

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
 Comprehensive Annual Financial Report
 For the Year Ended June 30, 2004

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PORTLAND PUBLIC SCHOOLS

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Vicki L. Phillips
Superintendent

OFFICE OF THE SUPERINTENDENT

November 19, 2004

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, 2004.

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 an internal control structure 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 structure 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. The internal control structure is subject to periodic evaluation by management. We believe our internal control structure adequately safeguards the assets and provides 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 Portland Public Schools' 2003 CAFR.

The **Financial Section** includes the independent auditors' report, Management's Discussion and Analysis (MD&A), the basic financial statements including notes to the basic 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, 2004, 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 \$500,000 or more in federal assistance in a year have a special form of audit conducted for that year. For the sixteenth consecutive fiscal year, Portland Public Schools has issued a separate report on these requirements and the requirements of the implementing circular, 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 the 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

Established in 1851, Portland Public Schools is the largest and oldest 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 covers an area over 145 square miles and has a population in excess of 400,000 including portions of the cities of Portland (pop. 538,544), Lake Oswego (pop. 36,085), and Milwaukie (pop. 20,638). The District maintains 106 facilities with a total floor area in excess of 9.5 million square feet.

Student enrollment at October 31, 2003 was 48,883. Enrollment counts are compiled on or about the first of October. An enrolled student is defined as a student who attends one or more schools or programs within the District. Regardless of the number of schools or programs attended, each student is counted only once; the counts are unduplicated.

October 2003 Portland Public Schools Student Enrollment			
Program Type	Number of Programs	Enrollment	Enrollment Distribution
Regular Schools and Programs			
Elementary Schools	59	21,841	45%
Middle Schools	17	9,848	20%
High Schools	10	12,982	26%
Total Regular Schools & Programs	86	44,671	91%
Magnet/Special Focus Programs	9	2,134	4%
Total Regular & Special Focus Programs	95	46,805	95%
Community-Based Programs	20	1,270	3%
Special Education Programs	20	462	1%
Public Charter Programs	3	346	1%
Total Programs and Enrollment	138	48,883	100%

Source: PPS; Enrollment Summaries, October 2003

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

- 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 in the 2003–04 school year, 70% of students met the reading/literature standards and 70% met the mathematics standards.

Like the state as a whole, the highest percentage of District students meeting reading, math and science standards is at elementary school, followed by middle school and then high school. High school students out-perform younger students in writing, however. Compared to the state as a whole, District students outperform their peers in reading at grades 5 and 8, in math multiple choice at grades 5, 8 and 10, in writing at grades 5 and 8, and in math problem solving at grades 5 and 8 (the only two grades for which results are available). State and district results are identical in grade 3 reading, grade 3 math and grade 5 science. The District under-performs the state as a whole in grade 3 reading (by 1%), grade 8 science (by 4%), and in grade 10 reading, writing and science (by 3%, 3% and 9%, respectively).

At the time this message was written, final results of the Adequate Yearly Progress (AYP) analyses had not been completed by the Oregon Department of Education. Preliminary results lead the District to believe that approximately the same number of schools will be identified as making AYP in 2003–04 as had been identified for 2002–03. In the latter school year 56 of 61 elementary schools met AYP, 12 of 20 middle schools met AYP and no high schools met AYP. The final results for the 2003-04 school year are due to be released on November 23, 2004.

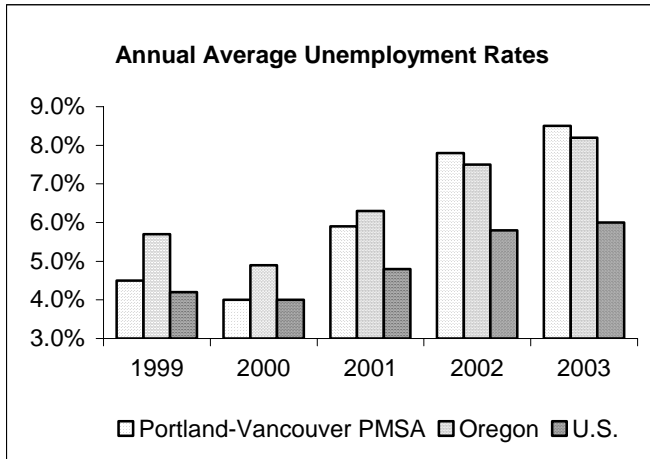
- In a show of overwhelming support for K-12 public education, the voters in Multnomah County approved a three-year temporary local income tax in May 2003. During the 2003-04 school year, this first year of the income tax generated almost \$36.5 million of new revenue for the District. In accordance with the ballot measure, 70% of the income tax proceeds are divided equally on a per pupil basis among the eight school districts in Multnomah County. The remaining 30% of the tax proceeds is targeted for County programs in senior services, public safety, and healthcare. County income tax proceeds represent approximately 9.6% of the General Fund revenues. The District used the money to maintain a full school year, to retain over 600 teaching positions, to maintain class size, and to continue athletics, professional technical education, in-school alternative education programs, and outdoor school, among other special programs. The ballot measure also created the School Efficiency and Quality Advisory Council (www.seacinfo.org) to provide oversight. The County Auditor's Office, along with the City of Portland Auditor's Office, perform certain auditing procedures and issue reports to the community (www.multnomahschools.org). Reports can be viewed at the web sites indicated. The voters reaffirmed their support for this temporary income tax when they defeated a repeal measure in November 2004.
- Three high schools, Marshall, Roosevelt and Jefferson, made plans during the 2003-04 school year to implement a conversion to the small learning community model in the 2004-2005 school year. The purpose of these smaller learning communities is to know each student well in order to personalize his or her education. This approach to high school reform is based on proven research regarding smaller learning communities and achievement. The plan was successfully launched in September 2004.
- The preliminary enrollment figures for the District was a 2003-04 decrease of 965. Based on the number of births, modest net out-migration of students, and fairly constant proportion of school-age children enrolling in Portland Public Schools, a decrease of 965 students indicates that there has probably not been a major change in the current demographic situation nor in the interest of most parents to enroll their children in our schools. We anticipate that Portland Public Schools enrollments will decrease annually by about 400 to 800 students over the next few years. We expect that – unless the situation changes greatly Portland Public Schools enrollments will level off at about 44,000 students by 2010.
- On April 4, 2004, the Board of Education voted unanimously to hire Dr. Vicki L. Phillips to lead Portland Public Schools as its Superintendent effective August 1, 2004. The Board's decision capped a six-month recruitment effort that followed Superintendent Jim Scherzinger's announcement that he would retire at the end of June 2004. Phillips, who had been serving as Pennsylvania's Secretary of Education, has built a strong education reform record throughout her career, as a teacher, in state government, as leader of a non-profit education foundation, and as superintendent of a mid-sized urban school district.

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 (12%) 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 2004	
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%



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%.

In 2003, Portland's average annual unemployment rate was 8.5%, compared to 8.2% for the State and 6.0% for the nation.

The local economic outlook is brightening with over a two percentage points drop from June 2003's high rate of 9.1% to June 2004's 6.8%. Over the past year, construction has recorded

one of the fastest growth rates (+2.0%) of all the broad industries, followed by government (+1.5%), and manufacturing (+1.4%).

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 convened a bond planning task force, which met monthly to set priorities and determine the size for the next capital bond offering. The District is considering when to bring a bond levy to the voters. Passing such an authorization would require a double majority (over 50% of registered voters voting, with over 50% of those who vote approving) unless the election is held in November of an even-numbered year. 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.

Cash management. Temporary excess cash throughout the year is invested in short-term instruments. As of June 30, 2004 investments are primarily in collateralized time deposits, commercial paper, and securities guaranteed by the U.S. Government and its agencies and approved the State Treasurer in accordance with Oregon revised Statutes 294.035 and 294.046. The District also places temporary excess cash with the State of Oregon Local Government Investment Pool. The District has historically administered a conservative cash management program with its major objectives being:

- 1) To preserve the safety of District investment principal.
- 2) To maintain sufficient daily operating cash (liquidity) to pay District obligations when due, while maximizing the amount of monies invested.
- 3) To earn the maximum return on cash invested (yield), consistent with applicable federal and state laws, and District policies and regulations.
- 4) To inform the Board of Education on both the status of investments and the overall cash management program of the District.

The District's investment policy requires third-party safekeeping on a delivery versus payment basis on all investments except overnight investments. Investment income realized within the General Fund for the year ended June 30, 2004 was \$1.7 million, compared to \$2.1 million earned in fiscal year 2002-2003, reflecting the historically low interest rates for the year.

Risk management is vital to controlling property, casualty and workers' compensation losses through the coordination of safety, loss prevention, insurance, and claims administration. The District administers a single Self-Insurance Fund through a Risk Management Department responsible for negotiation and payment of a majority of all workers' compensation claims, general liability claims and judgments, and property/fire loss claims. Resources are derived from charges for services to other funds, investment earnings, and insurance recoveries. Based upon an actuarial study completed as of June 30, 2004, claim reserves for June 30, 2004 are approximately \$4.8 million.

Awards and Acknowledgements

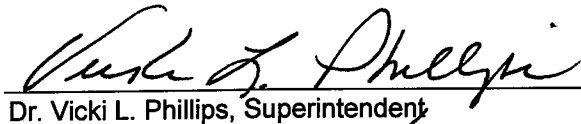
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its comprehensive annual financial report for the fiscal year ended June 30, 2003. This was the 24th consecutive year that the District has achieved this prestigious award. 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.

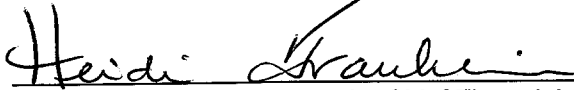
The Association of School Business Officials International (ASBO) awarded its Certificate of Excellence in Financial Reporting to the District for its comprehensive annual financial report for the fiscal year ended June 30, 2003. This was the 24th consecutive year that the District earned this significant award. 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 2004 CAFR, which will be submitted to ASBO for review, will also conform to these standards.

We wish to express our appreciation to Interim 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,



Dr. Vicki L. Phillips, Superintendent



Heidi B. Franklin, CPA, Interim Chief Financial Officer

SCHOOL DISTRICT NO. 1, MULTNOMAH COUNTY, OREGON
Principal Officials
At June 30, 2004

BOARD OF EDUCATION

<u>Member</u>	<u>Term Expires</u>	<u>Address</u>
Julia Brim-Edwards	June 30, 2005	6666 SE Yamhill St., Portland, OR 97215
Derry Jackson	June 30, 2005	9540 N Edison St., Portland, OR 97203
Lorenzo Poe	June 30, 2005	5703 NE Church St., Portland, OR 97218
Douglas Morgan	June 30, 2007	707 SW Dolph St., Portland, OR 97219
Bobbie Regan	June 30, 2007	1907 NW Mill Pond Rd., Portland, OR 97229
Dilafruz Williams	June 30, 2007	4207 SE Rex St., Portland, OR 97206
David Wynde	June 30, 2007	2332 NE 9 th Ave., Portland, OR 97212

ADMINISTRATIVE STAFF

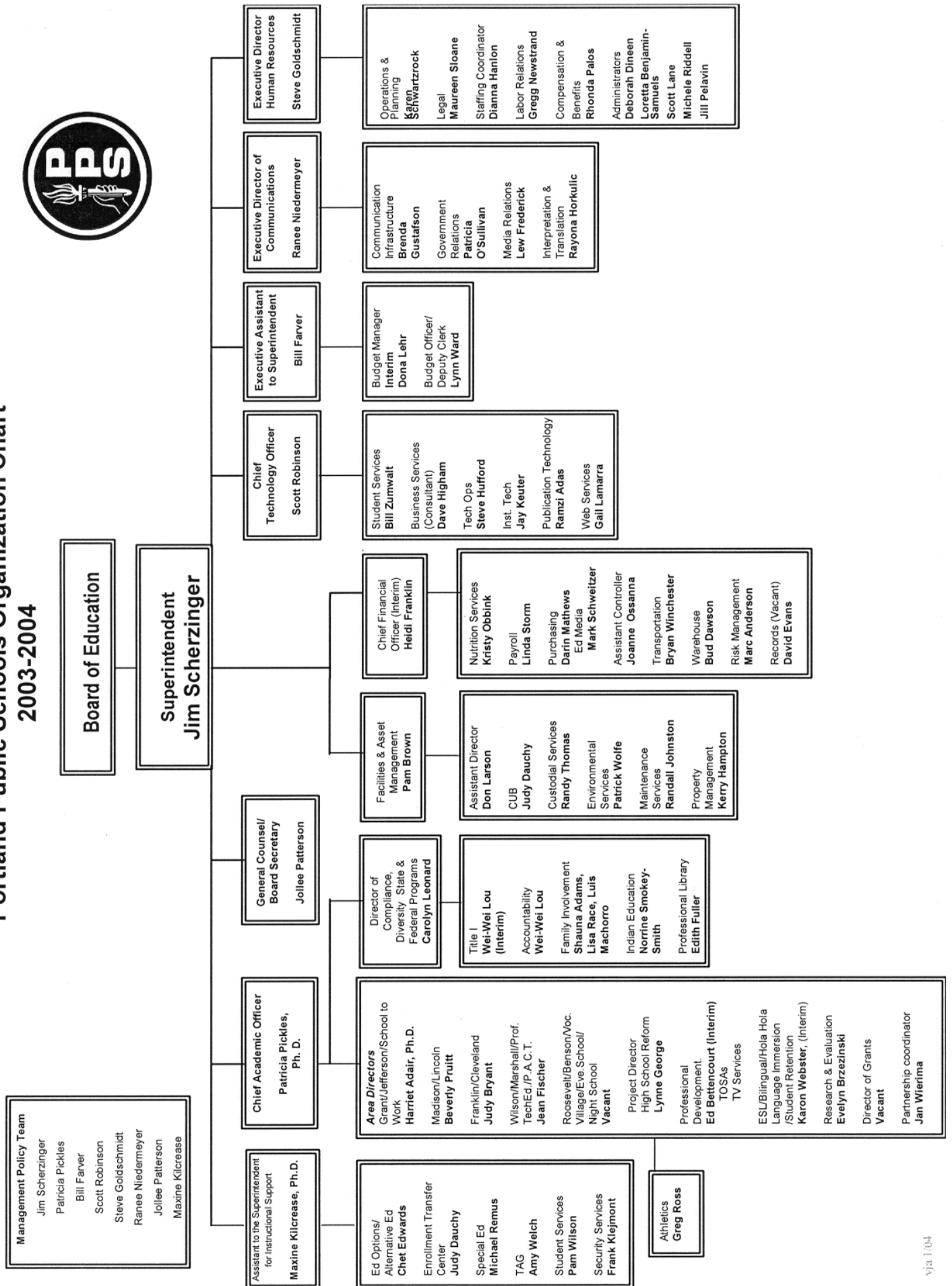
James R. Scherzinger..... Superintendent*

Heidi B. Franklin, CPAInterim Chief Financial Officer/Controller

Jollee PattersonGeneral Counsel

* Effective August 1, 2004, Vicki L. Phillips, Ph.D., became Superintendent.

Portland Public Schools Organization Chart 2003-2004



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, 2003

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 CO., OREGON

For its Comprehensive Annual Financial Report (CAFR)
For the Fiscal Year Ended June 30, 2003

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

William A. Hill
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 19, 2004

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, 2004, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, 2004, 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 19, 2004 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, 2004. 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-vi of this report.

Financial Highlights

- ◆ The net assets of Portland Public Schools in the government-wide financial statements were \$206,456,911. Of this amount, \$156,010,883 was invested in capital assets, net of related debt and the remainder, \$50,446,028, is technically considered unreserved, but the District has \$12,964,788 committed to debt-financed programs.
- ◆ At June 30, 2004, the General Fund had an unreserved fund balance of \$13.2 million, an increase of \$26.7 million from June 30, 2003. This increase is attributable to aggressive District efforts to hold down costs; significant increases in State School Fund payments, as the State front loaded the funding distribution into this first year of the state's biennium; and significant additional revenue from the State in the current year from its reconciliation of the prior year.
- ◆ In accordance with Oregon Budget Law and Senate Bill 1022, the 2002-03 non-GAAP budgetary financial statements for the General Fund included \$17.1 million of accrued State School Fund revenue. Such an accrual was not necessary for the 2003-04 fiscal year, given the increase of revenues over expenditures and was reversed.

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 basic 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 and 13 of this report.

Fund Financial Statements are designed to demonstrate compliance with finance-related legal requirements. 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 designates five major governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, 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 each 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 22-36 of this report.

Required Supplementary Information (RSI) is located directly after the notes to the basic financial statements and represent the required comparison of the budget and actual results on the District's budgetary basis for the General Fund and the only major special revenue fund, the Grant Fund. 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 required supplementary information. 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 \$206,456,911 at the close of the most recent fiscal year.

	<u>Governmental Activities</u>		<u>Change</u>
	2003	2004	2003-2004
Assets			
Current and other assets	\$ 103,758,133	\$ 142,480,484	37.3%
Prepaid PERS unfunded actuarial liability	486,617,609	486,071,587	-0.1%
Net capital assets	<u>228,616,491</u>	<u>224,098,220</u>	-2.0%
Total Assets	<u>818,992,233</u>	<u>852,650,291</u>	4.1%
Liabilities			
Non PERS related long-term debt outstanding	126,944,580	79,987,337	-37.0%
PERS unfunded actuarial liability debt outstanding	491,273,897	490,727,875	-0.1%
Other liabilities	<u>68,085,388</u>	<u>75,478,168</u>	10.9%
Total Liabilities	<u>686,303,865</u>	<u>646,193,380</u>	-5.8%
Net Assets			
Invested in capital assets, net of related debt	123,871,911	156,010,883	25.9%
Unrestricted	<u>8,816,457</u>	<u>50,446,028</u>	472.2%
Total Net Assets	<u>\$ 132,688,368</u>	<u>\$ 206,456,911</u>	55.6%

By far the largest portion of the District's net assets (75%) 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. During the current fiscal year the District's net assets increased by \$73,768,543, which resulted from the reduction in long-term debt of \$47.5 million and an increase in State School Fund revenue of \$32.9 million because the State front loaded distributions into the first year of the state's biennium and provided \$2.3 million due to reconciliation of prior year amounts. In addition, the District benefited from the generosity of voters in establishing the Multnomah County Income Tax. In this first year of the three-year temporary tax, the District collected \$36.5 million. Furthermore, the District continued its aggressive efforts to realize savings from cost cutting measures.

The revenues and expenses shown below outline changes in net assets for the fiscal years 2003 and 2004.

Changes in Net Assets	Governmental Activities		% of	Change
	2003	2004	Total 2004	2003-2004
Revenues				
Program Revenues				
Charges for services	\$ 10,532,039	\$ 9,650,171	1.8%	-8.4%
Operating grants and contributions	75,616,763	69,603,337	13.2%	-8.0%
Total Program Revenues	86,148,802	79,253,508	15.0%	-8.0%
General Revenues				
Property taxes	194,401,235	198,020,926	37.6%	1.9%
State school fund	150,705,317	183,619,106	34.9%	21.8%
Common school fund	3,100,444	1,251,379	0.2%	-59.6%
County and intermediate sources	24,440,903	50,805,630	9.6%	107.9%
Investment earnings	2,187,551	1,786,274	0.3%	-18.3%
Other	5,343,708	6,383,011	1.2%	19.4%
Gain on disposal of fixed assets	239,238	5,492,841	1.0%	2196.0%
Total General Revenues	380,418,396	447,359,167	85.0%	17.6%
Total Revenues	466,567,198	526,612,675	100.0%	12.9%
Expenses				
Instruction	246,091,005	264,429,734	58.4%	7.5%
Supporting services	160,169,734	160,120,687	35.4%	0.0%
Enterprise and community services	14,736,156	13,734,717	3.0%	-6.8%
Facilities	15,638,257	9,177,488	2.0%	-41.3%
Interest on long-term debt	10,607,253	5,381,506	1.2%	-49.3%
Total Expenses	447,242,405	452,844,132	100.0%	1.3%
Increase in net assets	19,324,793	73,768,543	35.7%	281.7%
Net assets - beginning	113,363,575	132,688,368	64.3%	17.0%
Net assets - ending	\$ 132,688,368	\$ 206,456,911	100.0%	55.6%

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 85.0% of the funding required for governmental programs. Property taxes and State school fund combined account for 85.3% of general revenues and 72.5% of total revenues.

