10,240,348	5,705,455	4,534,893
Excess of revenues over expenditures	-	-	1,402,886	1,402,886
Fund balance - beginning of year	-	-	3,985,597	3,985,597
Fund balance - end of year	\$ -	\$ -	\$ 5,388,483	\$ 5,388,483

Note: Bolded lines indicate legally required appropriation budget levels of control

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
BESC Cafeteria Fund
Budgeted As: Blanchard Education Service Center Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Sales	\$ 552,641	\$ 552,641	\$ 523,667	\$ (28,974)
EXPENDITURES				
Current Operating:				
Supporting Services:				
Food services:				
Salaries and benefits	297,193	297,193	276,553	20,640
Materials and services	238,100	238,100	244,263	(6,163)
Total food services	535,293	535,293	520,816	14,477
Excess of revenues over expenditures	17,348	17,348	2,851	(14,497)
Fund balance - beginning of year	-	-	6,848	6,848
Fund balance - end of year	<u>\$ 17,348</u>	<u>\$ 17,348</u>	<u>\$ 9,699</u>	<u>\$ (7,649)</u>

Note: Bolded lines indicate legally required appropriation budget levels of control

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
System Project Debt Service Fund
Schedule of Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES				
Debt Service:				
Principal	\$ 4,045,000	\$ 4,045,000	\$ 4,045,000	\$ -
Interest and fiscal charges	1,408,983	1,408,983	1,402,058	6,925
Total expenditures	5,453,983	5,453,983	5,447,058	6,925
OTHER FINANCING SOURCES				
Transfers in	5,446,483	5,446,483	5,446,483	-
Net change in fund balances	(7,500)	(7,500)	(575)	6,925
Fund balance - beginning of year	7,500	7,500	7,248	(252)
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,673</u>	<u>\$ 6,673</u>

Note: Bolded line indicates legally required appropriation budget level of control

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
BESC Special Obligation Debt Service Fund
Schedule of Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
EXPENDITURES				
Debt Service:				
Principal	\$ 1,150,000	\$ 1,150,000	\$ 1,150,000	\$ -
Interest and fiscal charges	304,950	304,950	304,950	-
Total expenditures	1,454,950	1,454,950	1,454,950	-
OTHER FINANCING SOURCES				
Transfers in	1,454,950	1,454,950	1,454,950	-
Net change in fund balances	-	-	-	-
Fund balance - beginning of year	-	-	-	-
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Note: Bolded line indicates legally required appropriation budget level of control

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Bond Sinking Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive/</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property and other taxes	\$ 12,455,125	\$ 12,455,125	\$ 12,853,861	\$ 398,736
Investment earnings	110,741	110,741	62,633	(48,108)
Total revenues	12,565,866	12,565,866	12,916,494	350,628
EXPENDITURES				
Debt Service:				
Principal	10,470,000	10,470,000	10,470,000	-
Interest and fiscal charges	2,095,866	2,095,866	1,846,417	249,449
Total expenditures	12,565,866	12,565,866	12,316,417	249,449
Excess of revenues over expenditures	-	-	600,077	600,077
Fund balance (deficit) - beginning of year	-	-	(71,580)	(71,580)
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 528,497</u>	<u>\$ 528,497</u>

Note: Bolded line indicates legally required appropriation budget level of control

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
General Obligation Bonds Debt Service Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
REVENUES				
Property and other taxes	\$ 32,745,000	\$ 32,745,000	\$ 34,227,854	\$ 1,482,854
Investment earnings	254,625	254,625	170,368	(84,257)
Total revenues	32,999,625	32,999,625	34,398,222	1,398,597
EXPENDITURES				
Debt Service:				
Principal	26,800,000	26,800,000	26,800,000	-
Interest	5,869,625	5,869,625	4,669,625	1,200,000
Total expenditures	32,669,625	32,669,625	31,469,625	1,200,000
Excess of revenues over expenditures	330,000	330,000	2,928,597	2,598,597
Fund balance (deficit) - beginning of year	-	-	(828,840)	(828,840)
Fund balance - end of year	\$ 330,000	\$ 330,000	\$ 2,099,757	\$ 1,769,757

Note: Bolded line indicates legally required appropriation budget level of control

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
System Project Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
REVENUES				
Investment earnings	\$ 64,915	\$ 81,186	\$ 154,990	\$ 73,804
EXPENDITURES				
Current Operating:				
Supporting Services:				
Central:				
Salaries and benefits	723,579	723,579	860,198	(136,619)
Materials and services	3,834,248	3,617,491	2,967,359	650,132
Total central	4,557,827	4,341,070	3,827,557	513,513
Facilities Acquisition & Construction:				
Materials and services	80,000	120,000	98,086	21,914
Total current expenditures	4,637,827	4,461,070	3,925,643	535,427
Excess of expenditures over revenues	(4,572,912)	(4,379,884)	(3,770,653)	609,231
Fund balance - beginning of year	4,572,912	5,606,418	5,606,418	-
Fund balance - end of year	<u>\$ -</u>	<u>\$ 1,226,534</u>	<u>\$ 1,835,765</u>	<u>\$ 609,231</u>

Note: Bolded line indicates legally required appropriation budget level of control

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Facilities Improvement/Technology Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive/</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Investment earnings	\$ 282,675	\$ 282,675	\$ 528,670	\$ 245,995
EXPENDITURES				
Current Operating:				
Supporting Services:				
Instructional staff:				
Materials and services	2,260,163	2,260,163	1,775,707	484,456
Business:				
Materials and services	-	3,000	2,000	1,000
Central:				
Materials and services	582,778	2,334,889	2,409,564	(74,675)
Total supporting services	2,842,941	4,598,052	4,187,271	410,781
Facilities Acquisition & Construction:				
Salaries and benefits	525,267	525,267	578,075	(52,808)
Materials and services	25,244,420	23,489,309	15,060,182	8,429,127
Total Facilities Acquisition & Construction	25,769,687	24,014,576	15,638,257	8,376,319
Total expenditures	28,612,628	28,612,628	19,825,528	8,787,100
Excess of expenditures over revenues	(28,329,953)	(28,329,953)	(19,296,858)	9,033,095
Fund balance - beginning of year	29,329,953	29,329,953	35,338,299	6,008,346
Fund balance - end of year	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>	<u>\$ 16,041,441</u>	<u>\$ 15,041,441</u>

Note: Bolded line indicates legally required appropriation budget level of control