Charges for services are only 1.8% 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.	\$ 3,962,141
◆ Tuition is charged for all-day kindergarten, evening high school, out-of-district students, summer school, and driver's education.	2,510,639
◆ Facilities leverages District buildings by leasing and renting classrooms, gymnasiums, swimming pools, auditoriums, and entire vacant buildings.	2,126,708
◆ Athletics charges pay-to-play fees and sells tickets to events and games.	601,097
◆ Other sales, royalties, and events generate revenue; including, commission on exclusive beverage contract.	449,586
Total Charges for Services:	<u>\$ 9,650,171</u>

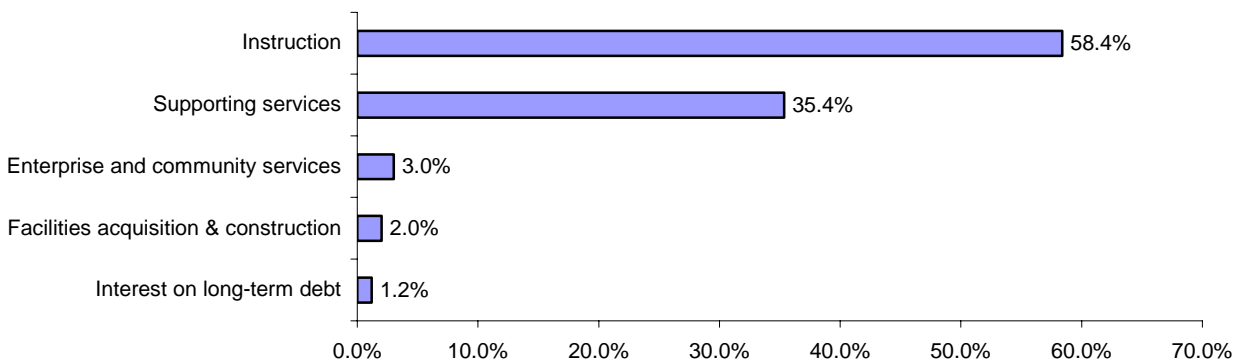
Operating grants and contributions represent 13.2% of total revenues. Included in this category are \$9.6 million for federal reimbursement under the school lunch program and \$7.3 million raised or donated by student body activities. Federal and state grants for designated programs totaled \$50 million.

Expenses. Expenses related to governmental activities are presented in five broad functional categories. Costs of direct classroom instruction activities account for 58.4% of the total expenses of \$452,844,132. In addition, 54% 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 Revenue (Expense)</u>		<u>Percentage</u>
	<u>2003</u>	<u>2004</u>	<u>Change</u>	<u>2003</u>	<u>2004</u>	<u>Change</u>
Instruction	\$ 246,091,005	\$ 264,429,734	7.5%	\$ (191,466,360)	\$ (220,323,681)	15.1%
Supporting services	160,169,734	160,120,687	0.0%	(143,984,134)	(139,918,454)	-2.8%
Enterprise and community services	14,736,156	13,734,717	-6.8%	622,293	1,210,505	94.5%
Facilities acquisition & construction	15,638,257	9,177,488	-41.3%	(15,638,257)	(9,177,488)	-41.3%
Interest on long-term debt	10,607,253	5,381,506	-49.3%	(10,607,253)	(5,381,506)	-49.3%
Total	\$ 447,242,405	\$ 452,844,132	1.3%	\$ (361,073,711)	\$ (373,590,624)	3.5%

Expenses by Service Type Fiscal Year 2004



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.

General Fund. The General Fund is the main operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the general fund was \$13,190,954, which was an increase of \$26,742,502. Key factors in this growth are as follows:

- ◆ The Board of Education is strongly committed to financial accountability and acknowledges that establishing and maintaining adequate reserves is a critical component of prudent financial management. The Board passed a resolution that ending fund balance would be increased at the rate of 1% per year until the minimum target of 3% of General Fund expenditures (\$12 million) was achieved.
- ◆ State revenue and the Multnomah County Income Tax: The Multnomah County Income Tax ("ITAX") is a temporary three-year tax passed by the voters to allow time for the State legislature to address needs for adequate and stable funding for K-12 education. Based on estimates of State funding levels, the ITAX was designed to bridge the gap in State funding and was budgeted at \$51 million. When the State increased funding levels and front-loaded the State School Fund distributions into the first year of the biennium, the County reduced the ITAX turnovers for schools for the 2003-04 school year. The actual ITAX collections totaled \$36.5 million.
- ◆ City of Portland revenue: The City of Portland again provided tangible support to the District by providing \$4 million per year for three years beginning in 2003-04 generated through increases in business license fees.
- ◆ District revenue: In accordance with Oregon Budget Law and Senate Bill 1022, the 2002-03 non-GAAP budgetary financial statements for the General Fund included \$17.1 million of accrued State School Fund revenue. Such an accrual was not necessary for the 2003-04 fiscal year, given the increase of revenues over expenditures. The 2002-03 accrual was therefore reversed in 2003-04.

The District is also committed to efficient, effective operations and has undertaken many initiatives to streamline business processes and reduce on-going costs. Highlights of successful efforts include:

- ◆ Certain special education programs that were previously contracted to other agencies are proving to cost less by providing the services ourselves. Tuition to private schools was therefore \$2.9 million under budget.
- ◆ Transportation worked closely with special education to put more students onto special buses, thus reducing use of taxis by \$320,000. Declining enrollment and improved routing of buses resulted in transportation costs being almost \$2 million under budget.
- ◆ Implementation of the new e-SIS system for student information services allowed the old mainframe computer to be completely turned off, contributing to net savings in data processing costs of \$255,000.

Grant Fund. Of the \$51 million in federal and state grants received in 2003-04, \$18.5 million represents funding for Title I and other Title funds targeted to provide additional services to students disadvantaged by poverty, to support migrant education, innovative programs, and safe and drug-free schools. Another approximately \$6 million was received for special education. Head Start, National Science Foundation, Voluntary Public School Choice, and Carl Perkins Grants (alternative education) also provide significant funding to their respective programs.

Capital Project Funds. The Facilities Improvement Funds are targeted for priority building repairs and computers in classrooms. These funds, generated by the 1995 and 1996 general obligation bonds approved by the voters, will be fully spent by June 2005, when the bonds will also be fully paid off. At June 30, 2004, \$12.3 million is the ending fund balance available for spending in 2004-05. The System Project Fund was established to purchase and install enterprise-wide computer systems in human resources, payroll, finance, budget, purchasing, warehouse inventory, facilities management, nutrition services and student information. These projects have been successfully completed on time and on budget. A residual \$672,000 is the ending fund balance at June 30, 2004 and is available for spending in 2004-05.

Proprietary Fund. The Self-Insurance Fund experienced an unusual increase in expenditures of 52% over prior year. This increased spending resulted from two major fires and the District's self-retention is \$1 million per incident. Lent Elementary School had an arson fire in the main auditorium. Binnsmead Middle School had the roof catch fire during the summer re-roofing project.

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:

- ◆ \$ 5.5 million decrease in instruction reflects the decrease in enrollment and the corresponding decrease in teaching staff. The staffing ratio is 30:1.
- ◆ \$ 2.5 million decrease in student support services is partially due to the decrease in enrollment and particularly due to the closure of two elementary schools.
- ◆ \$ 8.0 million increase in fund transfers is the first deposit into the PERS Rate Stabilization Reserve Fund in preparation for the outcome of pending litigation on PERS reforms enacted by the legislature and still under consideration by the Oregon Supreme Court. (See Note 16)

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets includes land, building and improvements, vehicles and equipment, and construction in progress. As of June 30, 2004, the District had invested over \$224 million in capital assets, net of depreciation, as shown in the following table:

	Capital Assets (net of accumulated depreciation)		Percentage Change 2003-2004
	Total School District Governmental Activities		
	<u>2003</u>	<u>2004</u>	
Land	\$ 9,049,378	\$ 9,049,378	0.0%
Buildings	189,883,031	185,925,208	-2.1%
Vehicles & Equipment	14,919,411	15,651,716	4.9%
Construction in Progress	14,764,671	13,471,918	-8.8%
Total	\$ 228,616,491	\$ 224,098,220	-2.0%

During the year 2003-04, the District's investment in capital assets decreased by \$4.5 million, which was due to the depreciation of \$14.0 million being more than the \$9.5 million in additions of capital assets. 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 \$7.4 million to buildings and site improvements. Construction in progress as of the close of fiscal year had reached \$13.5 million.

Additional information on the District's capital assets can be found in Note 7 on page 29 of this report.

Long-term debt. At the end of the current fiscal year, the District had total debt outstanding of \$570,715,212. Of this amount, \$34,675,000 comprises general obligation debt and \$502,627,875 represents limited tax obligation debt, and \$33,412,337 comprises debt backed by the full faith and credit of the District. The District's total debt decreased by \$47,503,265 during the current fiscal year.

Outstanding Long-Term Debt	Total School District		Percentage Change
	Governmental Activities		
	2003	2004	
General obligation bonds	\$ 87,575,000	\$ 34,675,000	-60.4%
PERS limited tax general obligation bonds	491,273,897	490,727,875	-0.1%
Other long-term debt	39,369,580	45,312,337	15.1%
Total	\$ 618,218,477	\$ 570,715,212	-7.7%

In May 2004 the District issued Full Faith and Credit Refunding Bonds, Series 2004, in the principal aggregate amount of \$11,900,000. The proceeds were used to refund the Limited Tax General Obligation Refunding Bonds, Series 1998. The 1998 Bonds were designated by the District as "gap bonds" when Measure 50 (Article XI, Section 11 of the Oregon Constitution) was implemented. That designation allowed the District to avoid reductions in the portion of its levy that paid the 1998 Bonds, in exchange for accepting a lower operating tax rate limit. Initially this designation benefited the District by giving it more tax revenues to pay costs of public education.

Measure 50 and its implementing legislation allow the District to refund the 1998 Bonds and not designate the Refunding Bonds as gap bonds. When the District did this, its operating tax rate limit increased. Senate Bill 550 of the 2003 Legislative Assembly provided that this increase would not be treated as "local revenues" under the State School Funding Formula, and would not, therefore, be offset by reductions in the District's State School Fund grant through fiscal year 2004-05. The amount of the increase in tax revenues that results from the increase in the operating tax rate limit will exceed the debt service on the Refunding Bonds, so issuing the Refunding Bonds will increase tax revenues that are available to the District to pay costs of public education in fiscal year 2004-2005. Thus the District obtains a favorable reorganization of its permanent debt structure.

In May 2004 Standard & Poor's lowered the District's debt rating for full faith and credit obligations from an "A" to an "A-" rating and lowered the rating for general obligation and limited tax general obligation bonds from and "A+" to an "A" rating. At the same time, Standard & Poor's assigned its "A-" rating to the \$11.975 million full faith and credit refunding bonds (federally taxably) series 2004. Standard & Poor's cited the District's weakened financial position due in part to state revenue declines and decreasing enrollments as rationale for the rating decision. Yet it declared the outlook stable for the District, based on the expectation that the District will adequately manage potential revenue and expenditure risks on the horizon. Moody's Investors Service also lowered its rating on the District's full faith and credit obligations from "A1" to "A2" and gave an "A2" rating to the \$11.975 million full faith and credit refunding bonds (federally taxably) series 2004, citing consecutive years of negative general fund balances. At the same time, Moody's affirmed the "Aa3" rating on the general obligation bonds, reflecting Moody's expectation that the District will recover somewhat in the near term.

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 \$3,780,073,032, 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 \$1.68 billion based on the 2002 valuation. 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 30 of this report.

Economic Factors and Next Year's Budgets

- ◆ The concerted efforts of many volunteers and the generous support of the voters of Multnomah County resulted in the failure of Measure 26-64 that would have repealed the Multnomah County Income Tax. This ITAX is expected to generate approximately \$50 million in revenue per year for each of the next two years remaining of this three-year temporary income tax.
- ◆ For the second year in a row, unemployment rates in the Portland-Vancouver metropolitan area have been higher than those in the rest of the State and among the highest in the nation, remaining over 7%.
- ◆ Negotiations with the District's various bargaining units were in process during the 2003-04 fiscal year. The classified union, Portland Federation of Teachers and Classified Employees, settled in April 2004 for a retroactive 4% wage increase, a 4% wage increase in 2004-05, and changes in health benefits, including a cap of \$694 per member per month, increasing to \$764 February 1, 2005. The Portland Association of Teachers reached agreement with the District in September 2004. The teachers will receive a 3% salary increase in 2004-05 and another 2.75% increase in 2005-06. The teachers also agreed to certain reductions in health benefits and to premium cost sharing whereby the employee will contribute 6% of the premium cost in year one of the contract and 7% in year two. This settlement will increase expenditures for 2004-05 by approximately \$5 million over the adopted budget. The nutrition services workers (SEIU Local 503) settled their contract in September 2004, agreeing to a 1% wage increase effective January 2005 and another ½% wage increase effective June 30, 2005. The health care cap was increased from \$600 per member per month to \$756 per month. The District Council of Unions continues in on-going negotiations.
- ◆ The five-year local option property tax levy, which will generate as much as \$32 million in 2004-05, expires in June 2005. The Board decided not to put a renewal measure on the November 2004 ballot, for fear of confusing the voters, since Measure 26-64 to repeal the county income tax was already on the ballot. The Board will decide early in 2005 whether it will ask the voters to renew the local option levy for the next five years. Also expiring in June 2005 is the law that set aside desegregation funding of \$7.6 million. If the Board decides to pursue renewal of the local option, it will also have to decide whether to ask for a continuation of the current rate, which would include desegregation amounts, or some lesser amount. Currently local option and desegregation fund about 300 teaching positions and buy supplies, textbooks and computers in the classroom. If the local option is not renewed, the resulting projected budget shortfall for 2005-2006 is about \$32 million.

In addition, the capital bonds will be virtually fully spent and will be paid off by the end of June 2005. The Board will decide when to pursue asking the voters for additional capital bonds and for how much. Depending on how the bonds are structured, and if the current tax rate were maintained, the capital bonds could generate between \$150 million and \$300 million.

Both elections would require a double majority (50% voter turnout and 50% voting "yes") unless held at a November general election in an even-numbered year.

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 Finance Office, 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, 2004

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 53,597,800
Cash and cash equivalents held by fiscal agents	2,425,787
Cash held in trust	94,020
Investments	42,580,610
Accounts and other receivables	24,532,837
Property taxes and other taxes receivable	7,954,491
Inventories	1,616,599
Prepaid items	379,025
Prepaid PERS actuarial liability	486,071,587
Bond issue costs, net of accumulated amortization	4,549,315
Noncurrent Assets:	
Note receivable - Due within one year	100,000
Note receivable - Due in more than one year	4,650,000
Capital Assets, net of accumulated depreciation:	
Land	9,049,378
Buildings and capital improvements	185,925,208
Vehicles and equipment	15,651,716
Construction in progress	13,471,918
Total assets	<u>852,650,291</u>
LIABILITIES	
Accounts payable	13,418,799
Accrued wages and benefits	54,325,708
Claims payable	4,813,872
Accrued bond interest payable	398,377
Arbitrage rebate	651,260
Deferred revenues	1,870,152
Noncurrent Liabilities:	
Bonds payable - Due within one year	43,039,237
Bonds payable - Due in more than one year	527,675,975
Total liabilities	<u>646,193,380</u>
NET ASSETS	
Invested in capital assets, net of related debt	156,010,883
Unrestricted	50,446,028
Total net assets	<u>\$ 206,456,911</u>

The notes to the basic 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, 2004

<u>Functions/Programs</u>	<u>Expenses</u>	<u>PROGRAM REVENUES</u>		<u>Net (Expense)</u> <u>Revenue and</u> <u>Changes in Net</u> <u>Assets</u>
		<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Governmental</u> <u>Activities</u>
Governmental Activities:				
Instruction	\$ 264,429,734	\$ 3,561,322	\$ 40,544,731	\$ (220,323,681)
Support services	160,120,687	2,126,708	18,075,525	(139,918,454)
Enterprise and Community Services	13,734,717	3,962,141	10,983,081	1,210,505
Facilities acquisition & construction	9,177,488	-	-	(9,177,488)
Interest and fees on long-term debt	5,381,506	-	-	(5,381,506)
Total governmental activities	<u>\$ 452,844,132</u>	<u>\$ 9,650,171</u>	<u>\$ 69,603,337</u>	<u>(373,590,624)</u>
GENERAL REVENUES:				
Property taxes, levies for operations				135,183,185
Property taxes, levies for debt service				45,672,830
Local option taxes				17,164,911
State School Fund				183,619,106
State Common School Fund				1,251,379
County and intermediate sources				50,805,630
Investment earnings				1,786,274
Other				6,383,011
Gain on disposal of capital assets				5,492,841
Total general revenues				<u>447,359,167</u>
Change in net assets				73,768,543
Net assets - beginning of year				<u>132,688,368</u>
Net assets - end of year				<u>\$ 206,456,911</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, 2004

	General Fund	Grant Fund
ASSETS		
Cash and cash equivalents	\$ 29,330,042	\$ 618
Cash and cash equivalents held by fiscal agents	2,013,393	-
Cash held in trust	94,020	-
Investments	26,499,995	-
Accounts and other receivables	7,149,308	14,225,336
Property taxes and other taxes receivable	6,067,132	-
Due from other funds	4,502,130	-
Inventories	984,135	-
Prepaid Items	379,025	-
Total assets	<u>\$ 77,019,180</u>	<u>\$ 14,225,954</u>
LIABILITIES		
Accounts payable	\$ 10,198,942	\$ 1,340,726
Accrued wages and benefits	44,948,759	6,512,946
Due to other funds	600,000	4,502,130
Arbitrage rebate	-	-
Deferred revenues	8,080,525	1,870,152
Total liabilities	<u>63,828,226</u>	<u>14,225,954</u>
FUND BALANCES		
Unreserved, reported in:		
General Fund	13,190,954	-
Special revenue funds	-	-
Capital projects funds	-	-
Debt service funds	-	-
Total fund balances	<u>13,190,954</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 77,019,180</u>	<u>\$ 14,225,954</u>

The notes to the basic 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
\$ 429,475	\$ 1,284,454	\$ 228,748	\$ 19,973,025	\$ 51,246,362
-	-	-	412,394	2,425,787
-	-	-	-	94,020
980,000	7,863,000	3,304,000	1,581,615	40,228,610
4,879	586,641	1,373	1,868,069	23,835,606
-	-	-	1,887,359	7,954,491
-	-	-	600,000	5,102,130
-	-	-	632,464	1,616,599
-	-	-	-	379,025
<u>\$ 1,414,354</u>	<u>\$ 9,734,095</u>	<u>\$ 3,534,121</u>	<u>\$ 26,954,926</u>	<u>\$ 132,882,630</u>
\$ 85,375	\$ 667,891	\$ 270,056	\$ 536,706	\$ 13,099,696
5,490	35,846	1,864	1,634,022	53,138,927
-	-	-	-	5,102,130
651,260	-	-	-	651,260
-	-	-	1,645,488	11,596,165
<u>742,125</u>	<u>703,737</u>	<u>271,920</u>	<u>3,816,216</u>	<u>83,588,178</u>
-	-	-	-	13,190,954
-	-	-	20,882,265	20,882,265
672,229	9,030,358	3,262,201	-	12,964,788
-	-	-	2,256,445	2,256,445
<u>672,229</u>	<u>9,030,358</u>	<u>3,262,201</u>	<u>23,138,710</u>	<u>49,294,452</u>
<u>\$ 1,414,354</u>	<u>\$ 9,734,095</u>	<u>\$ 3,534,121</u>	<u>\$ 26,954,926</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.	224,098,220
Long-term taxes receivable are not available to pay for current-period expenditures and therefore, are deferred in the funds.	9,726,013
The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	230,497
Bonds payable are not due and payable in the current period and therefore are not reported in the funds.	(570,715,212)
PERS unfunded liability payment is not reported as a prepayment in the funds and therefore, is expensed in the the funds.	486,071,587
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.	4,549,315
Notes receivable are not collectable in the current period and therefore are not reported in the funds.	4,750,000
Accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(1,149,584)
Bond interest is not accrued as a liability in the government funds.	(398,377)
Net assets of governmental activities	\$ 206,456,911

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the year ended June 30, 2004

	<u>General Fund</u>	<u>Grant Fund</u>
REVENUES		
Property and other taxes	\$ 135,683,459	\$ -
State School Fund (See Note 15)	183,619,106	-
Local option taxes	17,164,911	-
County and intermediate sources	49,280,852	892,796
State Common School Fund	1,251,379	-
Federal and state support	-	49,599,419
Charges for services	3,578,214	-
Extracurricular activities	-	-
Investment earnings	844,998	-
Other	5,842,037	678,424
Total revenues	<u>397,264,956</u>	<u>51,170,639</u>
EXPENDITURES		
Current Operating:		
Instruction	217,657,078	31,675,015
Support services	136,103,067	18,075,525
Enterprise and Community Services	-	1,420,099
Facilities acquisition & construction	-	-
Debt Service:		
Principal	552,243	-
Interest	431,441	-
Bond issue costs	-	-
Total expenditures	<u>354,743,829</u>	<u>51,170,639</u>
Excess (deficiency) of revenues over (under) expenditures	<u>42,521,127</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	-	-
Transfers out	(16,535,425)	-
Bond proceeds	-	-
Bond advance refunding principal	-	-
Bond advance refunding interest	-	-
Proceeds from the sale of property	756,800	-
Total other financing sources (uses)	<u>(15,778,625)</u>	<u>-</u>
Net change in fund balances	26,742,502	-
Fund balances (deficit) - beginning of year	(13,551,548)	-
Fund balances - end of year	<u>\$ 13,190,954</u>	<u>\$ -</u>