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Facilities Improvement II Fund
Budgeted As: Facilities Improvement II/Technology Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Investment earnings	\$ 95,670	\$ 95,670	\$ 76,347	\$ (19,323)
EXPENDITURES				
Current Operating:				
Supporting Services:				
Business:				
Materials and services	-	6,500	3,705	2,795
Facilities Acquisition & Construction:				
Salaries and benefits	-	-	1,915	(1,915)
Materials and services	400,000	393,500	387,880	5,620
Total Facilities Acquisition & Construction:	400,000	393,500	389,795	3,705
Total expenditures	400,000	400,000	393,500	6,500
Excess of expenditures over revenues	(304,330)	(304,330)	(317,153)	(25,823)
Fund balance - beginning of year	4,959,346	4,959,346	5,668,527	709,181
Fund balance - end of year	<u>\$ 4,655,016</u>	<u>\$ 4,655,016</u>	<u>\$ 5,351,374</u>	<u>\$ 683,358</u>

Note: Bolded line indicates legally required appropriation budget level of control

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Self-Insurance Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual (Non-GAAP Basis)
For the year ended June 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
REVENUES				
Charges for services	\$ 2,694,899	\$ 3,846,500	\$ 3,997,972	\$ 151,472
Investments	136,000	136,000	59,619	(76,381)
Insurance recoveries	-	-	385,825	385,825
Other	125,000	125,000	72,993	(52,007)
Total revenues	<u>2,955,899</u>	<u>4,107,500</u>	<u>4,516,409</u>	<u>408,909</u>
EXPENDITURES				
Current Operating:				
Supporting Services:				
Salaries and benefits	365,291	365,291	391,384	(26,093)
Materials and services	558,700	558,700	1,053,692	(494,992)
Claims expense	3,914,500	5,014,500	4,409,852	604,648
Total expenditures	<u>4,838,491</u>	<u>5,938,491</u>	<u>5,854,928</u>	<u>83,563</u>
Excess of expenditures over revenues	(1,882,592)	(1,830,991)	(1,338,519)	492,472
Fund balance - beginning of year	1,902,110	1,965,525	1,965,525	-
Fund balance - end of year	<u>\$ 19,518</u>	<u>\$ 134,534</u>	627,006	<u>\$ 492,472</u>
Less salaries and benefits accrued under GAAP			(2,294)	
Retained earnings at end of year, GAAP basis			<u>\$ 624,713</u>	

Note: Bolded line indicates legally required appropriation budget level of control

OTHER FINANCIAL SCHEDULES

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON
 Schedule of Property Tax Transactions
General Fund
 For the Year Ended June 30, 2003

DISTRICT LEVIES	Tax Year	Taxes			Levy as Extended by Assessor	Discounts Allowed	Interest	Cancellations and Adjustments	Property Tax Collections	Taxes
		Uncollected June 30, 2002	Uncollected June 30, 2003	Uncollected June 30, 2003						
Multnomah County:										
General Tax:										
Current Year	2002-2003	\$ -	\$ 147,114,018	\$ (3,462,985)	\$ 93,393	\$ (793,850)	\$ (137,900,060)	\$ 5,050,516		
Prior Years	2001-2002	5,014,848	-	-	172,992	(863,500)	(2,406,674)	1,917,666		
	2000-2001	2,176,681	-	-	189,861	(187,047)	(1,152,194)	1,027,301		
	1999-2000	1,047,609	-	-	164,464	(154,600)	(699,191)	358,282		
	1998-1999	390,587	-	-	84,719	(94,806)	(316,267)	64,233		
	1997-1998	101,118	-	-	10,068	(60,115)	(10,068)	41,003		
	1996-1997	31,282	-	-	2,236	2,135	(20,189)	15,464		
	1995-1996	10,813	-	-	324	(836)	(1,129)	9,172		
	1994-1995	13,211	-	-	464	(1,322)	(2,228)	10,125		
	and prior	150,374	-	-	17,359	(7,660)	(30,558)	129,515		
Total General Tax:		8,936,523	147,114,018	(3,462,985)	735,880	(2,161,601)	(142,538,558)	8,623,277		
							minus 8.928% allocation to the Bond Sinking Debt Service Fund:			
								(769,886)		
								7,853,391		
Local Option Taxes:										
Current Year	2002-2003	-	16,789,671	(395,220)	10,659	(90,600)	(15,738,110)	576,400		
Prior Year	2001-2002	546,442	-	-	18,850	(94,091)	(262,243)	208,958		
	2000-2001	218,284	-	-	19,040	(18,758)	(115,546)	103,020		
Total Local Option Taxes:		764,726	16,789,671	(395,220)	48,549	(203,449)	(16,115,899)	888,378		
Total Multnomah County:		9,701,249	163,903,689	(3,858,205)	784,429	(2,365,050)	(158,654,457)	8,741,769		
Washington County:										
All Years ¹			1,112,217				(1,112,217)			
Clackamas County:										
All Years ¹			143,172				(143,172)			
Total All Counties:		\$ 9,701,249	\$ 165,159,078	\$ (3,858,205)	\$ 784,429	\$ (2,365,050)	\$ (159,909,846)	\$ 8,741,769		

¹ The total collections from Washington and Clackamas Counties were less than one percent of the District's total property tax collections. The taxes receivable from the two counties at June 30, 2003 were considered immaterial.

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON

Schedule of Property Tax Transactions

General Fund (continued)

For the Year Ended June 30, 2003

Reconciliation to Financial Statements:	
Property tax collections during the year ended June 30, 2003	\$ 159,909,846
Non-levied tax revenue received during year ended June 30, 2003	315,180
Uncollected property taxes at June 30, 2003	\$ 8,741,769
Uncollected property taxes susceptible to accrual at June 30, 2003	841,014 (758,828)
Non-levied tax revenue susceptible to accrual at June 30, 2003	169,228 (153,891)
Property taxes & non-levy rev susceptible to accrual at June 30, 2002, and collected during the year ended June 30, 2003	(997,212)
Less property tax revenues allocated to Bond Sinking Debt Service Fund	<u>(12,853,860)</u>
Total property taxes - General Fund	<u>\$ 147,384,197</u>
Total Deferred Revenues - General Fund	<u>\$ 7,829,050</u>