The notes to the basic 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
\$ -	\$ -	\$ -	\$ 45,672,830	\$ 181,356,289
-	-	-	-	183,619,106
-	-	-	-	17,164,911
-	-	-	631,982	50,805,630
-	-	-	-	1,251,379
-	-	-	9,591,757	59,191,176
-	-	-	6,071,957	9,650,171
-	-	-	7,259,049	7,259,049
37,227	607,583	39,904	222,452	1,752,164
-	-	-	3,364,370	9,884,831
<u>37,227</u>	<u>607,583</u>	<u>39,904</u>	<u>72,814,397</u>	<u>521,934,706</u>
-	-	-	11,881,374	261,213,467
1,122,853	645,665	2,500	2,160,056	158,109,666
-	-	-	12,862,211	14,282,310
77,910	6,973,001	2,126,577	-	9,177,488
-	-	-	46,980,000	47,532,243
-	-	-	6,131,538	6,562,979
-	-	-	110,568	110,568
<u>1,200,763</u>	<u>7,618,666</u>	<u>2,129,077</u>	<u>80,125,747</u>	<u>496,988,721</u>
<u>(1,163,536)</u>	<u>(7,011,083)</u>	<u>(2,089,173)</u>	<u>(7,311,350)</u>	<u>24,945,985</u>
-	-	-	16,535,425	16,535,425
-	-	-	-	(16,535,425)
-	-	-	11,900,000	11,900,000
-	-	-	(11,325,000)	(11,325,000)
-	-	-	(517,867)	(517,867)
-	-	-	-	756,800
<u>-</u>	<u>-</u>	<u>-</u>	<u>16,592,558</u>	<u>813,933</u>
(1,163,536)	(7,011,083)	(2,089,173)	9,281,208	25,759,918
1,835,765	16,041,441	5,351,374	13,857,502	23,534,534
<u>\$ 672,229</u>	<u>\$ 9,030,358</u>	<u>\$ 3,262,201</u>	<u>\$ 23,138,710</u>	<u>\$ 49,294,452</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, 2004

Net change in fund balances - total governmental funds (page 17) \$ 25,759,918

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 depreciation in the current period of \$14,037,618 exceeded capital outlays of \$9,540,268 and a reclassification of \$6,962. (4,504,312)

Governmental funds do not report the uncollected portion of revenue from the sale of an asset in the current year if a note is issued. Revenue is recorded at the time the note payment is received. However, in the statement of activities the revenue and note receivable is recorded in the current year. 4,750,000

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. (500,274)

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. (394,216)

Revenues need to be reduced by the net book value of capital assets sold. This equates to the cost of assets sold. (13,959)

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. 47,458,163

Governmental funds reported the prepayment of the PERS unfunded actuarial liability as an other financing use in prior years. However, in the statement of activities the expense is the amortization of the prepaid asset. (546,022)

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	(95,765)
Change in bond interest payable	1,855,010

Change in net assets of governmental activities (page 13) \$ 73,768,543

The notes to the basic 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, 2004

	Internal Service
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 2,351,438
Investments	2,352,000
Accounts and other receivables	697,231
Total assets	5,400,669
 LIABILITIES	
Current Liabilities	
Accounts payable and other current liabilities	319,103
Accrued salaries, wages and benefits payable	37,197
Claims payable	4,813,872
Total liabilities	5,170,172
 NET ASSETS	
Unrestricted	230,497
Total net assets	\$ 5,400,669

The notes to the basic 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, 2004

	Internal Service
OPERATING REVENUES	
Current Operating:	
Charges for services	\$ 4,749,985
Insurance recoveries	2,051,386
Other	28,109
Total revenues	6,829,480
OPERATING EXPENSES	
Current Operating:	
Salaries and benefits	356,927
Materials and services	190,707
Claims expense	6,710,172
Total expenses	7,257,806
Operating Loss	(428,326)
NON-OPERATING REVENUES	
Investment earnings	34,110
Net loss	(394,216)
Net assets - beginning of year	624,713
Net assets - end of year	\$ 230,497

The notes to the basic 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, 2004

	Internal Service
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from quasi-external transactions with other funds	\$ 4,749,985
Cash received from insurance recoveries	1,494,923
Cash received from miscellaneous transactions	28,109
Cash payments for salaries and benefits	(346,469)
Cash payments for goods and services	(7,531,176)
Net cash used by operating activities	(1,604,628)
CASH FLOWS FROM INVESTING ACTIVITIES	
Sale of investments	2,472,000
Investment earnings	34,110
Net cash provided by investing activities	2,506,110
Net increase in cash and cash equivalents	901,482
Cash and cash equivalents at beginning of year	1,449,956
Cash and cash equivalents at end of year	\$ 2,351,438
RECONCILIATION OF OPERATING LOSS TO CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (428,326)
Adjustment to reconcile operating loss to net cash used by operating activities:	
Increase in accounts receivable	(556,463)
Decrease in accounts payable	(398,169)
Decrease in claims payable	(232,128)
Increase in accrued salaries, and wages and benefits payable	10,458
Total adjustments	(1,176,302)
Net cash used by operating activities	\$ (1,604,628)
Non cash activities: None	

The notes to the basic 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, 2004

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, due to the insignificance of the potential component units. The District 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

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

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.

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.

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.

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
- Support Services
- Enterprise and Community Services
- Facilities Acquisition and Construction
- Debt Service
- Contingency
- 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

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

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.

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.

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

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

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:

Asset	Years
Buildings	100
Site Improvements	5 to 25
Equipment	5 to 15
Vehicles	5

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.

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

	Self-insured Retention	Excess Coverage per Occurrence
General and Automobile Liabilities	\$1,000,000	\$ 5,000,000
Property and Fire Liabilities	1,000,000	100,000,000
Earthquake and Flood Liabilities	1,000,000	10,000,000
Workers' Compensation Liabilities	1,000,000	Unlimited

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 include accrued vacation and salary related payments. The amounts expected to be liquidated with expendable available financial resources are accrued in the fund, and the amount payable is recorded in the statement of net assets.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

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 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.

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

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 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.

NOTE 3 - 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

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

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, 2004 was \$4.7743 per \$1,000 of assessed value.

NOTE 4 – 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, 2004, the carrying amount of the District's deposits was \$53,691,820 and the statement balance was \$56,197,103. Of the statement balance, \$100,000 was covered by federal depository insurance, certificates of collateral were available up to \$13,000,000, and \$34,267,067 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. 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, 2004, 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, 2004, the District's share of the amount of unrealized gain reported by the LGIP, in accordance with ORS, was considered immaterial.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

The District's investments at June 30, 2004 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.

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 U.S government agency securities for which the underlying securities were held by the dealer.

	Category 1	Carrying Value
U.S government agency securities	\$ 42,580,610	\$ 42,580,610
Cash and cash equivalents held by fiscal agents		2,425,787
Cash held in trust in Local Government Investment Pool		94,020
Local Government Investment Pool		34,173,047
Cash in segregated accounts		2,728,032
Demand accounts		16,691,843
Petty cash		4,878
Total cash, cash equivalents and investments		\$ 98,698,217
Balance sheet classification:		
Cash and cash equivalents:		
Governmental funds		\$ 51,246,362
Proprietary fund		2,351,438
Total cash and cash equivalents		53,597,800
Cash and cash equivalents held by fiscal agents:		
Governmental funds		2,425,787
Cash held in trust:		
Governmental funds		94,020
Investments:		
Governmental funds		40,228,610
Proprietary fund		2,352,000
Total Investments		42,580,610
Total cash, cash equivalents and investments		\$ 98,698,217

NOTE 5 – RECEIVABLES

Receivables as of year-end are summarized as follows:

	Fund Type					Total
	General	Special Revenue	Debt Service	Capital Projects	Internal Service	
Receivables:						
Taxes	\$ 6,067,132	\$ -	\$ 1,887,359	\$ -	\$ -	\$ 7,954,491
Interest	79,739	-	-	5,048	978	85,765
Accounts	7,015,406	1,084,782	-	587,845	696,253	9,384,286
Federal, state and local grants	-	15,008,623	-	-	-	15,008,623
Advances to employees	54,163	-	-	-	-	54,163
Accounts and other receivables	7,149,308	16,093,405	-	592,893	697,231	24,532,837
Total Receivables	\$ 13,216,440	\$ 16,093,405	\$ 1,887,359	\$ 592,893	\$ 697,231	\$ 32,487,328

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

NOTE 6 – NOTE RECEIVABLE

Effective December 15, 2004 the District sold the broadcast license and certain insignificant capital assets of the public broadcasting FM station operated by the District to a not-for-profit foundation that will continue to operate the station. The terms of the sale include a down payment of \$750,000 and principal payments as detailed below. Interest accrues on these receivables at 5% for four years and 2% over the prime rate for the next six years. The District considers these receivables to be collectable, and, accordingly, no allowance for doubtful accounts has been provided.

Principal payments are scheduled to be received in the fiscal years ending June 30:

2005	\$ 100,000
2006	100,000
2007	100,000
2008	100,000
2009	375,000
2010 - 2014	<u>7,023,405</u>
Total	<u>\$ 7,798,405</u>

NOTE 7 – CAPITAL ASSETS AND DEPRECIATION

A summary of changes in capital assets for the year ended June 30, 2004, follows:

Description	Balance June 30, 2003	Additions	Reclassifications and Deletions	Balance June 30, 2004
Land (non-depreciable)	\$ 9,049,378	\$ -	\$ -	\$ 9,049,378
Buildings and site improvements	295,611,876	2,579,935	4,869,089	303,060,900
Vehicles and equipment	24,263,531	1,706,003	1,494,885	27,464,419
Construction in progress	14,764,671	5,254,330	(6,547,083)	13,471,918
Total General Fixed Assets	<u>343,689,456</u>	<u>9,540,268</u>	<u>(183,109)</u>	<u>353,046,615</u>
Accumulated depreciation:				
Buildings and site improvements	(105,728,845)	(11,406,847)	-	(117,135,692)
Vehicles and equipment	<u>(9,344,120)</u>	<u>(2,630,771)</u>	162,188	<u>(11,812,703)</u>
Total accumulated depreciation	<u>(115,072,965)</u>	<u>(14,037,618)</u>	<u>162,188</u>	<u>(128,948,395)</u>
Total governmental assets	<u>\$ 228,616,491</u>	<u>\$ (4,497,350)</u>	<u>\$ (20,921)</u>	<u>\$ 224,098,220</u>

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

Instruction	\$ 10,935,837
Supporting services	3,035,591
Food services	<u>66,190</u>
	<u>\$ 14,037,618</u>

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

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 higher yielding investments held by the General Fund.

The composition of interfund balances as of June 30, 2004, is as follows:

	Due From	Due To
General Fund	\$ 4,502,130	\$ 600,000
Grant Fund	-	4,502,130
Non-major governmental funds	600,000	-
Total all funds	\$ 5,102,130	\$ 5,102,130

NOTE 9 – SHORT TERM DEBT

During the year, the District borrowed and repaid \$18,000,000 from a line of credit at 1.8% to buffer the variances in cash flow due to timing in property tax collections.

NOTE 10 - BONDED AND OTHER LONG-TERM DEBT

Changes in long-term debt of the District during fiscal year 2004 were as follows:

	Principal Balance July 1, 2003	Additions	Repayments	Principal Balance June 30, 2004
General Obligation Bonds, Series 1996	\$ 65,375,000	\$ -	\$ (30,700,000)	\$ 34,675,000
Limited Tax General Obligation Refunding Bonds, Series 1998	22,200,000	-	(22,200,000)	-
Limited Tax General Obligation Refunding Bonds, Series 2002	210,103,857	-	(546,022)	209,557,835
Limited Tax General Obligation Refunding Bonds, Series 2003	281,170,040	-	-	281,170,040
Limited Tax General Obligation Refunding Bonds, Series 2004	-	11,900,000	-	11,900,000
Certificates of Participation (COP), Series 1999	28,015,000	-	(4,205,000)	23,810,000
Refunding Special Obligations, 1993 Series A	5,160,000	-	(1,200,000)	3,960,000
Small Scale Energy Loan Programs	6,194,580	-	(552,243)	5,642,337
Total General Long-term Obligations	\$ 618,218,477	\$ 11,900,000	\$ (59,403,265)	\$570,715,212

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 were payable annually through June 2003. Interest was 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.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements

For the Year Ended June 30, 2004

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.

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 2002A Obligations are not subject to optional prepayment prior to maturity. The Series 2002B Obligations maturing June 30, 2021 shall be subject to prepayment from Pension prepayments on or after June 30, 2007, and Obligations due June 30, 2028 are subject to mandatory prepayment prior to its stated maturity, in whole or part, on any June 30 on or after June 30, 2024.

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.

In fiscal year 2004 the 1998 series refunding bonds were advance refunded, with proceeds of the Limited Tax General Obligation Refunding Bonds, Series 2004. The 2004 series refunding bonds are payable annually through June 15, 2013. Interest is payable semi-annually at rates ranging from 2.190% to 5.518%. The bonds are federally taxable and are not subject to redemption prior to their stated maturities.

The 1999 series Certificates of Participation (COP) 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.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

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 financial statements. At June 30, 2004, \$13,302,228 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 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.

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:						
2005	\$34,675,000	\$ 2,142,418	\$ 4,375,000	\$1,255,000	\$ 591,819	\$ 43,039,237
2006	-	7,627,674	4,555,000	1,320,000	634,050	14,136,724
2007	-	8,022,111	4,750,000	1,385,000	679,314	14,836,425
2008	-	9,502,171	4,955,000	-	727,703	15,184,874
2009	-	9,711,957	5,175,000	-	779,824	15,666,781
2010-2014	-	58,522,095	-	-	2,229,627	60,751,722
2015-2019	-	59,276,850	-	-	-	59,276,850
2020-2024	-	131,537,599	-	-	-	131,537,599
2025-2029	-	216,285,000	-	-	-	216,285,000
Total	34,675,000	502,627,875	23,810,000	3,960,000	5,642,337	570,715,212
Interest:						
2005	1,907,125	18,170,487	1,071,483	198,000	368,565	21,715,660
2006	-	18,654,643	889,920	135,250	326,334	20,006,147
2007	-	19,054,769	696,333	69,250	281,070	20,101,422
2008	-	19,770,328	489,708	-	232,681	20,492,717
2009	-	20,428,155	271,688	-	180,560	20,880,403
2010-2014	-	120,222,496	-	-	246,986	120,469,482
2015-2019	-	164,569,762	-	-	-	164,569,762
2020-2024	-	156,541,194	-	-	-	156,541,194
2025-2029	-	28,842,927	-	-	-	28,842,927
Interest Total	1,907,125	566,254,761	3,419,132	402,500	1,636,196	573,619,714
Total Debt Service	\$36,582,125	\$ 1,068,882,636	\$27,229,132	\$4,362,500	\$7,278,533	\$1,144,334,926

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, 2004 was approximately \$11.6 million.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

NOTE 12 – INTERFUND TRANSFERS

The District made transfers from the General Fund of \$6,891,209 to Debt Service Funds to fund bond payment; \$9,500,000 to the PERS Rate Stabilization Fund to use for stabilization of fluctuations in PERS rates, and; \$124,312 to the Student Body Fund and \$19,904 to the Cafeteria Fund to disburse vending machines commissions.

The composition of interfund transfers as of June 30, 2004, is as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ -	\$ 16,535,425
Non-major governmental funds	<u>16,535,425</u>	<u>-</u>
Total all funds	<u>\$ 16,535,425</u>	<u>\$ 16,535,425</u>

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. Public Employees Retirement System (PERS)

Plan Description. The District contributes to two pension plans administered by the Oregon Public Employees Retirement System (PERS). The Oregon Public Employees Retirement Fund (OPERF) applies to the District's contribution for qualifying employees who were hired before August 29, 2003, and is a cost-sharing multiple-employer defined benefit pension plan. The Oregon Public Service Retirement Plan (OPSRP) is a hybrid successor plan to the OPERF and consists of two programs: The Pension Program, the defined benefit portion of the plan, applies to qualifying District employees hired after August 29, 2003, and to inactive employees who return to employment following a six-month or greater break in service. The Individual Account Program (IAP), the defined contribution portion of the plan, applies to all employees' contributions. Both PERS plans provide 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.

Funding Policy. Members of PERS are required to contribute 6.00% of their salary covered under the plan, which is invested in the OPSRP Individual Account Program. The District is required by ORS 238.225 to contribute at an actuarially determined rate for the qualifying employees under the OPERF plan, and a general service rate for the qualifying employees under the OPSRP plan. The OPERF and the OPSRP rates in effect for the year ended June 30, 2004 were .64% and 8.04% respectively. 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, 2001, 2002, and 2003 were \$32,449,905, \$29,155,710 and \$20,433,361 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.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

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 2004 the General Fund incurred expenditures of \$4,096,633 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 14 - 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 2004 the General Fund recognized expenditures of \$3,257,086 for the post-employment healthcare benefits.

NOTE 15 - 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.

The Self-Insurance Fund recognized the following amounts of revenues from other funds for the year ended June 30, 2004.

General Fund	\$ 4,042,564
Cafeteria Fund	89,574
Grant Fund	511,632
Special Revenue Funds	73,367
BESC Cafeteria Fund	5,913
System Project Fund	5,833
Facilities Improvement/Technology Fund	21,102
Total	<u><u>\$ 4,749,985</u></u>

Changes in the balances of claims liabilities during the years ended June 30, 2000 through June 30, 2004 were as follows:

Year	Balance	Additions	Reductions	Balance
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
2004	5,046,000	6,710,172	6,942,300	4,813,872

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

NOTE 16 – COMMITMENTS AND CONTINGENCIES

- 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, 2004 total \$5,512,203. In addition, the District has a contract for custodial services extending through July 14, 2005 that will require a minimum payment of \$9,712,586 after June 30, 2004.
- Additionally, the District has a contract to provide duplication services to various District facilities which will require minimum payments of \$1,279,087, \$1,279,087, \$1,279,087 and \$1,279,087 in the years ending June 30, 2005, 2006, 2007 and 2008, respectively.
- The 2003 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.

The legality of these changes is currently under review by the Oregon Supreme Court, as provided by HB 2409. If the Court overturns some or all of these new laws, the District could be exposed to substantial financial impact. To mitigate, although not alleviate, this exposure, the Board has allocated an additional \$8 million from the General Fund to the PERS Rate Stabilization Reserve Fund for the year ending June 30, 2005.

NOTE 17 - REVENUE VOLATILITY

State Revenue Adjustments

In a special session in June 2002, the Oregon Legislature, in response to an 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 upcoming fiscal year appropriation to the current 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.

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

The District, in its budgetary accounts, reduced its recorded revenue from the State School Fund by \$17.1 million in the year ended June 30, 2004 because it reversed a receivable in that amount recorded in the previous year. This transaction has no applicability to the financial statements prepared on the basis of generally accepted accounting principles.

Note 18 – 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 a percentage of the State's allocation to these schools for each student enrolled in them. This allocation is 80% for elementary and middle schools and 95% for high schools of the general purpose grant per ADMw, as calculated by ODE, to the charter schools. Under the requirements of the Governmental Accounting Standards Board (GASB), such

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

schools are component units of the District. These charter schools are not reported 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 and expenses of the District. Financial information on the charter schools can be obtained by contacting the Office of Educational Options at Portland Public Schools.

The School District No. 1 Health and Welfare Trust (the Trust") provides 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). 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 Statements 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.

REQUIRED SUPPLEMENTARY INFORMATION

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
General Fund

**Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual**
For the year ended June 30, 2004

	<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	\$ 136,093,501	\$ 130,909,747	\$ 135,683,459	\$ 4,773,712
State School Fund	162,983,148	162,983,148	166,519,106	3,535,958
Local option taxes	17,067,552	22,251,306	17,164,911	(5,086,395)
County and intermediate sources	63,746,510	63,746,510	49,280,852	(14,465,658)
State Common School Fund	1,170,000	1,170,000	1,251,379	81,379
Charges for services	2,808,500	2,808,500	3,578,214	769,714
Investment earnings	800,000	800,000	844,998	44,998
Other	5,905,071	5,905,071	5,842,037	(63,034)
Total revenues	<u>390,574,282</u>	<u>390,574,282</u>	<u>380,164,956</u>	<u>(10,409,326)</u>
EXPENDITURES				
Current operating:				
Instruction:				
Regular programs:				
Salaries and benefits	162,616,300	159,698,329	152,970,161	6,728,168
Materials and services	6,002,428	6,476,021	5,458,344	1,017,677
Total regular programs	<u>168,618,728</u>	<u>166,174,350</u>	<u>158,428,505</u>	<u>7,745,845</u>
Special programs:				
Salaries and benefits	50,152,438	47,160,985	46,859,664	301,321
Materials and services	13,389,631	13,329,462	12,368,909	960,553
Total special programs	<u>63,542,069</u>	<u>60,490,447</u>	<u>59,228,573</u>	<u>1,261,874</u>
Total instruction	<u>232,160,797</u>	<u>226,664,797</u>	<u>217,657,078</u>	<u>9,007,719</u>
Support services:				
Students:				
Salaries and benefits	31,339,562	30,175,733	29,215,061	960,672
Materials and services	2,654,896	2,721,347	1,177,282	1,544,065
Total students	<u>33,994,458</u>	<u>32,897,080</u>	<u>30,392,343</u>	<u>2,504,737</u>
Instructional staff:				
Salaries and benefits	9,814,622	9,392,902	9,161,817	231,085
Materials and services	2,110,353	2,536,594	1,429,328	1,107,266
Total instructional staff	<u>11,924,975</u>	<u>11,929,496</u>	<u>10,591,145</u>	<u>1,338,351</u>
General administration:				
Salaries and benefits	1,695,927	1,855,351	1,612,942	242,409
Materials and services	1,219,728	1,380,190	2,713,046	(1,332,856)
Total general administration	<u>2,915,655</u>	<u>3,235,541</u>	<u>4,325,988</u>	<u>(1,090,447)</u>
School administration:				
Salaries and benefits	27,214,870	26,300,081	25,240,649	1,059,432
Materials and services	569,899	225,085	121,193	103,892
Total school administration	<u>27,784,769</u>	<u>26,525,166</u>	<u>25,361,842</u>	<u>1,163,324</u>

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
General Fund (Continued)
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2004

	<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>		
Support services (continued):				
Business:				
Salaries and benefits	17,842,425	17,229,974	16,616,373	613,601
Materials and services	36,005,692	36,178,348	34,343,589	1,834,759
Total business	<u>53,848,117</u>	<u>53,408,322</u>	<u>50,959,962</u>	<u>2,448,360</u>
Central:				
Salaries and benefits	10,399,313	9,726,866	8,556,933	1,169,933
Materials and services	3,398,750	4,039,566	4,971,463	(931,897)
Total central	<u>13,798,063</u>	<u>13,766,432</u>	<u>13,528,396</u>	<u>238,036</u>
Facilities acquisition & construction:				
Materials and services	-	-	943,391	(943,391)
Total facilities acquisition & construction	<u>-</u>	<u>-</u>	<u>943,391</u>	<u>(943,391)</u>
Total support services	<u>144,266,037</u>	<u>141,762,037</u>	<u>136,103,067</u>	<u>5,658,970</u>
Other expenditures:				
Debt Service				
Principal	960,384	552,243	552,243	-
Interest	275,000	683,141	431,441	251,700
Total debt service	<u>1,235,384</u>	<u>1,235,384</u>	<u>983,684</u>	<u>251,700</u>
Total current expenditures	<u>377,662,218</u>	<u>369,662,218</u>	<u>354,743,829</u>	<u>14,918,389</u>
Operating contingency	<u>7,000,000</u>	<u>7,000,000</u>	<u>-</u>	<u>7,000,000</u>
Total expenditures	<u>384,662,218</u>	<u>376,662,218</u>	<u>354,743,829</u>	<u>21,918,389</u>
Excess of revenues over expenditures	<u>5,912,064</u>	<u>13,912,064</u>	<u>25,421,127</u>	<u>11,509,063</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(8,612,064)</u>	<u>(16,612,064)</u>	<u>(16,535,425)</u>	<u>76,639</u>
Proceeds from the sale of property	<u>-</u>	<u>-</u>	<u>756,800</u>	<u>756,800</u>
Total other financing sources and (uses)	<u>(8,612,064)</u>	<u>(16,612,064)</u>	<u>(15,778,625)</u>	<u>833,439</u>
Net change in fund balance	<u>(2,700,000)</u>	<u>(2,700,000)</u>	<u>9,642,502</u>	<u>12,342,502</u>
Fund balance - beginning of year	<u>2,700,000</u>	<u>2,700,000</u>	<u>3,548,452</u>	<u>848,452</u>
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,190,954</u>	<u>\$ 13,190,954</u>

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, 2004

	<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	\$ 5,004,744	\$ 772,407	\$ 892,796	\$ 120,389
Federal and state support	45,088,181	54,350,975	49,599,419	(4,751,556)
Other	740,833	710,380	678,424	(31,956)
Total revenues	<u>50,833,758</u>	<u>55,833,762</u>	<u>51,170,639</u>	<u>(4,663,123)</u>
EXPENDITURES				
Current Operating:				
Instruction:				
Regular programs:				
Salaries and benefits	5,591,524	5,381,681	4,650,142	731,539
Materials and services	1,305,996	1,990,105	1,912,114	77,991
Total regular programs	<u>6,897,520</u>	<u>7,371,786</u>	<u>6,562,256</u>	<u>809,530</u>
Special programs:				
Salaries and benefits	22,612,064	22,336,624	20,159,646	2,176,978
Materials and services	3,136,812	5,410,478	4,894,156	516,322
Total special programs	<u>25,748,876</u>	<u>27,747,102</u>	<u>25,053,802</u>	<u>2,693,300</u>
Summer school programs:				
Salaries and benefits	-	7,421	36,627	(29,206)
Materials and services	-	20,091	22,330	(2,239)
Total summer school programs	<u>-</u>	<u>27,512</u>	<u>58,957</u>	<u>(31,445)</u>
Total instruction	<u>32,646,396</u>	<u>35,146,400</u>	<u>31,675,015</u>	<u>3,471,385</u>
Support Services:				
Students:				
Salaries and benefits	4,069,283	3,803,527	3,311,420	492,107
Materials and services	2,069,248	1,751,518	2,052,646	(301,128)
Total students	<u>6,138,531</u>	<u>5,555,045</u>	<u>5,364,066</u>	<u>190,979</u>
Instructional staff:				
Salaries and benefits	5,874,609	8,527,234	6,252,245	2,274,989
Materials and services	2,992,095	1,520,686	3,156,573	(1,635,887)
Total instructional staff	<u>8,866,704</u>	<u>10,047,920</u>	<u>9,408,818</u>	<u>639,102</u>
School administration:				
Salaries and benefits	176,165	921,692	645,868	275,824
Materials and services	140,003	84,913	459,163	(374,250)
Total school administration	<u>316,168</u>	<u>1,006,605</u>	<u>1,105,031</u>	<u>(98,426)</u>
Business:				
Salaries and benefits	23,222	79,784	70,809	8,975
Materials and services	57,869	118,538	110,659	7,879
Total business	<u>81,091</u>	<u>198,322</u>	<u>181,468</u>	<u>16,854</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, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Support Services (continued):				
Central:				
Salaries and benefits	366,273	1,582,495	756,204	826,291
Materials and services	1,179,371	557,751	1,259,938	(702,187)
Total central	1,545,644	2,140,246	2,016,142	124,104
Total support services	16,948,138	18,948,138	18,075,525	872,613
Enterprise and Community Services:				
Food Services:				
Materials and services	219,445	351,480	294,235	57,245
Total food services	219,445	351,480	294,235	57,245
Community Services:				
Salaries and benefits	932,280	1,344,924	885,785	459,139
Materials and services	87,499	42,820	240,079	(197,259)
Total community services	1,019,779	1,387,744	1,125,864	261,880
Total enterprise and community services:	1,239,224	1,739,224	1,420,099	319,125
Total current expenditures	50,833,758	55,833,762	51,170,639	4,663,123
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 and 2004 limited tax general obligation refunding bonds. 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, 2004

	Total Nonmajor Special Revenue Funds	Total Nonmajor Debt Service Funds	Total
ASSETS			
Cash and cash equivalents	\$ 19,939,125	\$ 33,900	\$ 19,973,025
Cash and cash equivalents with fiscal agents	-	412,394	412,394
Investments	-	1,581,615	1,581,615
Accounts and other receivables	1,868,069	-	1,868,069
Property and other taxes receivable	-	1,887,359	1,887,359
Due from other funds	600,000	-	600,000
Inventories	632,464	-	632,464
Total assets	<u>\$ 23,039,658</u>	<u>\$ 3,915,268</u>	<u>\$ 26,954,926</u>
LIABILITIES			
Accounts payable and other current liabilities	\$ 523,371	\$ 13,335	\$ 536,706
Accrued salaries, wages and benefits payable	1,634,022	-	1,634,022
Deferred revenues	-	1,645,488	1,645,488
Total liabilities	<u>2,157,393</u>	<u>1,658,823</u>	<u>3,816,216</u>
FUND BALANCES			
Unreserved	<u>20,882,265</u>	<u>2,256,445</u>	<u>23,138,710</u>
Total liabilities and fund balances	<u>\$ 23,039,658</u>	<u>\$ 3,915,268</u>	<u>\$ 26,954,926</u>

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Nonmajor Special Revenue Funds
Combining Balance Sheet
June 30, 2004

	Student Body Activities Fund	Cafeteria Fund	PERS Rate Stabilization Reserve Fund	Special Revenue Funds	BESC Cafeteria Fund	Total
ASSETS						
Cash and cash equivalents	\$ 2,728,032	\$ 799,266	\$ 11,300,000	\$ 5,085,068	\$ 26,759	\$ 19,939,125
Accounts and other receivables	89,726	984,512	-	783,288	10,543	1,868,069
Due from other funds	600,000	-	-	-	-	600,000
Inventories	-	612,963	-	-	19,501	632,464
Total assets	<u>\$ 3,417,758</u>	<u>\$ 2,396,741</u>	<u>\$ 11,300,000</u>	<u>\$ 5,868,356</u>	<u>\$ 56,803</u>	<u>\$ 23,039,658</u>
LIABILITIES						
Accounts payable and other current liabilities	\$ 161,825	\$ 240,554	\$ -	\$ 107,927	\$ 13,065	\$ 523,371
Accrued salaries, wages and benefits payable	-	654,012	-	941,094	38,916	1,634,022
Total liabilities	<u>161,825</u>	<u>894,566</u>	<u>-</u>	<u>1,049,021</u>	<u>51,981</u>	<u>2,157,393</u>
FUND BALANCES						
Unreserved	<u>3,255,933</u>	<u>1,502,175</u>	<u>11,300,000</u>	<u>4,819,335</u>	<u>4,822</u>	<u>20,882,265</u>
Total liabilities and fund balances	<u>\$ 3,417,758</u>	<u>\$ 2,396,741</u>	<u>\$ 11,300,000</u>	<u>\$ 5,868,356</u>	<u>\$ 56,803</u>	<u>\$ 23,039,658</u>

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Nonmajor Debt Service Funds
Combining Balance Sheet
June 30, 2004

	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	\$ -	\$ -	\$ 33,900	\$ -	\$ 33,900
Cash and cash equivalents with fiscal agents	-	-	107,925	304,469	412,394
Investments	-	-	88,128	1,493,487	1,581,615
Property and other taxes receivable	-	-	72,341	1,815,018	1,887,359
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 302,294</u>	<u>\$ 3,612,974</u>	<u>\$ 3,915,268</u>
LIABILITIES					
Accounts payable and other current liabilities	\$ -	\$ -	\$ 13,335	\$ -	\$ 13,335
Deferred revenues	-	-	-	1,645,488	1,645,488
Total liabilities	<u>-</u>	<u>-</u>	<u>13,335</u>	<u>1,645,488</u>	<u>1,658,823</u>
FUND BALANCES					
Unreserved	-	-	288,959	1,967,486	2,256,445
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 302,294</u>	<u>\$ 3,612,974</u>	<u>\$ 3,915,268</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, 2004

	Total Nonmajor Special Revenue Funds	Total Nonmajor Debt Service Funds	Total
REVENUES			
Property and other taxes	\$ -	\$ 45,672,830	\$ 45,672,830
Federal and state support	9,591,757	-	9,591,757
County and Intermediate sources	631,982	-	631,982
Charges for services	6,071,957	-	6,071,957
Extracurricular activities	7,259,049	-	7,259,049
Investment earnings	-	222,452	222,452
Other	3,364,370	-	3,364,370
Total revenues	<u>26,919,115</u>	<u>45,895,282</u>	<u>72,814,397</u>
EXPENDITURES			
Current Operating:			
Instruction			
Regular programs	10,299,398	-	10,299,398
Special programs	1,307,392	-	1,307,392
Summer school programs	274,584	-	274,584
Total instruction	<u>11,881,374</u>	<u>-</u>	<u>11,881,374</u>
Support services:			
Students	378,031	-	378,031
Instructional staff	848,343	-	848,343
General administration	14,050	-	14,050
School administration	459,418	-	459,418
Business	434,625	-	434,625
Central	25,589	-	25,589
Total support services	<u>2,160,056</u>	<u>-</u>	<u>2,160,056</u>
Enterprise and community services:			
Food services	12,848,383	-	12,848,383
Community services	13,828	-	13,828
Total enterprise and community services	<u>12,862,211</u>	<u>-</u>	<u>12,862,211</u>
Debt Service:			
Principal	-	46,980,000	46,980,000
Interest and fiscal charges	-	6,131,538	6,131,538
Bond issuance cost	-	110,568	110,568
Total debt service	<u>-</u>	<u>53,222,106</u>	<u>53,222,106</u>
Total current expenditures	<u>26,903,641</u>	<u>53,222,106</u>	<u>80,125,747</u>
Excess (deficiency) of revenues over (under) expenditures	<u>15,474</u>	<u>(7,326,824)</u>	<u>(7,311,350)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	9,644,216	6,891,209	16,535,425
Bond proceeds	-	11,900,000	11,900,000
Bond advance refunding principal	-	(11,325,000)	(11,325,000)
Bond advance refunding interest	-	(517,867)	(517,867)
Total other financing sources (uses)	<u>9,644,216</u>	<u>6,948,342</u>	<u>16,592,558</u>
Net change in fund balances	9,659,690	(378,482)	9,281,208
Fund balances - beginning of year	11,222,575	2,634,927	13,857,502
Fund balances - end of year	<u>\$ 20,882,265</u>	<u>\$ 2,256,445</u>	<u>\$ 23,138,710</u>

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, 2004

	Student Body Activities Fund	Cafeteria Fund	PERS Rate Stabilization Reserve Fund	Special Revenue Fund	BESC Cafeteria Fund	Total
REVENUES						
Federal and state support	\$ -	\$ 9,562,982	\$ -	\$ 28,775	\$ -	\$ 9,591,757
County and Intermediate sources	-	-	-	631,982	-	631,982
Charges for services	-	3,421,964	-	2,109,816	540,177	6,071,957
Extracurricular activities	7,259,049	-	-	-	-	7,259,049
Other	-	29,194	-	3,335,176	-	3,364,370
Total revenues	<u>7,259,049</u>	<u>13,014,140</u>	<u>-</u>	<u>6,105,749</u>	<u>540,177</u>	<u>26,919,115</u>
EXPENDITURES						
Current operating:						
Instruction						
Regular programs	7,380,361	-	-	2,919,037	-	10,299,398
Special programs	-	-	-	1,307,392	-	1,307,392
Summer school programs	-	-	-	274,584	-	274,584
Total instruction	<u>7,380,361</u>	<u>-</u>	<u>-</u>	<u>4,501,013</u>	<u>-</u>	<u>11,881,374</u>
Support services:						
Students	-	-	-	378,031	-	378,031
Instructional staff	-	-	-	848,343	-	848,343
General administration	-	-	-	14,050	-	14,050
School administration	-	-	-	459,418	-	459,418
Business	-	-	-	434,625	-	434,625
Central	-	-	-	25,589	-	25,589
Total support services	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,160,056</u>	<u>-</u>	<u>2,160,056</u>
Enterprise and community services:						
Food services	-	12,303,329	-	-	545,054	12,848,383
Community services	-	-	-	13,828	-	13,828
Total enterprise and community services	<u>-</u>	<u>12,303,329</u>	<u>-</u>	<u>13,828</u>	<u>545,054</u>	<u>12,862,211</u>
Total current expenditures	<u>7,380,361</u>	<u>12,303,329</u>	<u>-</u>	<u>6,674,897</u>	<u>545,054</u>	<u>26,903,641</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(121,312)</u>	<u>710,811</u>	<u>-</u>	<u>(569,148)</u>	<u>(4,877)</u>	<u>15,474</u>
OTHER FINANCING SOURCES						
Transfers in	124,312	19,904	9,500,000	-	-	9,644,216
Total other financing sources	<u>124,312</u>	<u>19,904</u>	<u>9,500,000</u>	<u>-</u>	<u>-</u>	<u>9,644,216</u>
Net change in fund balances	3,000	730,715	9,500,000	(569,148)	(4,877)	9,659,690
Fund balances - beginning of year	3,252,933	771,460	1,800,000	5,388,483	9,699	11,222,575
Fund balances - end of year	<u>\$ 3,255,933</u>	<u>\$ 1,502,175</u>	<u>\$ 11,300,000</u>	<u>\$ 4,819,335</u>	<u>\$ 4,822</u>	<u>\$ 20,882,265</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, 2004

	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	\$ -	\$ -	\$ 11,832,046	\$ 33,840,784	\$ 45,672,830
Investment earnings	-	-	53,382	169,070	222,452
Total revenues	<u>-</u>	<u>-</u>	<u>11,885,428</u>	<u>34,009,854</u>	<u>45,895,282</u>
EXPENDITURES					
Debt Service:					
Principal	4,205,000	1,200,000	10,875,000	30,700,000	46,980,000
Interest and fiscal charges	1,239,682	253,200	1,196,531	3,442,125	6,131,538
Bond issuance costs	-	-	110,568	-	110,568
Total expenditures	<u>5,444,682</u>	<u>1,453,200</u>	<u>12,182,099</u>	<u>34,142,125</u>	<u>53,222,106</u>
Excess of expenditures over revenues	<u>(5,444,682)</u>	<u>(1,453,200)</u>	<u>(296,671)</u>	<u>(132,271)</u>	<u>(7,326,824)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	5,438,009	1,453,200	-	-	6,891,209
Bond proceeds	-	-	11,900,000	-	11,900,000
Bond advance refunding principal	-	-	(11,325,000)	-	(11,325,000)
Bond advance refunding interest	-	-	(517,867)	-	(517,867)
Total other financing sources (uses)	<u>5,438,009</u>	<u>1,453,200</u>	<u>57,133</u>	<u>-</u>	<u>6,948,342</u>
Net change in fund balances	(6,673)	-	(239,538)	(132,271)	(378,482)
Fund balances - beginning of year	6,673	-	528,497	2,099,757	2,634,927
Fund balances - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 288,959</u>	<u>\$ 1,967,486</u>	<u>\$ 2,256,445</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
For the year ended June 30, 2004**

	<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	\$ 136,093,501	\$ 130,909,747	\$ 135,683,459	\$ 4,773,712
State School Fund	162,983,148	162,983,148	166,519,106	3,535,958
Local option taxes	17,067,552	22,251,306	17,164,911	(5,086,395)
County and intermediate sources	63,746,510	63,746,510	49,280,852	(14,465,658)
State Common School Fund	1,170,000	1,170,000	1,251,379	81,379
Charges for services	2,808,500	2,808,500	3,578,214	769,714
Investment earnings	800,000	800,000	844,998	44,998
Other	5,905,071	5,905,071	5,842,037	(63,034)
Total revenues	390,574,282	390,574,282	380,164,956	(10,409,326)
EXPENDITURES				
Current Operating:				
Instruction:				
Regular programs:				
Salaries and benefits	162,616,300	159,698,329	152,970,161	6,728,168
Materials and services	6,002,428	6,476,021	5,458,344	1,017,677
Total regular programs	168,618,728	166,174,350	158,428,505	7,745,845
Special programs:				
Salaries and benefits	50,152,438	47,160,985	46,859,664	301,321
Materials and services	13,389,631	13,329,462	12,368,909	960,553
Total special programs	63,542,069	60,490,447	59,228,573	1,261,874
Total instruction	232,160,797	226,664,797	217,657,078	9,007,719
Support services:				
Students:				
Salaries and benefits	31,339,562	30,175,733	29,215,061	960,672
Materials and services	2,654,896	2,721,347	1,177,282	1,544,065
Total students	33,994,458	32,897,080	30,392,343	2,504,737
Instructional staff:				
Salaries and benefits	9,814,622	9,392,902	9,161,817	231,085
Materials and services	2,110,353	2,536,594	1,429,328	1,107,266
Total instructional staff	11,924,975	11,929,496	10,591,145	1,338,351
General administration:				
Salaries and benefits	1,695,927	1,855,351	1,612,942	242,409
Materials and services	1,219,728	1,380,190	2,713,046	(1,332,856)
Total general administration	2,915,655	3,235,541	4,325,988	(1,090,447)
School administration:				
Salaries and benefits	27,214,870	26,300,081	25,240,649	1,059,432
Materials and services	569,899	225,085	121,193	103,892
Total school administration	27,784,769	26,525,166	25,361,842	1,163,324

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
General Fund (Continued)
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Support services (continued):				
Business:				
Salaries and benefits	17,842,425	17,229,974	16,616,373	613,601
Materials and services	36,005,692	36,178,348	34,343,589	1,834,759
Total business	<u>53,848,117</u>	<u>53,408,322</u>	<u>50,959,962</u>	<u>2,448,360</u>
Central:				
Salaries and benefits	10,399,313	9,726,866	8,556,933	1,169,933
Materials and services	3,398,750	4,039,566	4,971,463	(931,897)
Total central	<u>13,798,063</u>	<u>13,766,432</u>	<u>13,528,396</u>	<u>238,036</u>
Facilities acquisition & construction:				
Materials and services	-	-	943,391	(943,391)
Total facilities acquisition & construction	<u>-</u>	<u>-</u>	<u>943,391</u>	<u>(943,391)</u>
Total support services	<u>144,266,037</u>	<u>141,762,037</u>	<u>136,103,067</u>	<u>5,658,970</u>
Other expenditures:				
Debt Service				
Principal	960,384	552,243	552,243	-
Interest	275,000	683,141	431,441	251,700
Total debt service	<u>1,235,384</u>	<u>1,235,384</u>	<u>983,684</u>	<u>251,700</u>
Total current expenditures	<u>377,662,218</u>	<u>369,662,218</u>	<u>354,743,829</u>	<u>14,918,389</u>
Operating contingency	<u>7,000,000</u>	<u>7,000,000</u>	<u>-</u>	<u>7,000,000</u>
Total expenditures	<u>384,662,218</u>	<u>376,662,218</u>	<u>354,743,829</u>	<u>21,918,389</u>
Excess of revenues over expenditures	<u>5,912,064</u>	<u>13,912,064</u>	<u>25,421,127</u>	<u>11,509,063</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(8,612,064)</u>	<u>(16,612,064)</u>	<u>(16,535,425)</u>	<u>76,639</u>
Proceeds from the sale of property	-	-	756,800	756,800
Total other financing sources and (uses)	<u>(8,612,064)</u>	<u>(16,612,064)</u>	<u>(15,778,625)</u>	<u>833,439</u>
Net change in fund balance	<u>(2,700,000)</u>	<u>(2,700,000)</u>	<u>9,642,502</u>	<u>12,342,502</u>
Fund balance - beginning of year	<u>2,700,000</u>	<u>2,700,000</u>	<u>3,548,452</u>	<u>848,452</u>
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,190,954</u>	<u>\$ 13,190,954</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, 2004