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON

Schedule of Property Tax Transactions
Debt Service Funds

For the Year Ended June 30, 2003

DISTRICT LEVIES	Tax Year	Taxes		Levy as Extended by Assessor	Discounts Allowed	Interest	Cancellations and Adjustments	Property Tax Collections	Taxes	
		Uncollected June 30, 2002	Uncollected June 30, 2003						Uncollected June 30, 2002	Uncollected June 30, 2003
Multnomah County:										
Bond Tax:										
Current Year	2002-2003	\$ -	\$ -	\$ 35,210,079	\$ (828,826)	\$ 22,352	\$ (189,999)	\$ (33,004,822)	\$	\$ 1,208,784
Prior Years	2001-2002	980,964		-	-	33,839	(168,911)	(470,774)		375,118
	2000-2001	418,989		-	-	36,546	(36,005)	(221,786)		197,745
	1999-2000	214,565		-	-	33,685	(31,664)	(143,204)		73,381
	1998-1999	76,137		-	-	16,514	(18,480)	(61,650)		12,521
	1997-1998	25,459		-	-	2,535	(15,135)	(2,535)		10,323
	1996-1997	4,616		-	-	330	315	(2,979)		2,282
Total Multnomah County:		<u>1,720,728</u>		<u>35,210,079</u>	<u>(828,826)</u>	<u>145,802</u>	<u>(459,879)</u>	<u>(33,907,749)</u>		<u>1,880,154</u>
										<u>769,886</u>
										<u>2,650,040</u>
Washington County:										
All Years ¹				237,590				(237,590)		
Clackamas County:										
All Years ¹				29,413				(29,413)		
Total All Counties:		<u>\$ 1,720,728</u>		<u>\$ 35,477,082</u>	<u>\$ (828,826)</u>	<u>\$ 145,802</u>	<u>\$ (459,879)</u>	<u>\$ (34,174,752)</u>		<u>\$ 2,650,040</u>
Reconciliation to Financial Statements:										
Property tax collections during the year ended June 30, 2003								\$ 34,174,752		
Non-levied tax revenue received during year ended June 30, 2003								31,018	\$	2,650,040
Uncollected property taxes at June 30, 2003								172,287		(237,106)
Uncollected property taxes susceptible to accrual at June 30, 2003								701		(15,697)
Property taxes & non-levy rev susceptible to accrual at June 30, 2003								(150,904)		
Property taxes & non-levy rev susceptible to accrual at June 30, 2002, and collected during the year ended June 30, 2003								12,853,860		
Plus property tax revenues allocated from the General Fund to the Bond Sinking Debt Service Fund								\$ 47,081,714		
Total property taxes - Debt Service Funds										\$ 2,397,237
Total Deferred Revenues - Debt Service Funds										

¹ The total collections from Washington and Clackamas Counties were less than one percent of the District's total property tax collections. The taxes receivable from the two counties at June 30, 2003 were considered immaterial.

CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Capital Assets Used in the Operation of Governmental Funds
Schedules By Source
June 30, 2003

Governmental funds capital assets:	
Land	\$ 9,049,378
Buildings and site improvements	295,611,876
Vehicles and equipment	24,263,531
Construction in progress	14,764,671
Total governmental funds capital assets	<u>\$ 343,689,456</u>

Investments in governmental funds capital assets by source:	
General fund	\$ 146,375,144
Special Revenue funds	903,412
Capital Projects funds	196,410,900
Total governmental funds capital assets	<u>\$ 343,689,456</u>

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Capital Assets Used in the Operation of Governmental Funds
Schedule By Function and Activity
June 30, 2003

<u>Function and Activity</u>	<u>Land</u>	<u>Buildings and Site Improvements</u>	<u>Vehicles and Equipment</u>	<u>Construction in Progress</u>	<u>Total</u>
General government:					
Instruction	\$ 7,041,878	\$ 270,062,445	\$ 537,571	\$ 14,764,671	\$ 292,406,565
Supporting services	2,007,500	25,549,431	23,401,000	-	50,957,931
Food services	-	-	324,960	-	324,960
Total governmental funds capital assets	<u>\$ 9,049,378</u>	<u>\$ 295,611,876</u>	<u>\$ 24,263,531</u>	<u>\$ 14,764,671</u>	<u>\$ 343,689,456</u>

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes By Function and Activity
For the fiscal year ended June 30, 2003

<u>Function and Activity</u>	<u>Governmental Funds Capital Assets July 1, 2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>Governmental Funds Capital Assets June 30, 2003</u>
General government				
Instruction	\$ 275,777,512	\$ 31,648,872	\$ 15,019,819	\$ 292,406,565
Supporting services	50,270,544	939,665	252,278	50,957,931
Food services	210,398	114,562	-	324,960
Total governmental funds capital assets	<u>\$ 326,258,454</u>	<u>\$ 32,703,099</u>	<u>\$ 15,272,097</u>	<u>\$ 343,689,456</u>

Table I
SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON
General Fund Expenditures and Other Financing Uses by Function and Program
Last Ten Years

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
General Fund:										
Instruction:										
Regular Programs	\$ 144,770,164	\$ 148,965,576	\$ 150,813,899	\$ 150,133,204	\$ 150,321,408	\$ 155,011,503	\$ 161,878,770	\$ 156,421,886	\$ 161,989,456	\$ 149,803,286
Special Education	38,165,487	31,088,264	36,387,363	38,189,666	40,481,167	42,524,537	47,359,762	58,761,699	57,256,967	55,520,634
Total Instruction	182,935,651	180,053,840	187,201,262	188,322,870	190,802,575	197,536,040	209,238,532	215,183,585	219,246,423	205,323,920
Supporting Services:										
Students	-	-	-	-	-	-	-	29,039,622	29,694,267	28,167,370
Instructional Support	51,258,215	47,800,715	44,345,697	41,351,498	43,610,554	53,132,634	51,993,849	15,483,389	11,613,180	11,105,578
General Administration	2,980,700	3,204,345	4,251,456	4,673,486	4,635,215	5,106,413	5,491,143	5,216,157	3,323,942	2,693,485
School Administration	-	-	-	-	-	-	-	25,989,859	27,581,331	26,100,103
Business	-	-	-	-	-	-	-	56,037,473	53,972,966	51,458,624
Central	-	-	-	-	-	-	-	8,918,219	10,871,513	10,330,001
Administrative Support	13,250,974	2,840,300 ¹	6,334,685 ²	11,773,641	12,399,427	14,460,242	14,274,750	-	-	-
Operation and Maintenance	42,275,258	38,417,126	37,564,506	39,673,723	36,645,684	35,242,254	35,793,914	-	-	-
Student Transportation	10,755,573	9,665,395	9,676,852	10,335,147	12,738,556	13,702,513	14,096,579	-	-	-
Total Supporting Services	120,520,720	101,927,881	102,173,196	107,807,495	110,029,436	121,644,056	121,650,235	140,684,719	137,057,199	129,855,161
Capital Outlay	2,149,637	1,370,106	1,650,714	1,251,757	994,734	807,839	499,956	-	-	-
Debt Service	-	-	-	-	2,659,232 ³	1,562,153	1,865,109	2,767,862	2,776,058	5,589,580
Transfers Out	20,358,822	20,659,574	22,075,004	20,876,984	21,796,278	20,979,306	9,888,370	6,896,908	6,973,589	8,850,365
Bond Defeasement	-	-	-	-	-	-	2,759,464	-	-	-
Total General Fund	\$ 325,964,830	\$ 304,011,401	\$ 313,100,176	\$ 318,259,106	\$ 326,282,255	\$ 342,529,394	\$ 345,901,666	\$ 365,533,074	\$ 366,053,269	\$ 349,619,026
Student enrollment:										
Average daily membership	50,101	49,287	49,276	49,357	49,712	49,532	48,900	48,478	48,152	45,504 ⁴
Cost per Pupil:										
Instruction	\$ 3,651	\$ 3,653	\$ 3,799	\$ 3,816	\$ 3,838	\$ 3,988	\$ 4,279	\$ 4,439	\$ 4,553	\$ 4,512
Students	-	-	-	-	-	-	-	599	617	619
Instructional Support	1,023	970	900	838	877	1,073	1,063	319	241	244
General Administration	59	65	86	95	93	103	112	108	69	59
School Administration	-	-	-	-	-	-	-	536	573	574
Business	-	-	-	-	-	-	-	1,156	1,121	1,131
Central	-	-	-	-	-	-	-	184	226	227
Administrative Support	264	58	129	239	249	292	292	-	-	-
Operation and Maintenance	844	779	762	804	737	712	732	-	-	-
Student Transportation	215	196	196	209	256	277	288	-	-	-
Capital Outlay	43	28	33	25	20	16	10	-	-	-
Debt Service	-	-	-	-	53 ³	32	38	57	58	123
Transfers Out	406	419	448	423	438	424	202	142	145	194
Total Cost per Pupil	\$ 6,505	\$ 6,168	\$ 6,353	\$ 6,449	\$ 6,561	\$ 6,917	\$ 7,016	\$ 7,540	\$ 7,602	\$ 7,682
Percent Change	-0.12%	-5.18%	3.00%	1.51%	1.74%	5.43%	1.43%	7.47%	0.82%	1.06%

1) During the fiscal year ended June 30, 1995 the Health and Welfare Trust that administers District employee health and welfare insurance offered the District an \$8,000,000 credit on insurance costs. This credit was associated with several years accumulation of excess reserves the Health and Welfare Trust maintained for future District employee benefits. The District had no authority to demand the credit because the Health and Welfare Trust is a separate legal entity governed by an independent Board of Trustees. Since the \$8,000,000 credit was associated with previous years contributions, the District applied this credit to Supporting Services in General Fund.

2) During the fiscal year ended June 30, 1996, the General Fund was reimbursed for a total of \$5,000,000 of capital expenditures made in previous years from the proceeds of the 1995 series general obligation bonds. Since the \$5,000,000 represented a reimbursement of previous expenditures, the District applied this credit to Supporting Services in the General Fund.

3) Debt Service was not reported as a separate category prior to the fiscal year ended June 30, 1998.

4) Estimated amount from Oregon Department of Education, Update #6A

5) In 2001 the District converted to the state chart of accounts in order to be consistent with other districts statewide. This change effected the program expense categories.

Source data: School District No. 1, Multnomah County financial statements.

Table II
SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON
General Fund Revenues and Other Financing sources by Source - Budgetary Basis
Last Ten Years

Year Ended June 30	Total	Local Sources			State Sources			County and Intermediate Sources
		Property and Other Taxes ¹	Investment Earnings	Miscellaneous ²	Common School Fund	State School Fund	Other	
1994	\$ 304,896,947	\$ 180,441,261	\$ 2,932,120	\$ 8,884,578	\$ 1,161,137	\$ 100,383,716	\$ 77,056	\$ 11,017,079
1995	311,368,632	151,905,630	4,655,609	10,401,286	897,992	132,743,668	-	10,764,447
1996	305,096,156	112,344,741	3,917,201	7,432,496	1,135,473	169,974,967	-	10,291,278
1997	317,854,918	123,485,381	3,585,108	22,474,589	1,480,940	156,200,559	-	10,628,341
1998	335,626,752	118,269,829	5,090,983	12,845,641	1,164,795	187,369,999	-	10,885,505
1999	338,464,518	132,243,645 ³	3,866,716	14,484,323	1,187,604	175,685,157	-	10,997,073
2000	347,370,484	114,856,725	4,356,712	23,898,153	3,822,492	189,566,900	-	10,869,502
2001	358,120,161	133,083,609	5,957,542	10,171,426	4,096,001	193,991,416	-	10,820,167
2002	357,301,131	141,996,823	2,612,887	7,016,098	1,527,383	193,284,103	-	10,863,837
2003	350,674,724	147,384,196	1,134,924	7,830,133	3,100,444	167,805,317	-	23,419,710

¹ Uncollected property taxes are not included in revenues at fiscal year end unless they are susceptible to accrual.

² Includes Donations and Contributions, Other Financing Sources, and Other revenues.

³ Includes one time business income tax collections of \$9,562,500.

Source data: School District No. 1, Multnomah County financial statements.

Table III
SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON
Property Tax Levies and Collections
Last Ten Years

Year Ended June 30	Certified Tax Levy	Net Levy after M5/M50 and Adjustments ¹	Current Tax Collections	Current Tax Collections as a Percentage of Current Net Levy	Delinquent Tax Collections	Total Tax Collections	Total Tax Collections as a Percentage of Current Net Levy	Uncollected Taxes	Uncollected Taxes as a Percentage of Current Net Levy
1994	\$ 286,162,962	\$ 176,419,081 ²	\$ 168,264,543	95.38%	\$ 12,203,855	\$ 180,468,398	102.30%	\$ 20,066,978	11.37%
1995	303,332,739	148,369,465	140,099,480	94.43%	12,500,764	152,600,244	102.85%	12,638,240	8.52%
1996	321,532,703	111,904,978	105,877,268	94.61%	6,286,948	112,164,216	100.23%	9,242,965	8.26%
1997	359,256,279	143,123,974	135,572,664	94.72%	5,352,572	140,925,236	98.46%	8,800,785	6.15%
1998	390,756,724	146,598,607	140,697,837	95.97%	5,423,155	146,120,992	99.67%	8,401,008	5.73%
1999	153,095,023	149,486,222	141,287,804	94.52%	4,930,898	146,218,702	97.81%	8,394,677	5.62%
2000	161,415,062	157,212,598	148,099,203	94.20%	4,556,493	152,655,696	97.10%	9,429,870	6.00%
2001	186,927,098	176,631,928	166,127,224	94.05%	4,020,418	170,147,642	96.33%	10,804,344	6.12%
2002	195,215,059	185,435,529	174,460,215	94.08%	6,006,907	180,467,122	97.32%	11,421,977	6.16%
2003	207,988,479	200,207,113	188,165,384	93.99%	5,919,214	194,084,598	96.94%	11,391,809	5.69%