	<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				
Extracurricular activities	\$ 7,500,000	\$ 7,500,000	\$ 7,259,049	\$ (240,951)
EXPENDITURES				
Current Operating:				
Instruction:				
Regular programs				
Materials and services	8,186,681	8,186,681	7,380,361	806,320
Excess of expenditures over revenues	(686,681)	(686,681)	(121,312)	565,369
OTHER FINANCING SOURCES				
Transfers in	186,681	186,681	124,312	(62,369)
Net change in fund balance	(500,000)	(500,000)	3,000	503,000
Fund balance - beginning of year	3,500,000	3,500,000	3,252,933	(247,067)
Fund balance - end of year	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>	<u>\$ 3,255,933</u>	<u>\$ 255,933</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, 2004

	<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				
Charges for services	\$ 4,353,302	\$ 4,353,302	\$ 3,421,964	\$ (931,338)
Federal and state support	10,067,920	10,067,920	9,562,982	(504,938)
Other	-	-	29,194	29,194
Total revenues	<u>14,421,222</u>	<u>14,421,222</u>	<u>13,014,140</u>	<u>(1,407,082)</u>
EXPENDITURES				
Current Operating:				
Enterprise and Community Services:				
Food services:				
Salaries and benefits	7,183,946	7,236,780	6,495,539	741,241
Materials and services	<u>6,992,874</u>	<u>6,940,040</u>	<u>5,807,790</u>	<u>1,132,250</u>
Total food services	<u>14,176,820</u>	<u>14,176,820</u>	<u>12,303,329</u>	<u>1,873,491</u>
Excess of revenues over expenditures	244,402	244,402	710,811	466,409
OTHER FINANCING SOURCES				
Transfers in	<u>27,500</u>	<u>27,500</u>	<u>19,904</u>	<u>(7,596)</u>
Net change in fund balance	271,902	271,902	730,715	458,813
Fund balance - beginning of year	<u>200,000</u>	<u>200,000</u>	<u>771,460</u>	<u>571,460</u>
Fund balance - end of year	<u><u>\$ 471,902</u></u>	<u><u>\$ 471,902</u></u>	<u><u>\$ 1,502,175</u></u>	<u><u>\$ 1,030,273</u></u>

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, 2004

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
County and Intermediate sources	\$ 5,004,744	\$ 772,407	\$ 892,796	\$ 120,389
Federal and state support	45,088,181	54,350,975	49,599,419	(4,751,556)
Other	740,833	710,380	678,424	(31,956)
Total revenues	<u>50,833,758</u>	<u>55,833,762</u>	<u>51,170,639</u>	<u>(4,663,123)</u>
EXPENDITURES				
Current Operating:				
Instruction:				
Regular programs:				
Salaries and benefits	5,591,524	5,381,681	4,650,142	731,539
Materials and services	1,305,996	1,990,105	1,912,114	77,991
Total regular programs	<u>6,897,520</u>	<u>7,371,786</u>	<u>6,562,256</u>	<u>809,530</u>
Special programs:				
Salaries and benefits	22,612,064	22,336,624	20,159,646	2,176,978
Materials and services	3,136,812	5,410,478	4,894,156	516,322
Total special programs	<u>25,748,876</u>	<u>27,747,102</u>	<u>25,053,802</u>	<u>2,693,300</u>
Summer school programs:				
Salaries and benefits	-	7,421	36,627	(29,206)
Materials and services	-	20,091	22,330	(2,239)
Total summer school programs	<u>-</u>	<u>27,512</u>	<u>58,957</u>	<u>(31,445)</u>
Total instruction	<u>32,646,396</u>	<u>35,146,400</u>	<u>31,675,015</u>	<u>3,471,385</u>
Support Services:				
Students:				
Salaries and benefits	4,069,283	3,803,527	3,311,420	492,107
Materials and services	2,069,248	1,751,518	2,052,646	(301,128)
Total students	<u>6,138,531</u>	<u>5,555,045</u>	<u>5,364,066</u>	<u>190,979</u>
Instructional staff:				
Salaries and benefits	5,874,609	8,527,234	6,252,245	2,274,989
Materials and services	2,992,095	1,520,686	3,156,573	(1,635,887)
Total instructional staff	<u>8,866,704</u>	<u>10,047,920</u>	<u>9,408,818</u>	<u>639,102</u>
School administration:				
Salaries and benefits	176,165	921,692	645,868	275,824
Materials and services	140,003	84,913	459,163	(374,250)
Total school administration	<u>316,168</u>	<u>1,006,605</u>	<u>1,105,031</u>	<u>(98,426)</u>
Business:				
Salaries and benefits	23,222	79,784	70,809	8,975
Materials and services	57,869	118,538	110,659	7,879
Total business	<u>81,091</u>	<u>198,322</u>	<u>181,468</u>	<u>16,854</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, 2004

	<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>		
Support Services (continued):				
Central:				
Salaries and benefits	366,273	1,582,495	756,204	826,291
Materials and services	1,179,371	557,751	1,259,938	(702,187)
Total central	<u>1,545,644</u>	<u>2,140,246</u>	<u>2,016,142</u>	<u>124,104</u>
Total support services	<u>16,948,138</u>	<u>18,948,138</u>	<u>18,075,525</u>	<u>872,613</u>
Enterprise and Community Services:				
Food Services:				
Materials and services	219,445	351,480	294,235	57,245
Total food services	<u>219,445</u>	<u>351,480</u>	<u>294,235</u>	<u>57,245</u>
Community Services:				
Salaries and benefits	932,280	1,344,924	885,785	459,139
Materials and services	87,499	42,820	240,079	(197,259)
Total community services	<u>1,019,779</u>	<u>1,387,744</u>	<u>1,125,864</u>	<u>261,880</u>
Total enterprise and community services:	<u>1,239,224</u>	<u>1,739,224</u>	<u>1,420,099</u>	<u>319,125</u>
Total current expenditures	<u>50,833,758</u>	<u>55,833,762</u>	<u>51,170,639</u>	<u>4,663,123</u>
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, 2004

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
OTHER FINANCING SOURCES				
Transfers in	\$ 1,500,000	\$ 9,500,000	\$ 9,500,000	\$ -
Net change in fund balance	1,500,000	9,500,000	9,500,000	-
Fund balance - beginning of year	1,800,000	1,800,000	1,800,000	-
Fund balance - end of year	<u>\$ 3,300,000</u>	<u>\$ 11,300,000</u>	<u>\$ 11,300,000</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, 2004

	<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	\$ 1,434,956	\$ 1,440,056	\$ 631,982	\$ (808,074)
Federal and state support	282,350	282,350	28,775	(253,575)
Charges for services	1,828,406	1,828,406	2,109,816	281,410
Other	2,734,188	2,729,088	3,335,176	606,088
Total revenues	<u>6,279,900</u>	<u>6,279,900</u>	<u>6,105,749</u>	<u>(174,151)</u>
EXPENDITURES				
Current Operating:				
Instruction:				
Regular programs:				
Salaries and benefits	3,171,748	3,063,307	2,527,305	536,002
Materials and services	710,913	819,354	391,732	427,622
Total regular programs	<u>3,882,661</u>	<u>3,882,661</u>	<u>2,919,037</u>	<u>963,624</u>
Special programs:				
Salaries and benefits	1,396,407	2,090,927	1,203,742	887,185
Materials and services	1,151,596	457,076	103,650	353,426
Total special programs	<u>2,548,003</u>	<u>2,548,003</u>	<u>1,307,392</u>	<u>1,240,611</u>
Summer school programs:				
Salaries and benefits	271,830	288,745	248,807	39,938
Materials and services	11,251	(5,664)	25,777	(31,441)
Total summer school programs	<u>283,081</u>	<u>283,081</u>	<u>274,584</u>	<u>8,497</u>
Total instruction	<u>6,713,745</u>	<u>6,713,745</u>	<u>4,501,013</u>	<u>2,212,732</u>
Support Services:				
Students:				
Salaries and benefits	475,613	357,236	248,146	109,090
Materials and services	38,193	156,570	129,885	26,685
Total students	<u>513,806</u>	<u>513,806</u>	<u>378,031</u>	<u>135,775</u>
Instructional staff:				
Salaries and benefits	961,243	801,440	536,197	265,243
Materials and services	419,691	579,494	312,146	267,348
Total instructional staff	<u>1,380,934</u>	<u>1,380,934</u>	<u>848,343</u>	<u>532,591</u>
General administration:				
Salaries and benefits	65,397	7,000	8,535	(1,535)
Materials and services	-	58,397	5,515	52,882
Total general administration	<u>65,397</u>	<u>65,397</u>	<u>14,050</u>	<u>51,347</u>
School administration:				
Salaries and benefits	410,436	229,901	368,566	(138,665)
Materials and services	229,057	409,592	90,852	318,740
Total school administration	<u>639,493</u>	<u>639,493</u>	<u>459,418</u>	<u>180,075</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, 2004

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Support Services (continued):				
Business:				
Materials and services	409,961	409,961	434,625	(24,664)
Central:				
Materials and services	6,473	6,473	25,589	(19,116)
Total support services	3,016,064	3,016,064	2,160,056	856,008
Enterprise and Community Services:				
Community Services:				
Salaries and benefits	-	11,818	13,678	(1,860)
Materials and services	50,091	38,273	150	38,123
Total community services	50,091	50,091	13,828	36,263
Total current expenditures	9,779,900	9,779,900	6,674,897	3,105,003
Excess of expenditures over revenues	(3,500,000)	(3,500,000)	(569,148)	2,930,852
Fund balance - beginning of year	3,500,000	3,500,000	5,388,483	1,888,483
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,819,335</u>	<u>\$ 4,819,335</u>

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, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
REVENUES				
Charges for services	\$ 558,085	\$ 558,085	\$ 540,177	\$ (17,908)
EXPENDITURES				
Current Operating:				
Enterprise and Community Services:				
Food services:				
Salaries and benefits	288,163	346,495	367,280	(20,785)
Materials and services	257,077	198,745	177,774	20,971
Total food services	545,240	545,240	545,054	186
Excess (deficiency) of revenues over (under) expenditures	12,845	12,845	(4,877)	(17,722)
Fund balance - beginning of year	10,000	10,000	9,699	(301)
Fund balance - end of year	<u>\$ 22,845</u>	<u>\$ 22,845</u>	<u>\$ 4,822</u>	<u>\$ (18,023)</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, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
EXPENDITURES				
Debt Service:				
Principal	\$ 4,205,000	\$ 4,205,000	\$ 4,205,000	\$ -
Interest and fiscal charges	1,240,183	1,240,183	1,239,682	(501)
Total expenditures	5,445,183	5,445,183	5,444,682	(501)
OTHER FINANCING SOURCES				
Transfers in	5,444,683	5,444,683	5,438,009	(6,674)
Net change in fund balances	(500)	(500)	(6,673)	(6,173)
Fund balance - beginning of year	7,580	7,580	6,673	(907)
Fund balance - end of year	<u>\$ 7,080</u>	<u>\$ 7,080</u>	<u>\$ -</u>	<u>\$ (7,080)</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, 2004

	<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	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ -
Interest and fiscal charges	253,200	253,200	253,200	-
Total expenditures	1,453,200	1,453,200	1,453,200	-
OTHER FINANCING SOURCES				
Transfers in	1,453,200	1,453,200	1,453,200	-
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, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
REVENUES				
Property and other taxes	\$ 11,992,225	\$ 11,992,225	\$ 11,832,046	\$ (160,179)
Investment earnings	71,800	71,800	53,382	(18,418)
Total revenues	12,064,025	12,064,025	11,885,428	(178,597)
EXPENDITURES				
Debt Service:				
Principal	10,875,000	10,875,000	10,875,000	-
Interest and fiscal charges	1,271,563	1,271,063	1,196,531	74,532
Bond issuance costs	-	-	110,568	(110,568)
Total expenditures	12,146,563	12,146,063	12,182,099	(36,036) *
Excess of expenditures over revenues	(82,538)	(82,038)	(296,671)	(214,633)
OTHER FINANCING SOURCES (USES)				
Bond proceeds	-	-	11,900,000	11,900,000
Bond advance refunding principal	-	-	(11,325,000)	(11,325,000) *
Bond advance refunding interest	-	-	(517,867)	(517,867) *
Total other financing sources (USES)	-	-	57,133	57,133
Net change in fund balance	(82,538)	(82,038)	(239,538)	(157,500)
Fund balance - beginning of year	150,000	150,000	528,497	378,497
Fund balance - end of year	\$ 67,462	\$ 67,962	\$ 288,959	\$ 220,997

*Debt Service expenditures, while in excess of appropriation, are not out of compliance with Oregon Budget Law. According to ORS 294.326 expenditures of the proceeds of advance refunding bonds, such as for bond issuance costs, are allowed exceptions under local budget law.

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, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
REVENUES				
Property and other taxes	\$ 33,811,750	\$ 33,811,750	\$ 33,840,784	\$ 29,034
Investment earnings	199,000	199,000	169,070	(29,930)
Total revenues	34,010,750	34,010,750	34,009,854	(896)
EXPENDITURES				
Debt Service:				
Principal	30,700,000	30,700,000	30,700,000	-
Interest	3,443,625	3,442,125	3,442,125	-
Total expenditures	34,143,625	34,142,125	34,142,125	-
Excess of expenditures over revenues	(132,875)	(131,375)	(132,271)	(896)
Fund balance - beginning of year	230,000	230,000	2,099,757	1,869,757
Fund balance - end of year	\$ 97,125	\$ 98,625	\$ 1,967,486	\$ 1,868,861

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, 2004

	<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	\$ 20,834	\$ 20,834	\$ 37,227	\$ 16,393
EXPENDITURES				
Current Operating:				
Support Services:				
Central:				
Salaries and benefits	331,187	331,187	328,931	2,256
Materials and services	816,181	940,917	793,922	146,995
Total Support Services	1,147,368	1,272,104	1,122,853	149,251
Facilities Acquisition & Construction:				
Materials and services	100,000	100,000	77,910	22,090
Total current expenditures	1,247,368	1,372,104	1,200,763	171,341
Excess of expenditures over revenues	(1,226,534)	(1,351,270)	(1,163,536)	187,734
Fund balance - beginning of year	1,226,534	1,835,765	1,835,765	-
Fund balance - end of year	<u>\$ -</u>	<u>\$ 484,495</u>	<u>\$ 672,229</u>	<u>\$ 187,734</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, 2004

	<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	\$ 174,497	\$ 174,497	\$ 607,583	\$ 433,086
EXPENDITURES				
Current Operating:				
Support Services:				
Instructional staff:				
Materials and services	770,700	770,700	490,713	279,987
Business:				
Materials and services	1,000	1,000	11,020	(10,020)
Central:				
Materials and services	871,771	871,771	143,932	727,839
Total support services	1,643,471	1,643,471	645,665	997,806
Facilities Acquisition & Construction:				
Salaries and benefits	429,468	392,329	399,621	(7,292)
Materials and services	7,836,211	7,873,350	6,573,380	1,299,970
Total Facilities Acquisition & Construction:	8,265,679	8,265,679	6,973,001	1,292,678
Total expenditures	9,909,150	9,909,150	7,618,666	2,290,484
Excess of expenditures over revenues	(9,734,653)	(9,734,653)	(7,011,083)	2,723,570
Fund balance - beginning of year	15,595,290	15,595,290	16,041,441	446,151
Fund balance - end of year	\$ 5,860,637	\$ 5,860,637	\$ 9,030,358	\$ 3,169,721

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, 2004

	<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	\$ 72,931	\$ 72,931	\$ 39,904	\$ (33,027)
EXPENDITURES				
Current Operating:				
Support Services:				
Business:				
Materials and services	2,500	2,500	2,500	-
Facilities Acquisition & Construction:				
Salaries and benefits	-	-	6,685	(6,685)
Materials and services	5,435,869	5,435,869	2,119,892	3,315,977
Total Facilities Acquisition & Construction:	5,435,869	5,435,869	2,126,577	3,309,292
Total expenditures	5,438,369	5,438,369	2,129,077	3,309,292
Excess of expenditures over revenues	(5,365,438)	(5,365,438)	(2,089,173)	3,276,265
Fund balance - beginning of year	5,365,438	5,365,438	5,351,374	(14,064)
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,262,201</u>	<u>\$ 3,262,201</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, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
REVENUES				
Charges for services	\$ 4,664,408	\$ 5,001,602	\$ 4,749,985	\$ (251,617)
Investments	55,000	55,000	34,110	(20,890)
Insurance recoveries	-	2,271,586	2,051,386	(220,200)
Other	25,000	25,000	28,109	3,109
Total revenues	<u>4,744,408</u>	<u>7,353,188</u>	<u>6,863,590</u>	<u>(489,598)</u>
EXPENDITURES				
Current Operating:				
Support Services:				
Salaries and benefits	477,109	477,109	348,267	128,842
Materials and services	392,500	392,500	193,000	199,500
Claims expense	4,306,000	6,860,585	6,710,172	150,413
Total expenditures	<u>5,175,609</u>	<u>7,730,194</u>	<u>7,251,439</u>	<u>478,755</u>
Excess of expenditures over revenues	(431,201)	(377,006)	(387,849)	(10,843)
Fund balance - beginning of year	964,200	627,006	627,006	-
Fund balance - end of year	<u>\$ 532,999</u>	<u>\$ 250,000</u>	239,157	<u>\$ (10,843)</u>
Less salaries and benefits accrued under GAAP			(8,660)	
Retained earnings at end of year, GAAP basis			<u>\$ 230,497</u>	

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

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OTHER FINANCIAL SCHEDULES

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON
General Fund
Schedule of Property Tax Transactions
For the Year Ended June 30, 2004

Tax Year	Taxes Uncollected June 30, 2003	Levy as Extended by Assessor	Discounts Allowed	Interest	Cancellations and Adjustments	Property Tax Collections	Taxes Uncollected June 30, 2004
DISTRICT LEVIES							
Multnomah County:							
General Tax:							
Current Year	\$ -	\$ 149,651,208	\$ (3,587,204)	\$ 93,174	\$ (658,997)	\$ (140,890,368)	\$ 4,607,813
Prior Years	5,050,516		5,903	217,173	(439,296)	(2,928,274)	1,906,022
2001-2002	1,917,665		5,015	138,684	(244,376)	(853,113)	963,875
2000-2001	1,027,300		3,047	167,144	(125,338)	(696,298)	375,855
1999-2000	358,282		1,933	80,054	(21,753)	(340,423)	78,093
1998-1999	64,234		2,887	(49,855)	35,314	(13,532)	39,048
1997-1998	41,003		1,310	(24,310)	15,512	(5,528)	27,987
1996-1997	15,465		394	(9,843)	10,039	(3,589)	12,466
1995-1996	9,172			793	(1,060)	(1,726)	7,179
and prior	139,639			23,922	(4,318)	(37,438)	121,805
Total General Tax:	8,623,276	149,651,208	(3,566,715)	636,936	(1,434,273)	(145,770,289)	8,140,143
				minus allocation to the Bond Sinking Debt Service Fund:			
							(59,976)
							8,080,167
Local Option Taxes:							
Current Year	-	17,513,645	(419,810)	10,904	(77,122)	(16,488,366)	539,251
Prior Year	576,400	674	674	24,785	(50,136)	(334,195)	217,528
2001-2002	208,958	546	546	15,112	(26,628)	(92,959)	105,029
2000-2001	103,021	306	306	16,762	(12,569)	(69,827)	37,693
Total Local Option Taxes:	888,379	17,513,645	(418,284)	67,563	(166,455)	(16,985,347)	899,501
Cancel/Omit							
Current Year	-	311,855	(7,475)	194	(1,373)	(293,599)	9,602
Total Multnomah County:	9,511,655	167,476,708	(3,992,474)	704,693	(1,602,101)	(163,049,235)	8,989,270
Washington County:							
All Years ¹		1,193,996				(1,193,996)	
Clackamas County:							
All Years ¹		146,210				(146,210)	
Total All Counties:	\$ 9,511,655	\$ 168,816,914	\$ (3,992,474)	\$ 704,693	\$ (1,602,101)	\$ (164,389,441)	\$ 8,989,270

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, 2004 were considered immaterial.