Note: Responsibility for the collection of all property taxes within Multnomah County rests with the County Department of Assessment and Taxation. Current taxes are assessed as of July, become due as of November 15 and become delinquent as of May 15. Assessed taxes become a lien upon real property in the fourth year of delinquency. Proceeds of tax sales are applied to delinquent taxes, interest and other costs attributable to the property sold.

¹ The net levy is the actual imposed tax after adjustments and constitutional property tax limitations due to the passing of Measure 5 in 1990 and Measure 50 in 1997.

² Net levy for Multnomah County only, information for Washington and Clackamas Counties not readily available and considered immaterial.

Source data: Levy amounts from Multnomah County, Tax Supervising and Conservation Commission.
All other information from Multnomah, Washington and Clackamas Counties, Departments of Assessment and Taxation

Table IV
SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON
Property Tax Revenues by Fund
Last Ten Years

Year Ended June 30	Total	General Fund	General Obligation Bond Debt Service Fund	General Obligation Bond II Debt Service Fund	Bond Sinking Debt Service Fund
1994	\$ 180,442,261	\$ 180,442,261	\$ -	\$ -	\$ -
1995	151,905,630	151,905,630	-	-	-
1996	112,344,741	112,344,741	-	-	-
1997	140,830,071	123,485,381	17,344,690	-	-
1998	146,819,152	118,269,829	28,549,323	-	-
1999	146,232,030	122,681,145	17,508,467	6,042,418	-
2000	153,441,078	114,761,695	16,995,788	9,003,047	12,680,548
2001	170,147,642	132,561,145	25,417,901	- ¹	12,168,596
2002	181,309,089	141,996,822	27,144,461	-	12,167,806
2003	194,465,911	147,384,196	34,227,854	-	12,853,861

¹ The General Obligation Bond II Debt Service Fund was collapsed into the General Obligation Bond Debt Service Fund effective July 1, 2000.

Source data: School District No. 1, Multnomah County financial statements: Schedule of Property Tax Transactions

Table V
SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON
Comparison of Expenditures, Transfers Out, and Bond Defeasance to Tax Levy
Last Ten Years

General Fund			
Year Ended June 30	Expenditures and Transfers Out	Property Tax Levy	Percent of Property Tax Levy to Expenditures Transfers and Bond Defeasance
1994	\$ 325,964,830	\$ 286,162,962	87.79%
1995	304,353,256	303,332,739	99.66%
1996	313,191,845	321,532,703	102.66%
1997	318,259,106	359,256,279	112.88%
1998	323,951,337	117,116,027 ¹	36.15%
1999	342,529,394	128,711,288	37.58%
2000	345,901,666	117,523,818	33.98%
2001	365,305,289	136,663,944	37.41%
2002	366,053,269	144,421,460	39.45%
2003	349,619,026	150,413,676	43.02%

Bond Sinking Debt Service Fund and General Obligation Bond Debt Service Fund			
Year Ended June 30	Expenditures and Transfers Out	Property Tax Levy	Percent of Property Tax Levy to Expenditures Transfers
1998	\$ 24,793,750	\$ 29,482,580	118.91%
1999	23,113,750	24,383,735	105.49%
2000	38,176,261	39,710,388	104.02%
2001	40,055,651	40,316,174	100.65%
2002	41,869,416	41,733,919	99.68%
2003	43,786,042	50,222,484	114.70%

¹ The levy amount beginning in 1998 is the net levy after the Measure 5 and Measure 50 property tax limitations.

Source data: School District No. 1, Multnomah County financial statements: Schedule of Property Tax Transactions

Table VI
SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON
Property Tax Rates - Direct and Overlapping Governments
Last Ten Years

Property Tax Rate per \$1,000 of Assessed Value								
Year Ended June 30	Total	School District No. 1	Multnomah Education Service District	Portland Community College	City of Portland	Multnomah County	Port of Portland	Metropolitan Service District
1994	20.40	8.78	0.76	0.46	6.30	3.75	0.16	0.19
1995	17.77	6.58	0.57	0.35	6.19	3.82	0.07	0.19
1996	15.31	4.39	0.38	0.23	6.14	3.69	0.13	0.35
1997	15.92	5.05	0.39	0.33	5.74	4.04	0.08	0.29
1998	19.63	6.67	0.46	0.37	6.78	4.89	0.07	0.39
1999	14.60	4.77	0.46	0.28	4.58	4.34	0.07	0.10
2000	14.60	4.77	0.46	0.28	4.58	4.34	0.07	0.10
2001	14.60	4.77	0.46	0.28	4.58	4.34	0.07	0.10
2002	14.60	4.77	0.46	0.28	4.58	4.34	0.07	0.10
2003	14.60	4.77	0.46	0.28	4.58	4.34	0.07	0.10

Total Taxes Certified

Year Ended June 30	Total	School District No. 1	Multnomah Education Service District	Portland Community College	City of Portland	Multnomah County	Port of Portland	Metropolitan Service District
1994	\$ 656,073,831	\$ 286,162,962	\$ 35,804,351	\$ 37,156,821	\$ 156,890,686	\$ 118,435,171	\$ 10,492,022	\$ 11,131,818
1995	688,717,693	303,332,739	37,952,612	39,348,240	165,529,624	125,425,972	5,195,679	11,932,827
1996	756,577,868	321,532,703	40,229,768	42,302,067	182,442,611	134,750,216	9,923,389	25,397,114
1997	829,575,551	359,256,279	42,643,554	44,038,014	190,883,215	162,599,880	7,434,842	22,719,767
1998	897,886,606	390,756,724	45,202,167	46,027,491	199,945,275	182,524,710	6,188,135	27,242,104
1999	610,875,700	153,095,023	16,629,045	19,510,112	196,239,652	192,981,125	6,204,446	26,216,297
2000	634,132,499	161,415,062	17,465,223	21,199,644	205,124,353	197,535,916	6,348,002	25,044,299
2001	692,704,367	186,927,098	18,390,185	23,295,845	219,878,931	210,062,104	6,591,513	27,558,691
2002	727,676,536	195,215,059	19,380,736	36,957,995	223,858,490	217,503,109	6,742,270	28,018,877
2003	751,707,261	207,988,479	19,692,484	34,661,160	237,821,611	219,123,281	6,944,518	25,475,728