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON
General Fund
Schedule of Property Tax Transactions
For the Year Ended June 30, 2004

	<u>Tax Revenue</u>	<u>Deferred Taxes</u>
Reconciliation to Financial Statements:		
Property tax collections for the year ended June 30, 2004	\$164,389,441	
Non-levied tax revenue received for the year ended June 30, 2004	316,118	
Uncollected property taxes at June 30, 2004		\$ 8,989,270
Uncollected property taxes susceptible to accrual at June 30, 2004	845,206	(769,228)
Non-levied tax revenue susceptible to accrual at June 30, 2004	139,892	(139,517)
Property taxes & non-levy rev susceptible to accrual at June 30, 2003, and collected during the year ended June 30, 2004	(1,010,242)	
Less property tax revenues allocated to Bond Sinking Debt Service Fund	(11,832,047)	
Total property taxes - General Fund	\$152,848,368	
Total Deferred Revenues - General Fund		\$ 8,080,525

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON
Debt Service Funds
Schedule of Property Tax Transactions
For the Year Ended June 30, 2004

DISTRICT LEVIES	Tax Year	Taxes Uncollected June 30, 2003	Levy as Extended by Assessor	Discounts Allowed	Interest	Cancellations and Adjustments	Property Tax Collections	Taxes Uncollected June 30, 2004
Multnomah County:								
Bond Tax:								
Current Year	2003-2004	\$ -	\$ 34,484,923	\$ (826,618)	\$ 21,471	\$ (151,856)	\$ (32,466,116)	\$ 1,061,804
Prior Years	2002-2003	1,208,784		1,413	51,978	(105,140)	(700,849)	456,186
	2001-2002	375,118		981	27,128	(47,803)	(166,879)	188,545
	2000-2001	197,745		587	32,174	(24,126)	(134,031)	72,349
	1999-2000	73,381		396	16,396	(4,455)	(69,723)	15,995
	1998-1999	12,521		563	(9,718)	6,884	(2,638)	7,612
	1997-1998	10,323		330	(6,121)	3,905	(1,392)	7,045
	1996-1997	2,282		58	(1,452)	1,481	(530)	1,839
Total Multnomah County:		<u>1,880,154</u>	<u>34,484,923</u>	<u>(822,290)</u>	<u>131,856</u>	<u>(321,110)</u>	<u>(33,542,158)</u>	<u>1,811,375</u>
			Plus allocation from the General Fund to the Bond Sinking Debt Service Fund:					<u>59,976</u>
								<u>1,871,351</u>
Washington County:								
All Years ¹			241,836				(241,836)	
Clackamas County:								
All Years ¹			29,156				(29,156)	
Total All Counties:		<u>\$ 1,880,154</u>	<u>\$ 34,755,915</u>	<u>\$ (822,290)</u>	<u>\$ 131,856</u>	<u>\$ (321,110)</u>	<u>\$ (33,813,150)</u>	<u>\$ 1,871,351</u>
Reconciliation to Financial Statements:								
							\$ 33,813,150	
							31,454	
								\$ 1,871,351
							168,419	(225,189)
							750	(674)
							(172,988)	
							11,832,047	
							<u>\$ 45,672,832</u>	
								<u>\$ 1,645,488</u>

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, 2004 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
Schedule By Source
June 30, 2004

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, 2004

<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, 2004

<u>Function and Activity</u>	<u>Governmental Funds Capital Assets July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Governmental Funds Capital Assets June 30, 2004</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, 2004. 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-vi of this report.

Financial Highlights

- ◆ The net assets of Portland Public Schools in the government-wide financial statements were \$206,456,911. Of this amount, \$156,010,883 was invested in capital assets, net of related debt and the remainder, \$50,446,028, is technically considered unreserved, but the District has \$12,964,788 committed to debt-financed programs.
- ◆ At June 30, 2004, the General Fund had an unreserved fund balance of \$13.2 million, an increase of \$26.7 million from June 30, 2003. This increase is attributable to aggressive District efforts to hold down costs; significant increases in State School Fund payments, as the State front loaded the funding distribution into this first year of the state's biennium; and significant additional revenue from the State in the current year from its reconciliation of the prior year.
- ◆ In accordance with Oregon Budget Law and Senate Bill 1022, the 2002-03 non-GAAP budgetary financial statements for the General Fund included \$17.1 million of accrued State School Fund revenue. Such an accrual was not necessary for the 2003-04 fiscal year, given the increase of revenues over expenditures and was reversed.

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 basic 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 and 13 of this report.

Fund Financial Statements are designed to demonstrate compliance with finance-related legal requirements. 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 designates five major governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, 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 each 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 22-36 of this report.

Required Supplementary Information (RSI) is located directly after the notes to the basic financial statements and represent the required comparison of the budget and actual results on the District's budgetary basis for the General Fund and the only major special revenue fund, the Grant Fund. 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 required supplementary information. 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 \$206,456,911 at the close of the most recent fiscal year.

	<u>Governmental Activities</u>		<u>Change</u>
	2003	2004	2003-2004
Assets			
Current and other assets	\$ 103,758,133	\$ 142,480,484	37.3%
Prepaid PERS unfunded actuarial liability	486,617,609	486,071,587	-0.1%
Net capital assets	<u>228,616,491</u>	<u>224,098,220</u>	-2.0%
Total Assets	<u>818,992,233</u>	<u>852,650,291</u>	4.1%
Liabilities			
Non PERS related long-term debt outstanding	126,944,580	79,987,337	-37.0%
PERS unfunded actuarial liability debt outstanding	491,273,897	490,727,875	-0.1%
Other liabilities	<u>68,085,388</u>	<u>75,478,168</u>	10.9%
Total Liabilities	<u>686,303,865</u>	<u>646,193,380</u>	-5.8%
Net Assets			
Invested in capital assets, net of related debt	123,871,911	156,010,883	25.9%
Unrestricted	<u>8,816,457</u>	<u>50,446,028</u>	472.2%
Total Net Assets	<u>\$ 132,688,368</u>	<u>\$ 206,456,911</u>	55.6%

By far the largest portion of the District's net assets (75%) 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. During the current fiscal year the District's net assets increased by \$73,768,543, which resulted from the reduction in long-term debt of \$47.5 million and an increase in State School Fund revenue of \$32.9 million because the State front loaded distributions into the first year of the state's biennium and provided \$2.3 million due to reconciliation of prior year amounts. In addition, the District benefited from the generosity of voters in establishing the Multnomah County Income Tax. In this first year of the three-year temporary tax, the District collected \$36.5 million. Furthermore, the District continued its aggressive efforts to realize savings from cost cutting measures.

The revenues and expenses shown below outline changes in net assets for the fiscal years 2003 and 2004.

Changes in Net Assets	Governmental Activities		% of	Change
	2003	2004	Total 2004	2003-2004
Revenues				
Program Revenues				
Charges for services	\$ 10,532,039	\$ 9,650,171	1.8%	-8.4%
Operating grants and contributions	75,616,763	69,603,337	13.2%	-8.0%
Total Program Revenues	86,148,802	79,253,508	15.0%	-8.0%
General Revenues				
Property taxes	194,401,235	198,020,926	37.6%	1.9%
State school fund	150,705,317	183,619,106	34.9%	21.8%
Common school fund	3,100,444	1,251,379	0.2%	-59.6%
County and intermediate sources	24,440,903	50,805,630	9.6%	107.9%
Investment earnings	2,187,551	1,786,274	0.3%	-18.3%
Other	5,343,708	6,383,011	1.2%	19.4%
Gain on disposal of fixed assets	239,238	5,492,841	1.0%	2196.0%
Total General Revenues	380,418,396	447,359,167	85.0%	17.6%
Total Revenues	466,567,198	526,612,675	100.0%	12.9%
Expenses				
Instruction	246,091,005	264,429,734	58.4%	7.5%
Supporting services	160,169,734	160,120,687	35.4%	0.0%
Enterprise and community services	14,736,156	13,734,717	3.0%	-6.8%
Facilities	15,638,257	9,177,488	2.0%	-41.3%
Interest on long-term debt	10,607,253	5,381,506	1.2%	-49.3%
Total Expenses	447,242,405	452,844,132	100.0%	1.3%
Increase in net assets	19,324,793	73,768,543	35.7%	281.7%
Net assets - beginning	113,363,575	132,688,368	64.3%	17.0%
Net assets - ending	\$ 132,688,368	\$ 206,456,911	100.0%	55.6%

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 85.0% of the funding required for governmental programs. Property taxes and State school fund combined account for 85.3% of general revenues and 72.5% of total revenues.

Charges for services are only 1.8% of total revenues and are composed of the following items for which it is appropriate that the District charge tuition or fees:

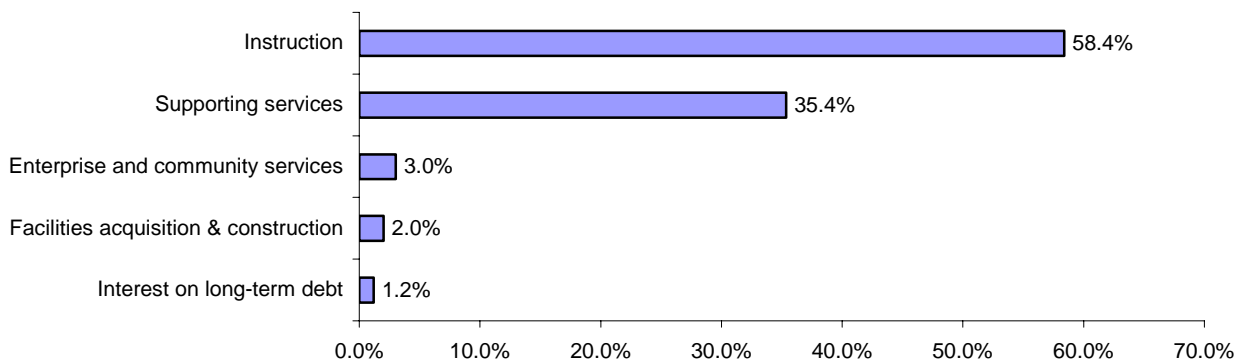
◆ Food services charge not only for lunch and breakfast, but also for catering and contract services.	\$ 3,962,141
◆ Tuition is charged for all-day kindergarten, evening high school, out-of-district students, summer school, and driver's education.	2,510,639
◆ Facilities leverages District buildings by leasing and renting classrooms, gymnasiums, swimming pools, auditoriums, and entire vacant buildings.	2,126,708
◆ Athletics charges pay-to-play fees and sells tickets to events and games.	601,097
◆ Other sales, royalties, and events generate revenue; including, commission on exclusive beverage contract.	449,586
Total Charges for Services:	<u>\$ 9,650,171</u>

Operating grants and contributions represent 13.2% of total revenues. Included in this category are \$9.6 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 \$50 million.

Expenses. Expenses related to governmental activities are presented in five broad functional categories. Costs of direct classroom instruction activities account for 58.4% of the total expenses of \$452,844,132. In addition, 54% of the costs in supporting services relate to students, instructional staff and school administration.

	Total Cost of Services		Percentage	Net Revenue (Expense)		Percentage
	<u>2003</u>	<u>2004</u>	<u>Change</u>	<u>2003</u>	<u>2004</u>	<u>Change</u>
			<u>2003-2004</u>			<u>2003-2004</u>
Instruction	\$ 246,091,005	\$ 264,429,734	7.5%	\$ (191,466,360)	\$ (220,323,681)	15.1%
Supporting services	160,169,734	160,120,687	0.0%	(143,984,134)	(139,918,454)	-2.8%
Enterprise and community services	14,736,156	13,734,717	-6.8%	622,293	1,210,505	94.5%
Facilities acquisition & construction	15,638,257	9,177,488	-41.3%	(15,638,257)	(9,177,488)	-41.3%
Interest on long-term debt	10,607,253	5,381,506	-49.3%	(10,607,253)	(5,381,506)	-49.3%
Total	\$ 447,242,405	\$ 452,844,132	1.3%	\$ (361,073,711)	\$ (373,590,624)	3.5%

Expenses by Service Type Fiscal Year 2004



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.

General Fund. The General Fund is the main operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the general fund was \$13,190,954, which was an increase of \$26,742,502. Key factors in this growth are as follows:

- ◆ The Board of Education is strongly committed to financial accountability and acknowledges that establishing and maintaining adequate reserves is a critical component of prudent financial management. The Board passed a resolution that ending fund balance would be increased at the rate of 1% per year until the minimum target of 3% of General Fund expenditures (\$12 million) was achieved.
- ◆ State revenue and the Multnomah County Income Tax: The Multnomah County Income Tax ("ITAX") is a temporary three-year tax passed by the voters to allow time for the State legislature to address needs for adequate and stable funding for K-12 education. Based on estimates of State funding levels, the ITAX was designed to bridge the gap in State funding and was budgeted at \$51 million. When the State increased funding levels and front-loaded the State School Fund distributions into the first year of the biennium, the County reduced the ITAX turnovers for schools for the 2003-04 school year. The actual ITAX collections totaled \$36.5 million.
- ◆ City of Portland revenue: The City of Portland again provided tangible support to the District by providing \$4 million per year for three years beginning in 2003-04 generated through increases in business license fees.
- ◆ District revenue: In accordance with Oregon Budget Law and Senate Bill 1022, the 2002-03 non-GAAP budgetary financial statements for the General Fund included \$17.1 million of accrued State School Fund revenue. Such an accrual was not necessary for the 2003-04 fiscal year, given the increase of revenues over expenditures. The 2002-03 accrual was therefore reversed in 2003-04.

The District is also committed to efficient, effective operations and has undertaken many initiatives to streamline business processes and reduce on-going costs. Highlights of successful efforts include:

- ◆ Certain special education programs that were previously contracted to other agencies are proving to cost less by providing the services ourselves. Tuition to private schools was therefore \$2.9 million under budget.
- ◆ Transportation worked closely with special education to put more students onto special buses, thus reducing use of taxis by \$320,000. Declining enrollment and improved routing of buses resulted in transportation costs being almost \$2 million under budget.
- ◆ Implementation of the new e-SIS system for student information services allowed the old mainframe computer to be completely turned off, contributing to net savings in data processing costs of \$255,000.

Grant Fund. Of the \$51 million in federal and state grants received in 2003-04, \$18.5 million represents funding for Title I and other Title funds targeted to provide additional services to students disadvantaged by poverty, to support migrant education, innovative programs, and safe and drug-free schools. Another approximately \$6 million was received for special education. Head Start, National Science Foundation, Voluntary Public School Choice, and Carl Perkins Grants (alternative education) also provide significant funding to their respective programs.

Capital Project Funds. The Facilities Improvement Funds are targeted for priority building repairs and computers in classrooms. These funds, generated by the 1995 and 1996 general obligation bonds approved by the voters, will be fully spent by June 2005, when the bonds will also be fully paid off. At June 30, 2004, \$12.3 million is the ending fund balance available for spending in 2004-05. The System Project Fund was established to purchase and install enterprise-wide computer systems in human resources, payroll, finance, budget, purchasing, warehouse inventory, facilities management, nutrition services and student information. These projects have been successfully completed on time and on budget. A residual \$672,000 is the ending fund balance at June 30, 2004 and is available for spending in 2004-05.

Proprietary Fund. The Self-Insurance Fund experienced an unusual increase in expenditures of 52% over prior year. This increased spending resulted from two major fires and the District's self-retention is \$1 million per incident. Lent Elementary School had an arson fire in the main auditorium. Binnsmead Middle School had the roof catch fire during the summer re-roofing project.

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:

- ◆ \$ 5.5 million decrease in instruction reflects the decrease in enrollment and the corresponding decrease in teaching staff. The staffing ratio is 30:1.
- ◆ \$ 2.5 million decrease in student support services is partially due to the decrease in enrollment and particularly due to the closure of two elementary schools.
- ◆ \$ 8.0 million increase in fund transfers is the first deposit into the PERS Rate Stabilization Reserve Fund in preparation for the outcome of pending litigation on PERS reforms enacted by the legislature and still under consideration by the Oregon Supreme Court. (See Note 16)

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets includes land, building and improvements, vehicles and equipment, and construction in progress. As of June 30, 2004, the District had invested over \$224 million in capital assets, net of depreciation, as shown in the following table:

	Capital Assets (net of accumulated depreciation)		Percentage Change 2003-2004
	Total School District Governmental Activities		
	<u>2003</u>	<u>2004</u>	
Land	\$ 9,049,378	\$ 9,049,378	0.0%
Buildings	189,883,031	185,925,208	-2.1%
Vehicles & Equipment	14,919,411	15,651,716	4.9%
Construction in Progress	14,764,671	13,471,918	-8.8%
Total	\$ 228,616,491	\$ 224,098,220	-2.0%

During the year 2003-04, the District's investment in capital assets decreased by \$4.5 million, which was due to the depreciation of \$14.0 million being more than the \$9.5 million in additions of capital assets. 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 \$7.4 million to buildings and site improvements. Construction in progress as of the close of fiscal year had reached \$13.5 million.

Additional information on the District's capital assets can be found in Note 7 on page 29 of this report.

Long-term debt. At the end of the current fiscal year, the District had total debt outstanding of \$570,715,212. Of this amount, \$34,675,000 comprises general obligation debt and \$502,627,875 represents limited tax obligation debt, and \$33,412,337 comprises debt backed by the full faith and credit of the District. The District's total debt decreased by \$47,503,265 during the current fiscal year.

Outstanding Long-Term Debt	Total School District		Percentage Change
	Governmental Activities		
	2003	2004	
General obligation bonds	\$ 87,575,000	\$ 34,675,000	-60.4%
PERS limited tax general obligation bonds	491,273,897	490,727,875	-0.1%
Other long-term debt	39,369,580	45,312,337	15.1%
Total	\$ 618,218,477	\$ 570,715,212	-7.7%

In May 2004 the District issued Full Faith and Credit Refunding Bonds, Series 2004, in the principal aggregate amount of \$11,900,000. The proceeds were used to refund the Limited Tax General Obligation Refunding Bonds, Series 1998. The 1998 Bonds were designated by the District as "gap bonds" when Measure 50 (Article XI, Section 11 of the Oregon Constitution) was implemented. That designation allowed the District to avoid reductions in the portion of its levy that paid the 1998 Bonds, in exchange for accepting a lower operating tax rate limit. Initially this designation benefited the District by giving it more tax revenues to pay costs of public education.

Measure 50 and its implementing legislation allow the District to refund the 1998 Bonds and not designate the Refunding Bonds as gap bonds. When the District did this, its operating tax rate limit increased. Senate Bill 550 of the 2003 Legislative Assembly provided that this increase would not be treated as "local revenues" under the State School Funding Formula, and would not, therefore, be offset by reductions in the District's State School Fund grant through fiscal year 2004-05. The amount of the increase in tax revenues that results from the increase in the operating tax rate limit will exceed the debt service on the Refunding Bonds, so issuing the Refunding Bonds will increase tax revenues that are available to the District to pay costs of public education in fiscal year 2004-2005. Thus the District obtains a favorable reorganization of its permanent debt structure.

In May 2004 Standard & Poor's lowered the District's debt rating for full faith and credit obligations from an "A" to an "A-" rating and lowered the rating for general obligation and limited tax general obligation bonds from and "A+" to an "A" rating. At the same time, Standard & Poor's assigned its "A-" rating to the \$11.975 million full faith and credit refunding bonds (federally taxably) series 2004. Standard & Poor's cited the District's weakened financial position due in part to state revenue declines and decreasing enrollments as rationale for the rating decision. Yet it declared the outlook stable for the District, based on the expectation that the District will adequately manage potential revenue and expenditure risks on the horizon. Moody's Investors Service also lowered its rating on the District's full faith and credit obligations from "A1" to "A2" and gave an "A2" rating to the \$11.975 million full faith and credit refunding bonds (federally taxably) series 2004, citing consecutive years of negative general fund balances. At the same time, Moody's affirmed the "Aa3" rating on the general obligation bonds, reflecting Moody's expectation that the District will recover somewhat in the near term.

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 \$3,780,073,032, 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 \$1.68 billion based on the 2002 valuation. 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 30 of this report.

Economic Factors and Next Year's Budgets

- ◆ The concerted efforts of many volunteers and the generous support of the voters of Multnomah County resulted in the failure of Measure 26-64 that would have repealed the Multnomah County Income Tax. This ITAX is expected to generate approximately \$50 million in revenue per year for each of the next two years remaining of this three-year temporary income tax.
- ◆ For the second year in a row, unemployment rates in the Portland-Vancouver metropolitan area have been higher than those in the rest of the State and among the highest in the nation, remaining over 7%.
- ◆ Negotiations with the District's various bargaining units were in process during the 2003-04 fiscal year. The classified union, Portland Federation of Teachers and Classified Employees, settled in April 2004 for a retroactive 4% wage increase, a 4% wage increase in 2004-05, and changes in health benefits, including a cap of \$694 per member per month, increasing to \$764 February 1, 2005. The Portland Association of Teachers reached agreement with the District in September 2004. The teachers will receive a 3% salary increase in 2004-05 and another 2.75% increase in 2005-06. The teachers also agreed to certain reductions in health benefits and to premium cost sharing whereby the employee will contribute 6% of the premium cost in year one of the contract and 7% in year two. This settlement will increase expenditures for 2004-05 by approximately \$5 million over the adopted budget. The nutrition services workers (SEIU Local 503) settled their contract in September 2004, agreeing to a 1% wage increase effective January 2005 and another ½% wage increase effective June 30, 2005. The health care cap was increased from \$600 per member per month to \$756 per month. The District Council of Unions continues in on-going negotiations.
- ◆ The five-year local option property tax levy, which will generate as much as \$32 million in 2004-05, expires in June 2005. The Board decided not to put a renewal measure on the November 2004 ballot, for fear of confusing the voters, since Measure 26-64 to repeal the county income tax was already on the ballot. The Board will decide early in 2005 whether it will ask the voters to renew the local option levy for the next five years. Also expiring in June 2005 is the law that set aside desegregation funding of \$7.6 million. If the Board decides to pursue renewal of the local option, it will also have to decide whether to ask for a continuation of the current rate, which would include desegregation amounts, or some lesser amount. Currently local option and desegregation fund about 300 teaching positions and buy supplies, textbooks and computers in the classroom. If the local option is not renewed, the resulting projected budget shortfall for 2005-2006 is about \$32 million.