Source data: Multnomah County, Tax Supervising and Conservation Commission

Table VII
SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON
Valuation of Taxable Property Within School District No. 1 Boundaries
Last Ten Years

Year Ended June 30	Assessed Valuation			
	Total	Real Property	Personal Property	Public Utility Property
1994 ¹	\$ 19,275,566,088	\$ 17,516,480,609	\$ 919,693,734	\$ 839,391,745
1995	21,500,430,034	19,751,109,431	921,771,052	827,549,551
1996	24,246,393,871	22,378,472,521	1,028,618,696	839,302,654
1997 ²	26,856,347,066	24,876,971,751	1,106,224,351	873,150,964
1998	22,376,333,121	20,284,046,065	1,197,627,997	894,659,059
1999	24,229,184,394	21,769,942,965	1,464,770,211	994,471,218
2000	25,405,546,175	22,319,499,180	1,750,770,992	1,335,276,003
2001	26,719,188,363	23,489,121,931	1,844,821,053	1,385,245,379
2002	27,988,718,415	24,566,867,585	1,894,362,915	1,527,487,915
2003	28,804,279,021	25,564,542,271	1,880,220,524	1,359,516,226

¹ Beginning July 1, 1991 the valuation of taxable property changed from true cash value to real market value. Oregon voters passed the property tax rate limitation ballot measure in November 1990.

² Beginning July 1, 1997 property taxes were based on an assessed value. Assessed value is defined as the lower of "maximum assessed value" or "real market value". For the 1997-1998 tax year, "maximum assessed value" was set at the 1995-1996 real market value less 10 percent. Assessed value for later years is limited to 3 percent annual increases.

Source data: Multnomah County Division of Assessment and Taxation, and Tax Supervising and Conservation Commission

Table VIII
SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON
Computation of Legal Debt Margin

June 30, 2003

Real Market Value	\$ 45,323,151,918
Allowable Proportion	0.0795
Debt Limit: 7.95% of Real Market Value ¹	3,603,190,577
Amount of Debt Applicable to Debt Limit:	
General Obligation Bonded Debt	65,375,000
Less: Amount Available in Debt Service Funds	(2,099,757)
Amount of Debt Applicable to Debt Limit:	63,275,243
Legal Debt Margin	\$ 3,539,915,334

¹ ORS 328.245 establishes a parameter of bonded indebtedness for school districts. Aggregates are governed by real market values of all taxable properties within the District based on the following:

^A For each grade from kindergarten to eighth for which the District operates schools, fifty-five one-hundredths of one percent (.0055) of the real market value.

^B For each grade from ninth to twelfth for which the District operates schools, seventy-five one-hundredths of one percent (.0075) of the real market value.

Allowable Percentage of Real Market Value:

^A Kindergarten through eighth grade, 9 x .0055	4.95%
^B Ninth through twelfth, 4 x .0075	3.00%
Allowable Percentage	7.95%

Source data: Market value per Multnomah County , Tax Supervising and Conservation Commission.
All other data per School District No. 1, Multnomah County financial statements.

Table IX
SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON
Ratio of Net General Bonded Debt to Real Market Value,
and Net General Bonded Debt per Capita and per Student
Last Ten Years

Year Ended June 30	Population (Estimated)	Average Daily Membership	Real Market Value ¹	Net General Bonded Debt	Ratio of Net General Bonded Debt to Real Market Value	Net General Bonded Debt per Capita	Net General Bonded Debt per Student
1994	404,123	50,101	\$ 19,275,566,088	\$ 100,963,928	0.00524	\$ 250	\$ 2,015
1995	413,571	49,287	21,500,430,034	93,983,928	0.00437	227	1,907
1996	413,571	49,276	24,246,393,871	186,519,500	0.00769	451	3,785
1997	413,571	49,357	26,856,347,066	264,069,500	0.00983	639	5,350
1998	413,571	49,712	29,402,327,828	239,102,604	0.00813	578	4,810
1999	413,571	49,532	31,277,523,213	214,716,422	0.00686	519	4,335
2000	427,037	48,900	36,354,590,972	189,040,000	0.00520	443	3,866
2001	427,037	48,478	38,977,401,805	158,580,000	0.00407	371	3,271
2002	427,037	48,152	43,036,388,539	124,845,000	0.00290	292	2,593
2003	427,037	45,504 ²	45,323,151,918	578,848,897 ³	0.01277	1,356	12,721

¹ Real market value excludes urban renewal.

² Fiscal year 2003 ADM is estimated amount from Oregon Department of Education, Update #6A

³ Fiscal year 2003 includes the debt related to the advance payment of PERS unfunded actuarial liability.

Source data: Market value per Multnomah County, Tax Supervising and Conservation Commission.
All other data per School District No. 1, Multnomah County financial statements.

Table X
SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON
*Ratio of Debt Service Expenditures for General Obligation Bonded Debt
to Total General Fund Expenditures, Transfers Out and Bond Defeasance*
Last Ten Years

Year Ended June 30	Debt Service Expenditures for General Bonded Debt			Total General Fund Expenditures, Transfers Out, and Bond Defeasance	Ratio of Debt Service Expenditures to Total General Fund Expenditures, Transfers Out, and Bond Defeasance
	Principal	Interest	Total		
1994	\$ 6,575,000	\$ 6,950,535	\$ 13,525,535	\$ 325,964,830	0.04
1995	6,980,000	6,439,138	13,419,138	304,353,256	0.04
1996	7,490,000	5,878,373	13,368,373	313,191,845	0.04
1997	19,150,000	15,543,073	34,693,073	318,259,106	0.11
1998	24,255,000	13,664,373	37,919,373	323,951,337	0.12
1999	85,685,000	12,616,174	98,301,174	342,529,394	0.29
2000	27,285,000	10,891,261	38,176,261	345,901,666	0.11
2001	30,460,000	9,595,651	40,055,651	365,305,289	0.11
2002	33,735,000	8,134,416	41,869,416	366,053,269	0.11
2003	37,270,000	6,516,042	43,786,042	349,619,026	0.13

Source data: School District No. 1, Multnomah County financial statements.