In addition, the capital bonds will be virtually fully spent and will be paid off by the end of June 2005. The Board will decide when to pursue asking the voters for additional capital bonds and for how much. Depending on how the bonds are structured, and if the current tax rate were maintained, the capital bonds could generate between \$150 million and \$300 million.

Both elections would require a double majority (50% voter turnout and 50% voting "yes") unless held at a November general election in an even-numbered year.

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 Finance Office, 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, 2004

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 53,597,800
Cash and cash equivalents held by fiscal agents	2,425,787
Cash held in trust	94,020
Investments	42,580,610
Accounts and other receivables	24,532,837
Property taxes and other taxes receivable	7,954,491
Inventories	1,616,599
Prepaid items	379,025
Prepaid PERS actuarial liability	486,071,587
Bond issue costs, net of accumulated amortization	4,549,315
Noncurrent Assets:	
Note receivable - Due within one year	100,000
Note receivable - Due in more than one year	4,650,000
Capital Assets, net of accumulated depreciation:	
Land	9,049,378
Buildings and capital improvements	185,925,208
Vehicles and equipment	15,651,716
Construction in progress	13,471,918
Total assets	<u>852,650,291</u>
LIABILITIES	
Accounts payable	13,418,799
Accrued wages and benefits	54,325,708
Claims payable	4,813,872
Accrued bond interest payable	398,377
Arbitrage rebate	651,260
Deferred revenues	1,870,152
Noncurrent Liabilities:	
Bonds payable - Due within one year	43,039,237
Bonds payable - Due in more than one year	527,675,975
Total liabilities	<u>646,193,380</u>
NET ASSETS	
Invested in capital assets, net of related debt	156,010,883
Unrestricted	50,446,028
Total net assets	<u>\$ 206,456,911</u>

The notes to the basic 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, 2004

<u>Functions/Programs</u>	<u>Expenses</u>	<u>PROGRAM REVENUES</u>		<u>Net (Expense)</u> <u>Revenue and</u> <u>Changes in Net</u> <u>Assets</u>
		<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Governmental</u> <u>Activities</u>
Governmental Activities:				
Instruction	\$ 264,429,734	\$ 3,561,322	\$ 40,544,731	\$ (220,323,681)
Support services	160,120,687	2,126,708	18,075,525	(139,918,454)
Enterprise and Community Services	13,734,717	3,962,141	10,983,081	1,210,505
Facilities acquisition & construction	9,177,488	-	-	(9,177,488)
Interest and fees on long-term debt	5,381,506	-	-	(5,381,506)
Total governmental activities	<u>\$ 452,844,132</u>	<u>\$ 9,650,171</u>	<u>\$ 69,603,337</u>	<u>(373,590,624)</u>
GENERAL REVENUES:				
Property taxes, levies for operations				135,183,185
Property taxes, levies for debt service				45,672,830
Local option taxes				17,164,911
State School Fund				183,619,106
State Common School Fund				1,251,379
County and intermediate sources				50,805,630
Investment earnings				1,786,274
Other				6,383,011
Gain on disposal of capital assets				5,492,841
Total general revenues				<u>447,359,167</u>
Change in net assets				73,768,543
Net assets - beginning of year				<u>132,688,368</u>
Net assets - end of year				<u>\$ 206,456,911</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, 2004

	General Fund	Grant Fund
ASSETS		
Cash and cash equivalents	\$ 29,330,042	\$ 618
Cash and cash equivalents held by fiscal agents	2,013,393	-
Cash held in trust	94,020	-
Investments	26,499,995	-
Accounts and other receivables	7,149,308	14,225,336
Property taxes and other taxes receivable	6,067,132	-
Due from other funds	4,502,130	-
Inventories	984,135	-
Prepaid Items	379,025	-
Total assets	\$ 77,019,180	\$ 14,225,954
LIABILITIES		
Accounts payable	\$ 10,198,942	\$ 1,340,726
Accrued wages and benefits	44,948,759	6,512,946
Due to other funds	600,000	4,502,130
Arbitrage rebate	-	-
Deferred revenues	8,080,525	1,870,152
Total liabilities	63,828,226	14,225,954
FUND BALANCES		
Unreserved, reported in:		
General Fund	13,190,954	-
Special revenue funds	-	-
Capital projects funds	-	-
Debt service funds	-	-
Total fund balances	13,190,954	-
Total liabilities and fund balances	\$ 77,019,180	\$ 14,225,954

The notes to the basic 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
\$ 429,475	\$ 1,284,454	\$ 228,748	\$ 19,973,025	\$ 51,246,362
-	-	-	412,394	2,425,787
-	-	-	-	94,020
980,000	7,863,000	3,304,000	1,581,615	40,228,610
4,879	586,641	1,373	1,868,069	23,835,606
-	-	-	1,887,359	7,954,491
-	-	-	600,000	5,102,130
-	-	-	632,464	1,616,599
-	-	-	-	379,025
<u>\$ 1,414,354</u>	<u>\$ 9,734,095</u>	<u>\$ 3,534,121</u>	<u>\$ 26,954,926</u>	<u>\$ 132,882,630</u>
\$ 85,375	\$ 667,891	\$ 270,056	\$ 536,706	\$ 13,099,696
5,490	35,846	1,864	1,634,022	53,138,927
-	-	-	-	5,102,130
651,260	-	-	-	651,260
-	-	-	1,645,488	11,596,165
<u>742,125</u>	<u>703,737</u>	<u>271,920</u>	<u>3,816,216</u>	<u>83,588,178</u>
-	-	-	-	13,190,954
-	-	-	20,882,265	20,882,265
672,229	9,030,358	3,262,201	-	12,964,788
-	-	-	2,256,445	2,256,445
<u>672,229</u>	<u>9,030,358</u>	<u>3,262,201</u>	<u>23,138,710</u>	<u>49,294,452</u>
<u>\$ 1,414,354</u>	<u>\$ 9,734,095</u>	<u>\$ 3,534,121</u>	<u>\$ 26,954,926</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.	224,098,220
Long-term taxes receivable are not available to pay for current-period expenditures and therefore, are deferred in the funds.	9,726,013
The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	230,497
Bonds payable are not due and payable in the current period and therefore are not reported in the funds.	(570,715,212)
PERS unfunded liability payment is not reported as a prepayment in the funds and therefore, is expensed in the the funds.	486,071,587
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.	4,549,315
Notes receivable are not collectable in the current period and therefore are not reported in the funds.	4,750,000
Accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(1,149,584)
Bond interest is not accrued as a liability in the government funds.	(398,377)
Net assets of governmental activities	\$ 206,456,911

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the year ended June 30, 2004

	<u>General Fund</u>	<u>Grant Fund</u>
REVENUES		
Property and other taxes	\$ 135,683,459	\$ -
State School Fund (See Note 15)	183,619,106	-
Local option taxes	17,164,911	-
County and intermediate sources	49,280,852	892,796
State Common School Fund	1,251,379	-
Federal and state support	-	49,599,419
Charges for services	3,578,214	-
Extracurricular activities	-	-
Investment earnings	844,998	-
Other	5,842,037	678,424
Total revenues	<u>397,264,956</u>	<u>51,170,639</u>
EXPENDITURES		
Current Operating:		
Instruction	217,657,078	31,675,015
Support services	136,103,067	18,075,525
Enterprise and Community Services	-	1,420,099
Facilities acquisition & construction	-	-
Debt Service:		
Principal	552,243	-
Interest	431,441	-
Bond issue costs	-	-
Total expenditures	<u>354,743,829</u>	<u>51,170,639</u>
Excess (deficiency) of revenues over (under) expenditures	<u>42,521,127</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	-	-
Transfers out	(16,535,425)	-
Bond proceeds	-	-
Bond advance refunding principal	-	-
Bond advance refunding interest	-	-
Proceeds from the sale of property	756,800	-
Total other financing sources (uses)	<u>(15,778,625)</u>	<u>-</u>
Net change in fund balances	26,742,502	-
Fund balances (deficit) - beginning of year	(13,551,548)	-
Fund balances - end of year	<u>\$ 13,190,954</u>	<u>\$ -</u>

The notes to the basic 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
\$ -	\$ -	\$ -	\$ 45,672,830	\$ 181,356,289
-	-	-	-	183,619,106
-	-	-	-	17,164,911
-	-	-	631,982	50,805,630
-	-	-	-	1,251,379
-	-	-	9,591,757	59,191,176
-	-	-	6,071,957	9,650,171
-	-	-	7,259,049	7,259,049
37,227	607,583	39,904	222,452	1,752,164
-	-	-	3,364,370	9,884,831
<u>37,227</u>	<u>607,583</u>	<u>39,904</u>	<u>72,814,397</u>	<u>521,934,706</u>
-	-	-	11,881,374	261,213,467
1,122,853	645,665	2,500	2,160,056	158,109,666
-	-	-	12,862,211	14,282,310
77,910	6,973,001	2,126,577	-	9,177,488
-	-	-	46,980,000	47,532,243
-	-	-	6,131,538	6,562,979
-	-	-	110,568	110,568
<u>1,200,763</u>	<u>7,618,666</u>	<u>2,129,077</u>	<u>80,125,747</u>	<u>496,988,721</u>
<u>(1,163,536)</u>	<u>(7,011,083)</u>	<u>(2,089,173)</u>	<u>(7,311,350)</u>	<u>24,945,985</u>
-	-	-	16,535,425	16,535,425
-	-	-	-	(16,535,425)
-	-	-	11,900,000	11,900,000
-	-	-	(11,325,000)	(11,325,000)
-	-	-	(517,867)	(517,867)
-	-	-	-	756,800
<u>-</u>	<u>-</u>	<u>-</u>	<u>16,592,558</u>	<u>813,933</u>
(1,163,536)	(7,011,083)	(2,089,173)	9,281,208	25,759,918
1,835,765	16,041,441	5,351,374	13,857,502	23,534,534
<u>\$ 672,229</u>	<u>\$ 9,030,358</u>	<u>\$ 3,262,201</u>	<u>\$ 23,138,710</u>	<u>\$ 49,294,452</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, 2004

Net change in fund balances - total governmental funds (page 17) \$ 25,759,918

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 depreciation in the current period of \$14,037,618 exceeded capital outlays of \$9,540,268 and a reclassification of \$6,962. (4,504,312)

Governmental funds do not report the uncollected portion of revenue from the sale of an asset in the current year if a note is issued. Revenue is recorded at the time the note payment is received. However, in the statement of activities the revenue and note receivable is recorded in the current year. 4,750,000

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. (500,274)

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. (394,216)

Revenues need to be reduced by the net book value of capital assets sold. This equates to the cost of assets sold. (13,959)

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. 47,458,163

Governmental funds reported the prepayment of the PERS unfunded actuarial liability as an other financing use in prior years. However, in the statement of activities the expense is the amortization of the prepaid asset. (546,022)

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	(95,765)
Change in bond interest payable	1,855,010

Change in net assets of governmental activities (page 13) \$ 73,768,543

The notes to the basic 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, 2004

	Internal Service
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 2,351,438
Investments	2,352,000
Accounts and other receivables	697,231
Total assets	5,400,669
 LIABILITIES	
Current Liabilities	
Accounts payable and other current liabilities	319,103
Accrued salaries, wages and benefits payable	37,197
Claims payable	4,813,872
Total liabilities	5,170,172
 NET ASSETS	
Unrestricted	230,497
Total net assets	\$ 5,400,669

The notes to the basic 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, 2004

	Internal Service
OPERATING REVENUES	
Current Operating:	
Charges for services	\$ 4,749,985
Insurance recoveries	2,051,386
Other	28,109
Total revenues	6,829,480
OPERATING EXPENSES	
Current Operating:	
Salaries and benefits	356,927
Materials and services	190,707
Claims expense	6,710,172
Total expenses	7,257,806
Operating Loss	(428,326)
NON-OPERATING REVENUES	
Investment earnings	34,110
Net loss	(394,216)
Net assets - beginning of year	624,713
Net assets - end of year	\$ 230,497

The notes to the basic 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, 2004

	Internal Service
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from quasi-external transactions with other funds	\$ 4,749,985
Cash received from insurance recoveries	1,494,923
Cash received from miscellaneous transactions	28,109
Cash payments for salaries and benefits	(346,469)
Cash payments for goods and services	(7,531,176)
Net cash used by operating activities	(1,604,628)
CASH FLOWS FROM INVESTING ACTIVITIES	
Sale of investments	2,472,000
Investment earnings	34,110
Net cash provided by investing activities	2,506,110
Net increase in cash and cash equivalents	901,482
Cash and cash equivalents at beginning of year	1,449,956
Cash and cash equivalents at end of year	\$ 2,351,438
RECONCILIATION OF OPERATING LOSS TO CASH USED BY OPERATING ACTIVITIES	
Operating loss	\$ (428,326)
Adjustment to reconcile operating loss to net cash used by operating activities:	
Increase in accounts receivable	(556,463)
Decrease in accounts payable	(398,169)
Decrease in claims payable	(232,128)
Increase in accrued salaries, and wages and benefits payable	10,458
Total adjustments	(1,176,302)
Net cash used by operating activities	\$ (1,604,628)
Non cash activities: None	

The notes to the basic 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, 2004

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, due to the insignificance of the potential component units. The District 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

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

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.

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.

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.

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
- Support Services
- Enterprise and Community Services
- Facilities Acquisition and Construction
- Debt Service
- Contingency
- 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

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

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.

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.

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

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

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:

Asset	Years
Buildings	100
Site Improvements	5 to 25
Equipment	5 to 15
Vehicles	5

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.

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

	Self-insured Retention	Excess Coverage per Occurrence
General and Automobile Liabilities	\$1,000,000	\$ 5,000,000
Property and Fire Liabilities	1,000,000	100,000,000
Earthquake and Flood Liabilities	1,000,000	10,000,000
Workers' Compensation Liabilities	1,000,000	Unlimited

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 include accrued vacation and salary related payments. The amounts expected to be liquidated with expendable available financial resources are accrued in the fund, and the amount payable is recorded in the statement of net assets.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

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 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.

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

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 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.

NOTE 3 - 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

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

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, 2004 was \$4.7743 per \$1,000 of assessed value.

NOTE 4 – 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, 2004, the carrying amount of the District's deposits was \$53,691,820 and the statement balance was \$56,197,103. Of the statement balance, \$100,000 was covered by federal depository insurance, certificates of collateral were available up to \$13,000,000, and \$34,267,067 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. 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, 2004, 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, 2004, the District's share of the amount of unrealized gain reported by the LGIP, in accordance with ORS, was considered immaterial.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

The District's investments at June 30, 2004 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.

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 U.S government agency securities for which the underlying securities were held by the dealer.

	Category 1	Carrying Value
U.S government agency securities	\$ 42,580,610	\$ 42,580,610
Cash and cash equivalents held by fiscal agents		2,425,787
Cash held in trust in Local Government Investment Pool		94,020
Local Government Investment Pool		34,173,047
Cash in segregated accounts		2,728,032
Demand accounts		16,691,843
Petty cash		4,878
Total cash, cash equivalents and investments		\$ 98,698,217
Balance sheet classification:		
Cash and cash equivalents:		
Governmental funds		\$ 51,246,362
Proprietary fund		2,351,438
Total cash and cash equivalents		53,597,800
Cash and cash equivalents held by fiscal agents:		
Governmental funds		2,425,787
Cash held in trust:		
Governmental funds		94,020
Investments:		
Governmental funds		40,228,610
Proprietary fund		2,352,000
Total Investments		42,580,610
Total cash, cash equivalents and investments		\$ 98,698,217

NOTE 5 – RECEIVABLES

Receivables as of year-end are summarized as follows:

	Fund Type					Total
	General	Special Revenue	Debt Service	Capital Projects	Internal Service	
Receivables:						
Taxes	\$ 6,067,132	\$ -	\$ 1,887,359	\$ -	\$ -	\$ 7,954,491
Interest	79,739	-	-	5,048	978	85,765
Accounts	7,015,406	1,084,782	-	587,845	696,253	9,384,286
Federal, state and local grants	-	15,008,623	-	-	-	15,008,623
Advances to employees	54,163	-	-	-	-	54,163
Accounts and other receivables	7,149,308	16,093,405	-	592,893	697,231	24,532,837
Total Receivables	\$ 13,216,440	\$ 16,093,405	\$ 1,887,359	\$ 592,893	\$ 697,231	\$ 32,487,328

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

NOTE 6 – NOTE RECEIVABLE

Effective December 15, 2004 the District sold the broadcast license and certain insignificant capital assets of the public broadcasting FM station operated by the District to a not-for-profit foundation that will continue to operate the station. The terms of the sale include a down payment of \$750,000 and principal payments as detailed below. Interest accrues on these receivables at 5% for four years and 2% over the prime rate for the next six years. The District considers these receivables to be collectable, and, accordingly, no allowance for doubtful accounts has been provided.

Principal payments are scheduled to be received in the fiscal years ending June 30:

2005	\$	100,000
2006		100,000
2007		100,000
2008		100,000
2009		375,000
2010 - 2014		<u>7,023,405</u>
Total		<u><u>\$ 7,798,405</u></u>

NOTE 7 – CAPITAL ASSETS AND DEPRECIATION

A summary of changes in capital assets for the year ended June 30, 2004, follows:

Description	Balance June 30, 2003	Additions	Reclassifications and Deletions	Balance June 30, 2004
Land (non-depreciable)	\$ 9,049,378	\$ -	\$ -	\$ 9,049,378
Buildings and site improvements	295,611,876	2,579,935	4,869,089	303,060,900
Vehicles and equipment	24,263,531	1,706,003	1,494,885	27,464,419
Construction in progress	14,764,671	5,254,330	(6,547,083)	13,471,918
Total General Fixed Assets	<u>343,689,456</u>	<u>9,540,268</u>	<u>(183,109)</u>	<u>353,046,615</u>
Accumulated depreciation:				
Buildings and site improvements	(105,728,845)	(11,406,847)	-	(117,135,692)
Vehicles and equipment	(9,344,120)	(2,630,771)	162,188	(11,812,703)
Total accumulated depreciation	<u>(115,072,965)</u>	<u>(14,037,618)</u>	<u>162,188</u>	<u>(128,948,395)</u>
Total governmental assets	<u>\$ 228,616,491</u>	<u>\$ (4,497,350)</u>	<u>\$ (20,921)</u>	<u>\$ 224,098,220</u>

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

Instruction	\$ 10,935,837
Supporting services	3,035,591
Food services	<u>66,190</u>
	<u><u>\$ 14,037,618</u></u>

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

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 higher yielding investments held by the General Fund.

The composition of interfund balances as of June 30, 2004, is as follows:

	Due From	Due To
General Fund	\$ 4,502,130	\$ 600,000
Grant Fund	-	4,502,130
Non-major governmental funds	600,000	-
Total all funds	\$ 5,102,130	\$ 5,102,130

NOTE 9 – SHORT TERM DEBT

During the year, the District borrowed and repaid \$18,000,000 from a line of credit at 1.8% to buffer the variances in cash flow due to timing in property tax collections.

NOTE 10 - BONDED AND OTHER LONG-TERM DEBT

Changes in long-term debt of the District during fiscal year 2004 were as follows:

	Principal Balance July 1, 2003	Additions	Repayments	Principal Balance June 30, 2004
General Obligation Bonds, Series 1996	\$ 65,375,000	\$ -	\$ (30,700,000)	\$ 34,675,000
Limited Tax General Obligation Refunding Bonds, Series 1998	22,200,000	-	(22,200,000)	-
Limited Tax General Obligation Refunding Bonds, Series 2002	210,103,857	-	(546,022)	209,557,835
Limited Tax General Obligation Refunding Bonds, Series 2003	281,170,040	-	-	281,170,040
Limited Tax General Obligation Refunding Bonds, Series 2004	-	11,900,000	-	11,900,000
Certificates of Participation (COP), Series 1999	28,015,000	-	(4,205,000)	23,810,000
Refunding Special Obligations, 1993 Series A	5,160,000	-	(1,200,000)	3,960,000
Small Scale Energy Loan Programs	6,194,580	-	(552,243)	5,642,337
Total General Long-term Obligations	\$ 618,218,477	\$ 11,900,000	\$ (59,403,265)	\$570,715,212

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 were payable annually through June 2003. Interest was 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.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements

For the Year Ended June 30, 2004

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.

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 2002A Obligations are not subject to optional prepayment prior to maturity. The Series 2002B Obligations maturing June 30, 2021 shall be subject to prepayment from Pension prepayments on or after June 30, 2007, and Obligations due June 30, 2028 are subject to mandatory prepayment prior to its stated maturity, in whole or part, on any June 30 on or after June 30, 2024.

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.

In fiscal year 2004 the 1998 series refunding bonds were advance refunded, with proceeds of the Limited Tax General Obligation Refunding Bonds, Series 2004. The 2004 series refunding bonds are payable annually through June 15, 2013. Interest is payable semi-annually at rates ranging from 2.190% to 5.518%. The bonds are federally taxable and are not subject to redemption prior to their stated maturities.