Table XI
SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON
Schedule of Overlapping Debt

June 30, 2003

<u>Overlapping Government</u>	<u>Percent Within District</u>	<u>Overlapping Gross Bonded Debt</u>
City of Portland	83.6628%	\$ 222,807,619
Multnomah County	71.0141%	95,464,255
Portland Community College	44.6511%	137,964,384
Metro	35.0975%	91,286,602
Tri-Met	35.2523%	35,516,692
Port of Portland	32.1951%	17,627,995
City of Lake Oswego	0.1385%	50,192
Tualatin Valley Fire & Rescue District	2.2955%	171,130
City of Beaverton	1.6685%	386,591
Tualatin Hills Park & Rec. District	1.2354%	234,602
Washington County	0.5979%	407,756
City of Milwaukie	0.5260%	15,885
Tualatin Valley Water (Wolf Creek Bond)	0.4099%	13,363
Clackamas County	0.1064%	293
Mt Hood Community College	0.0697%	324
Clackamas County RFPD #1	0.0487%	4,690
Total		<u><u>\$ 601,952,373</u></u>

Source data: Oregon State Treasury, Debt Management Division

Table XII
SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON
Enrollment, Average Daily Membership (ADMr and ADMw),
Average Daily Attendance (ADA), and Ratio of ADA to ADMr
Last Ten Years

Year Ended June 30	Enrollment ¹	Average Daily Membership(r) ²	Actual Weighted Average Daily Membership(w) ³	Average Daily Attendance	Ratio of ADA to ADMr
1994	56,606	50,855	60,882	46,657	0.917
1995	56,899	50,175	60,188	45,866	0.914
1996	57,266	50,358	60,602	45,821	0.910
1997	58,022	50,017	60,454	45,545	0.911
1998	56,583	49,713	60,318	45,289	0.911
1999	55,831	49,532	60,298	45,837	0.925
2000	54,746	48,900	59,931	45,457	0.930
2001	54,427	48,478	59,758	45,094	0.930
2002	54,150	48,152	59,586	45,017	0.935
2003	52,969	45,504 ⁴	55,960 ⁴	42,542	0.935

Ethnic composition for fiscal year 2003:

European-American	31,954	60.33%
African-American	8,741	16.50%
Asian American	5,255	9.92%
Hispanic-American	5,831	11.01%
American Indian	1,188	2.24%
Total	<u>52,969</u>	<u>100.00%</u>

¹ Includes pre-kindergarten, kindergarten and special schools' enrollment

² Resident Average Daily Membership (ADMr) is the average of daily student enrollment for students residing within the district. Some resident students may attend school in another district. Kindergarten students are counted as half-time students.

³ Weighted Average Daily Membership (ADMw) is the Resident Average Daily Membership (ADMr) adjusted to reflect students with special needs. Kindergarten students are counted as half-time students.

⁴ Estimated amount from Oregon Department of Education, Update #6A

Source data: Enrollment and ADA: School District No. 1, Multnomah County, Budget Department
 ADMr and ADMw: Oregon Department of Education

Table XIII
SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON
Property Value, Construction Permits and Bank Deposits
Last Ten Years

Year Ended June 30	Commercial Construction		Residential Construction		Total Construction		Bank Deposits (In Thousands)	Property Value ¹			
	Permits	Value	Permits	Value	Permits	Value		Commercial	Residential	Nontaxable	Total
1994	3,164	\$ 418,699,606	3,891	\$ 167,277,220	7,055	\$ 585,976,826	\$ 8,536,224	\$ 12,772,721,149	\$ 14,727,419,864	\$ 6,351,739,855	\$ 33,851,880,868
1995	3,286	387,755,191	3,822	113,779,784	7,108	501,534,975	9,643,531	13,534,313,175	17,177,183,036	7,884,082,103	38,595,578,314
1996	3,069	497,058,470	4,011	132,248,762	7,080	629,307,232	11,414,176	14,891,165,319	19,792,330,932	9,107,427,788	43,790,924,039
1997	3,378	690,910,816	4,343	157,497,045	7,721	848,407,861	14,543,385	16,080,287,251	22,380,650,659	8,841,058,330	47,301,996,240
1998	4,089	778,910,533	4,153	166,479,499	8,242	945,390,032	13,045,877	17,936,991,735	24,330,799,464	13,241,543,734	55,509,334,933
1999	3,746	712,690,707	4,128	164,598,675	7,874	877,289,382	12,942,698	21,983,342,239	30,344,508,412	12,374,314,769	64,702,165,420
2000	3,503	685,894,883	4,390	166,029,804	7,893	851,924,687	15,837,718	24,520,500,813	31,741,277,393	13,837,952,586	70,099,730,792
2001	3,450	601,434,594	4,968	221,896,644	8,418	823,331,238	13,126,825	27,598,450,203	33,622,862,902	16,174,114,887	77,395,427,992
2002	3,300	690,053,211	5,290	283,985,480	8,590	974,038,691	7,922,948	27,345,705,843	36,040,639,050	16,627,381,772	80,013,726,665
2003	3,632	629,616,595	5,640	311,558,213	9,272	941,174,808	18,359,918	- ²	- ²	- ²	- ²

¹ These values are for all of Multnomah County, which includes School District No. 1. Values for fiscal years 1998-2002 have been updated since last report.

² Fiscal year 2003 not available at the time of this report.

Source data: Construction information per City of Portland, Building Bureau.
Bank deposit information per Oregon State, Department of Consumer and Business Services.
Property values per Multnomah County, Division of Assessment and Taxation.

Table XIV
SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON
Surety Bonds of Principal Officials
June 30, 2003

<u>Titles</u>	<u>Amount of Surety Bond ¹</u>
Superintendent	\$ 350,000
Deputy Clerk - Budget Officer	350,000
All other School District employees	250,000

¹ Each of the listed officials is covered under a Public Employees Blanket Bond for \$250,000 plus an additional \$100,000 under Public Official Bond.

Source data: School District No. 1, Multnomah County, Department of Risk Management

Table XV
SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON
Principal Taxpayers in Multnomah County
June 30, 2003

Taxpayer	Type of Business	Assessed Valuation	Percentage of Total Value
Ten Largest Taxpayers			
Qwest Corporation	Telephone Utility	\$ 475,715,336	1.07%
Portland General Electric	Electric Utility	308,620,970	0.70%
Pacificorp	Electric Utility	252,030,200	0.57%
Wacker Siltronic Corp	Computer and Electronics	204,815,810	0.46%
Boeing Company	Aircraft Parts	190,771,020	0.43%
Microchip Technology Inc	Computer and Electronics	176,085,730	0.40%
Alaska Airlines, Inc.	Airline	164,000,000	0.37%
Oregon Steel Mills Inc	Steel Manufacturing	149,337,260	0.34%
Fred Meyer Stores Inc	Retail	147,486,570	0.33%
Northwest Natural Gas Co.	Gas Utility	142,329,930	0.32%
Total of Ten Largest Taxpayers		2,211,192,826	4.99%
All Other Taxpayers		42,127,669,740	95.01%
Total All Taxpayers		<u>\$ 44,338,862,566</u>	<u>100.00%</u>

Source data: Multnomah County, Division of Assessment and Taxation

Table XVI
SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON
Miscellaneous Statistics
June 30, 2003

Portland Public Schools:	
Date of incorporation	December 15, 1851
Date of consolidation	March 31, 1856
Form of government	Quasi corporation
Area - square miles	145.6
Area - physical plants - acres	854.72
Number of facilities:	
Primary and elementary	61
Intermediate and middle	17
Secondary	10
Alternative, special administrative, support, and holding facilities	26
Total number of facilities:	<u>114</u>

School District Community:

Population:

Census population count from last six censuses:	<u>Total</u>
1950	373,628
1960	372,676
1970	382,619
1980	373,409
1990	404,123
2000	427,037

Age distribution of population from last four censuses:	<u>Percentage</u>	<u>Percentage</u>	<u>Percentage</u>
	Under 18	18-65	Over 65
1970	28%	57%	15%
1980	26%	61%	13%
1990	22%	64%	14%
2000	20%	69%	11%

Elections:

Registered voters in Multnomah County:	<u>Total</u>
June 30, 1999	378,210
June 30, 2000	341,210
June 30, 2001	365,596
June 30, 2002	356,211
May 20, 2003	363,841
Percentage increase from 2002 to 2003	2.1%
Votes cast last general election (November 5, 2002)	245,238
Percent of registered voters voting	67.5%

Source data:

Demographic and general information per School District No. 1, Multnomah County, Budget Department.
 Population and income information per Portland State University, Population Research Center.
 Election information per Multnomah County Elections Division.

Table XVI
SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON
Miscellaneous Statistics, continued
June 30, 2003

Economics:

Property valuations:

Beginning July 1, 1997 property taxes were based on an assessed value. Assessed value is defined as the lower of "maximum assessed value" or "real market value". For the 1997-1998 tax year, "maximum assessed value" was set at the 1995-1996 real market value, less 10 percent.

Income level for a family of four, census years in which data is available:	<u>Median (family)</u>
1960	\$ 6,872
1970	10,463
1980	20,250
1990	38,723
1995	34,533
2000	51,118

Source data:

Demographic and general information per School District No. 1, Multnomah County, Budget Department.
 Population and income information per Portland State University, Population Research Center.



PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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November 26, 2003

2002-2003 AUDITORS' COMMENTS AND DISCLOSURES

Oregon Administrative Rules 162-10-000 through 162-16-000 (the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy) enumerate the financial statements, schedules, comments and disclosures required in audit reports.

The required statements and schedules are set forth in preceding pages of this report. Required comments and disclosures related to our audit of such statements and schedules are set forth as follows.

REPORT ON INTERNAL ACCOUNTING CONTROL

We have audited the basic financial statements of School District No. 1, Multnomah County, Oregon, as of and for the year ended June 30, 2003, and have issued our report thereon dated November 26, 2003.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

The management of School District No. 1, Multnomah County, Oregon, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of basic financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the basic financial statements of School District No. 1, Multnomah County, Oregon, for the year ended June 30, 2003, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors and irregularities in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

This report is intended for the information of management and the State of Oregon, Secretary of State, Audits Division. However, this report is a matter of public record and its distribution is not limited.

ACCOUNTING RECORDS

The District's accounting records were adequate to meet the District's financial accounting requirements.

BUDGET TRANSACTIONS

Expenditures of the various funds were within authorized appropriations.

2002-2003 and 2003-2004 BUDGETS

The budgets adopted by the District for the years ended June 30, 2003 and ending June 30, 2004 were reviewed during the audit. It appeared that budget preparation and adoption procedures followed by the District were in compliance with the Oregon Local Budget Law.

COLLATERAL SECURING BANK DEPOSITS

Based on our selective testing, collateral pledged by the depositories appeared to be adequate at all times during the year to meet requirements of Oregon Law. Each depository is required by ORS Chapter 295 to maintain securities having a value of not less than 25% of the face amount of the collateral certificate issued by the pool manager, for funds deposited in the depository in excess of the amounts insured by the Federal Deposit Insurance Corporation. Deposits in the State Local Government Investment Pool and deferred compensation account are not required to be collateralized.

INVESTMENTS

The District's investments held during the year ending June 30, 2003, were reviewed and appeared to comply with the legal requirements pertaining to the investment of public funds contained in ORS 294.035.

PUBLIC CONTRACTS AND PURCHASING

The District's procedures for awarding public contracts were reviewed and appeared to be in compliance with ORS Chapter 279.

INSURANCE AND FIDELITY BONDS

Details concerning insurance and fidelity bond coverage were reviewed during the audit. The coverage provided appears to meet legal requirements. We do not have the professional expertise to state whether the insurance coverage is adequate.

STATUTORY BONDED DEBT LIMITATION

The District's statutory bonded debt limitation was not exceeded during the fiscal year 2002-2003. The debt outstanding appeared to be within this limit.

OUTSTANDING WARRANTS

The District had no outstanding endorsed warrants at June 30, 2003.

PROGRAMS FUNDED FROM OUTSIDE SOURCES

We reviewed and tested, to the extent we considered necessary in the circumstances, transactions and reports relative to federal and state grant programs. Our reports concerning federal grant compliance, related internal control, and other matters, along with a schedule of expenditures of federal awards, are contained in a separate report related to the requirements of the Single Audit Act Amendments of 1996 and OMB Circular A-133.

STATE SCHOOL FUND DISTRIBUTION INFORMATION

We have performed the procedures recommended by the Oregon Secretary of State, Audits Division, regarding the District's compliance with the requirements of ORS 327.013 as further defined by the Oregon State Department of Education pertaining to the District's calculations and reporting of the factors used to compute the State School Fund distribution for the year ended June 30, 2003.

Based on the work described above, we have found no instances where the District did not comply with the rules and regulations pertaining to the District's calculation and reporting of the factors used to compute the State School Fund distribution for the year ended June 30, 2003.

Nearly, Rogers and Co., P.C.