The 1999 series Certificates of Participation (COP) 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.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

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 financial statements. At June 30, 2004, \$13,302,228 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 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.

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:						
2005	\$34,675,000	\$ 2,142,418	\$ 4,375,000	\$1,255,000	\$ 591,819	\$ 43,039,237
2006	-	7,627,674	4,555,000	1,320,000	634,050	14,136,724
2007	-	8,022,111	4,750,000	1,385,000	679,314	14,836,425
2008	-	9,502,171	4,955,000	-	727,703	15,184,874
2009	-	9,711,957	5,175,000	-	779,824	15,666,781
2010-2014	-	58,522,095	-	-	2,229,627	60,751,722
2015-2019	-	59,276,850	-	-	-	59,276,850
2020-2024	-	131,537,599	-	-	-	131,537,599
2025-2029	-	216,285,000	-	-	-	216,285,000
Total	34,675,000	502,627,875	23,810,000	3,960,000	5,642,337	570,715,212
Interest:						
2005	1,907,125	18,170,487	1,071,483	198,000	368,565	21,715,660
2006	-	18,654,643	889,920	135,250	326,334	20,006,147
2007	-	19,054,769	696,333	69,250	281,070	20,101,422
2008	-	19,770,328	489,708	-	232,681	20,492,717
2009	-	20,428,155	271,688	-	180,560	20,880,403
2010-2014	-	120,222,496	-	-	246,986	120,469,482
2015-2019	-	164,569,762	-	-	-	164,569,762
2020-2024	-	156,541,194	-	-	-	156,541,194
2025-2029	-	28,842,927	-	-	-	28,842,927
Interest Total	1,907,125	566,254,761	3,419,132	402,500	1,636,196	573,619,714
Total Debt Service	\$36,582,125	\$ 1,068,882,636	\$27,229,132	\$4,362,500	\$7,278,533	\$1,144,334,926

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, 2004 was approximately \$11.6 million.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

NOTE 12 – INTERFUND TRANSFERS

The District made transfers from the General Fund of \$6,891,209 to Debt Service Funds to fund bond payment; \$9,500,000 to the PERS Rate Stabilization Fund to use for stabilization of fluctuations in PERS rates, and; \$124,312 to the Student Body Fund and \$19,904 to the Cafeteria Fund to disburse vending machines commissions.

The composition of interfund transfers as of June 30, 2004, is as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ -	\$ 16,535,425
Non-major governmental funds	<u>16,535,425</u>	<u>-</u>
Total all funds	<u>\$ 16,535,425</u>	<u>\$ 16,535,425</u>

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. Public Employees Retirement System (PERS)

Plan Description. The District contributes to two pension plans administered by the Oregon Public Employees Retirement System (PERS). The Oregon Public Employees Retirement Fund (OPERF) applies to the District's contribution for qualifying employees who were hired before August 29, 2003, and is a cost-sharing multiple-employer defined benefit pension plan. The Oregon Public Service Retirement Plan (OPSRP) is a hybrid successor plan to the OPERF and consists of two programs: The Pension Program, the defined benefit portion of the plan, applies to qualifying District employees hired after August 29, 2003, and to inactive employees who return to employment following a six-month or greater break in service. The Individual Account Program (IAP), the defined contribution portion of the plan, applies to all employees' contributions. Both PERS plans provide 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.

Funding Policy. Members of PERS are required to contribute 6.00% of their salary covered under the plan, which is invested in the OPSRP Individual Account Program. The District is required by ORS 238.225 to contribute at an actuarially determined rate for the qualifying employees under the OPERF plan, and a general service rate for the qualifying employees under the OPSRP plan. The OPERF and the OPSRP rates in effect for the year ended June 30, 2004 were .64% and 8.04% respectively. 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, 2001, 2002, and 2003 were \$32,449,905, \$29,155,710 and \$20,433,361 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.

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

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 2004 the General Fund incurred expenditures of \$4,096,633 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 14 - 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 2004 the General Fund recognized expenditures of \$3,257,086 for the post-employment healthcare benefits.

NOTE 15 - 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.

The Self-Insurance Fund recognized the following amounts of revenues from other funds for the year ended June 30, 2004.

General Fund	\$ 4,042,564
Cafeteria Fund	89,574
Grant Fund	511,632
Special Revenue Funds	73,367
BESC Cafeteria Fund	5,913
System Project Fund	5,833
Facilities Improvement/Technology Fund	21,102
Total	<u><u>\$ 4,749,985</u></u>

Changes in the balances of claims liabilities during the years ended June 30, 2000 through June 30, 2004 were as follows:

Year	Balance	Additions	Reductions	Balance
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
2004	5,046,000	6,710,172	6,942,300	4,813,872

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

NOTE 16 – COMMITMENTS AND CONTINGENCIES

- 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, 2004 total \$5,512,203. In addition, the District has a contract for custodial services extending through July 14, 2005 that will require a minimum payment of \$9,712,586 after June 30, 2004.
- Additionally, the District has a contract to provide duplication services to various District facilities which will require minimum payments of \$1,279,087, \$1,279,087, \$1,279,087 and \$1,279,087 in the years ending June 30, 2005, 2006, 2007 and 2008, respectively.
- The 2003 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.

The legality of these changes is currently under review by the Oregon Supreme Court, as provided by HB 2409. If the Court overturns some or all of these new laws, the District could be exposed to substantial financial impact. To mitigate, although not alleviate, this exposure, the Board has allocated an additional \$8 million from the General Fund to the PERS Rate Stabilization Reserve Fund for the year ending June 30, 2005.

NOTE 17 - REVENUE VOLATILITY

State Revenue Adjustments

In a special session in June 2002, the Oregon Legislature, in response to an 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 upcoming fiscal year appropriation to the current 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.

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

The District, in its budgetary accounts, reduced its recorded revenue from the State School Fund by \$17.1 million in the year ended June 30, 2004 because it reversed a receivable in that amount recorded in the previous year. This transaction has no applicability to the financial statements prepared on the basis of generally accepted accounting principles.

Note 18 – 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 a percentage of the State's allocation to these schools for each student enrolled in them. This allocation is 80% for elementary and middle schools and 95% for high schools of the general purpose grant per ADMw, as calculated by ODE, to the charter schools. Under the requirements of the Governmental Accounting Standards Board (GASB), such

School District No. 1, Multnomah County, Oregon

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

schools are component units of the District. These charter schools are not reported 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 and expenses of the District. Financial information on the charter schools can be obtained by contacting the Office of Educational Options at Portland Public Schools.

The School District No. 1 Health and Welfare Trust (the Trust") provides 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). 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 Statements 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.

REQUIRED SUPPLEMENTARY INFORMATION

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
General Fund

**Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual**
For the year ended June 30, 2004

	<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	\$ 136,093,501	\$ 130,909,747	\$ 135,683,459	\$ 4,773,712
State School Fund	162,983,148	162,983,148	166,519,106	3,535,958
Local option taxes	17,067,552	22,251,306	17,164,911	(5,086,395)
County and intermediate sources	63,746,510	63,746,510	49,280,852	(14,465,658)
State Common School Fund	1,170,000	1,170,000	1,251,379	81,379
Charges for services	2,808,500	2,808,500	3,578,214	769,714
Investment earnings	800,000	800,000	844,998	44,998
Other	5,905,071	5,905,071	5,842,037	(63,034)
Total revenues	<u>390,574,282</u>	<u>390,574,282</u>	<u>380,164,956</u>	<u>(10,409,326)</u>
EXPENDITURES				
Current operating:				
Instruction:				
Regular programs:				
Salaries and benefits	162,616,300	159,698,329	152,970,161	6,728,168
Materials and services	6,002,428	6,476,021	5,458,344	1,017,677
Total regular programs	<u>168,618,728</u>	<u>166,174,350</u>	<u>158,428,505</u>	<u>7,745,845</u>
Special programs:				
Salaries and benefits	50,152,438	47,160,985	46,859,664	301,321
Materials and services	13,389,631	13,329,462	12,368,909	960,553
Total special programs	<u>63,542,069</u>	<u>60,490,447</u>	<u>59,228,573</u>	<u>1,261,874</u>
Total instruction	<u>232,160,797</u>	<u>226,664,797</u>	<u>217,657,078</u>	<u>9,007,719</u>
Support services:				
Students:				
Salaries and benefits	31,339,562	30,175,733	29,215,061	960,672
Materials and services	2,654,896	2,721,347	1,177,282	1,544,065
Total students	<u>33,994,458</u>	<u>32,897,080</u>	<u>30,392,343</u>	<u>2,504,737</u>
Instructional staff:				
Salaries and benefits	9,814,622	9,392,902	9,161,817	231,085
Materials and services	2,110,353	2,536,594	1,429,328	1,107,266
Total instructional staff	<u>11,924,975</u>	<u>11,929,496</u>	<u>10,591,145</u>	<u>1,338,351</u>
General administration:				
Salaries and benefits	1,695,927	1,855,351	1,612,942	242,409
Materials and services	1,219,728	1,380,190	2,713,046	(1,332,856)
Total general administration	<u>2,915,655</u>	<u>3,235,541</u>	<u>4,325,988</u>	<u>(1,090,447)</u>
School administration:				
Salaries and benefits	27,214,870	26,300,081	25,240,649	1,059,432
Materials and services	569,899	225,085	121,193	103,892
Total school administration	<u>27,784,769</u>	<u>26,525,166</u>	<u>25,361,842</u>	<u>1,163,324</u>

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
General Fund (Continued)
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Support services (continued):				
Business:				
Salaries and benefits	17,842,425	17,229,974	16,616,373	613,601
Materials and services	36,005,692	36,178,348	34,343,589	1,834,759
Total business	<u>53,848,117</u>	<u>53,408,322</u>	<u>50,959,962</u>	<u>2,448,360</u>
Central:				
Salaries and benefits	10,399,313	9,726,866	8,556,933	1,169,933
Materials and services	3,398,750	4,039,566	4,971,463	(931,897)
Total central	<u>13,798,063</u>	<u>13,766,432</u>	<u>13,528,396</u>	<u>238,036</u>
Facilities acquisition & construction:				
Materials and services	-	-	943,391	(943,391)
Total facilities acquisition & construction	<u>-</u>	<u>-</u>	<u>943,391</u>	<u>(943,391)</u>
Total support services	<u>144,266,037</u>	<u>141,762,037</u>	<u>136,103,067</u>	<u>5,658,970</u>
Other expenditures:				
Debt Service				
Principal	960,384	552,243	552,243	-
Interest	275,000	683,141	431,441	251,700
Total debt service	<u>1,235,384</u>	<u>1,235,384</u>	<u>983,684</u>	<u>251,700</u>
Total current expenditures	<u>377,662,218</u>	<u>369,662,218</u>	<u>354,743,829</u>	<u>14,918,389</u>
Operating contingency	<u>7,000,000</u>	<u>7,000,000</u>	<u>-</u>	<u>7,000,000</u>
Total expenditures	<u>384,662,218</u>	<u>376,662,218</u>	<u>354,743,829</u>	<u>21,918,389</u>
Excess of revenues over expenditures	<u>5,912,064</u>	<u>13,912,064</u>	<u>25,421,127</u>	<u>11,509,063</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(8,612,064)</u>	<u>(16,612,064)</u>	<u>(16,535,425)</u>	<u>76,639</u>
Proceeds from the sale of property	-	-	756,800	756,800
Total other financing sources and (uses)	<u>(8,612,064)</u>	<u>(16,612,064)</u>	<u>(15,778,625)</u>	<u>833,439</u>
Net change in fund balance	<u>(2,700,000)</u>	<u>(2,700,000)</u>	<u>9,642,502</u>	<u>12,342,502</u>
Fund balance - beginning of year	<u>2,700,000</u>	<u>2,700,000</u>	<u>3,548,452</u>	<u>848,452</u>
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,190,954</u>	<u>\$ 13,190,954</u>

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, 2004

	<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	\$ 5,004,744	\$ 772,407	\$ 892,796	\$ 120,389
Federal and state support	45,088,181	54,350,975	49,599,419	(4,751,556)
Other	740,833	710,380	678,424	(31,956)
Total revenues	<u>50,833,758</u>	<u>55,833,762</u>	<u>51,170,639</u>	<u>(4,663,123)</u>
EXPENDITURES				
Current Operating:				
Instruction:				
Regular programs:				
Salaries and benefits	5,591,524	5,381,681	4,650,142	731,539
Materials and services	1,305,996	1,990,105	1,912,114	77,991
Total regular programs	<u>6,897,520</u>	<u>7,371,786</u>	<u>6,562,256</u>	<u>809,530</u>
Special programs:				
Salaries and benefits	22,612,064	22,336,624	20,159,646	2,176,978
Materials and services	3,136,812	5,410,478	4,894,156	516,322
Total special programs	<u>25,748,876</u>	<u>27,747,102</u>	<u>25,053,802</u>	<u>2,693,300</u>
Summer school programs:				
Salaries and benefits	-	7,421	36,627	(29,206)
Materials and services	-	20,091	22,330	(2,239)
Total summer school programs	<u>-</u>	<u>27,512</u>	<u>58,957</u>	<u>(31,445)</u>
Total instruction	<u>32,646,396</u>	<u>35,146,400</u>	<u>31,675,015</u>	<u>3,471,385</u>
Support Services:				
Students:				
Salaries and benefits	4,069,283	3,803,527	3,311,420	492,107
Materials and services	2,069,248	1,751,518	2,052,646	(301,128)
Total students	<u>6,138,531</u>	<u>5,555,045</u>	<u>5,364,066</u>	<u>190,979</u>
Instructional staff:				
Salaries and benefits	5,874,609	8,527,234	6,252,245	2,274,989
Materials and services	2,992,095	1,520,686	3,156,573	(1,635,887)
Total instructional staff	<u>8,866,704</u>	<u>10,047,920</u>	<u>9,408,818</u>	<u>639,102</u>
School administration:				
Salaries and benefits	176,165	921,692	645,868	275,824
Materials and services	140,003	84,913	459,163	(374,250)
Total school administration	<u>316,168</u>	<u>1,006,605</u>	<u>1,105,031</u>	<u>(98,426)</u>
Business:				
Salaries and benefits	23,222	79,784	70,809	8,975
Materials and services	57,869	118,538	110,659	7,879
Total business	<u>81,091</u>	<u>198,322</u>	<u>181,468</u>	<u>16,854</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, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Support Services (continued):				
Central:				
Salaries and benefits	366,273	1,582,495	756,204	826,291
Materials and services	1,179,371	557,751	1,259,938	(702,187)
Total central	1,545,644	2,140,246	2,016,142	124,104
Total support services	16,948,138	18,948,138	18,075,525	872,613
Enterprise and Community Services:				
Food Services:				
Materials and services	219,445	351,480	294,235	57,245
Total food services	219,445	351,480	294,235	57,245
Community Services:				
Salaries and benefits	932,280	1,344,924	885,785	459,139
Materials and services	87,499	42,820	240,079	(197,259)
Total community services	1,019,779	1,387,744	1,125,864	261,880
Total enterprise and community services:	1,239,224	1,739,224	1,420,099	319,125
Total current expenditures	50,833,758	55,833,762	51,170,639	4,663,123
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 and 2004 limited tax general obligation refunding bonds. 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, 2004

	Total Nonmajor Special Revenue Funds	Total Nonmajor Debt Service Funds	Total
ASSETS			
Cash and cash equivalents	\$ 19,939,125	\$ 33,900	\$ 19,973,025
Cash and cash equivalents with fiscal agents	-	412,394	412,394
Investments	-	1,581,615	1,581,615
Accounts and other receivables	1,868,069	-	1,868,069
Property and other taxes receivable	-	1,887,359	1,887,359
Due from other funds	600,000	-	600,000
Inventories	632,464	-	632,464
Total assets	<u>\$ 23,039,658</u>	<u>\$ 3,915,268</u>	<u>\$ 26,954,926</u>
LIABILITIES			
Accounts payable and other current liabilities	\$ 523,371	\$ 13,335	\$ 536,706
Accrued salaries, wages and benefits payable	1,634,022	-	1,634,022
Deferred revenues	-	1,645,488	1,645,488
Total liabilities	<u>2,157,393</u>	<u>1,658,823</u>	<u>3,816,216</u>
FUND BALANCES			
Unreserved	<u>20,882,265</u>	<u>2,256,445</u>	<u>23,138,710</u>
Total liabilities and fund balances	<u>\$ 23,039,658</u>	<u>\$ 3,915,268</u>	<u>\$ 26,954,926</u>

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Nonmajor Special Revenue Funds
Combining Balance Sheet
June 30, 2004

	Student Body Activities Fund	Cafeteria Fund	PERS Rate Stabilization Reserve Fund	Special Revenue Funds	BESC Cafeteria Fund	Total
ASSETS						
Cash and cash equivalents	\$ 2,728,032	\$ 799,266	\$ 11,300,000	\$ 5,085,068	\$ 26,759	\$ 19,939,125
Accounts and other receivables	89,726	984,512	-	783,288	10,543	1,868,069
Due from other funds	600,000	-	-	-	-	600,000
Inventories	-	612,963	-	-	19,501	632,464
Total assets	<u>\$ 3,417,758</u>	<u>\$ 2,396,741</u>	<u>\$ 11,300,000</u>	<u>\$ 5,868,356</u>	<u>\$ 56,803</u>	<u>\$ 23,039,658</u>
LIABILITIES						
Accounts payable and other current liabilities	\$ 161,825	\$ 240,554	\$ -	\$ 107,927	\$ 13,065	\$ 523,371
Accrued salaries, wages and benefits payable	-	654,012	-	941,094	38,916	1,634,022
Total liabilities	<u>161,825</u>	<u>894,566</u>	<u>-</u>	<u>1,049,021</u>	<u>51,981</u>	<u>2,157,393</u>
FUND BALANCES						
Unreserved	<u>3,255,933</u>	<u>1,502,175</u>	<u>11,300,000</u>	<u>4,819,335</u>	<u>4,822</u>	<u>20,882,265</u>
Total liabilities and fund balances	<u>\$ 3,417,758</u>	<u>\$ 2,396,741</u>	<u>\$ 11,300,000</u>	<u>\$ 5,868,356</u>	<u>\$ 56,803</u>	<u>\$ 23,039,658</u>

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
Nonmajor Debt Service Funds
Combining Balance Sheet
June 30, 2004

	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	\$ -	\$ -	\$ 33,900	\$ -	\$ 33,900
Cash and cash equivalents with fiscal agents	-	-	107,925	304,469	412,394
Investments	-	-	88,128	1,493,487	1,581,615
Property and other taxes receivable	-	-	72,341	1,815,018	1,887,359
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 302,294</u>	<u>\$ 3,612,974</u>	<u>\$ 3,915,268</u>
LIABILITIES					
Accounts payable and other current liabilities	\$ -	\$ -	\$ 13,335	\$ -	\$ 13,335
Deferred revenues	-	-	-	1,645,488	1,645,488
Total liabilities	<u>-</u>	<u>-</u>	<u>13,335</u>	<u>1,645,488</u>	<u>1,658,823</u>
FUND BALANCES					
Unreserved	-	-	288,959	1,967,486	2,256,445
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 302,294</u>	<u>\$ 3,612,974</u>	<u>\$ 3,915,268</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, 2004

	Total Nonmajor Special Revenue Funds	Total Nonmajor Debt Service Funds	Total
REVENUES			
Property and other taxes	\$ -	\$ 45,672,830	\$ 45,672,830
Federal and state support	9,591,757	-	9,591,757
County and Intermediate sources	631,982	-	631,982
Charges for services	6,071,957	-	6,071,957
Extracurricular activities	7,259,049	-	7,259,049
Investment earnings	-	222,452	222,452
Other	3,364,370	-	3,364,370
Total revenues	<u>26,919,115</u>	<u>45,895,282</u>	<u>72,814,397</u>
EXPENDITURES			
Current Operating:			
Instruction			
Regular programs	10,299,398	-	10,299,398
Special programs	1,307,392	-	1,307,392
Summer school programs	274,584	-	274,584
Total instruction	<u>11,881,374</u>	<u>-</u>	<u>11,881,374</u>
Support services:			
Students	378,031	-	378,031
Instructional staff	848,343	-	848,343
General administration	14,050	-	14,050
School administration	459,418	-	459,418
Business	434,625	-	434,625
Central	25,589	-	25,589
Total support services	<u>2,160,056</u>	<u>-</u>	<u>2,160,056</u>
Enterprise and community services:			
Food services	12,848,383	-	12,848,383
Community services	13,828	-	13,828
Total enterprise and community services	<u>12,862,211</u>	<u>-</u>	<u>12,862,211</u>
Debt Service:			
Principal	-	46,980,000	46,980,000
Interest and fiscal charges	-	6,131,538	6,131,538
Bond issuance cost	-	110,568	110,568
Total debt service	<u>-</u>	<u>53,222,106</u>	<u>53,222,106</u>
Total current expenditures	<u>26,903,641</u>	<u>53,222,106</u>	<u>80,125,747</u>
Excess (deficiency) of revenues over (under) expenditures	<u>15,474</u>	<u>(7,326,824)</u>	<u>(7,311,350)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	9,644,216	6,891,209	16,535,425
Bond proceeds	-	11,900,000	11,900,000
Bond advance refunding principal	-	(11,325,000)	(11,325,000)
Bond advance refunding interest	-	(517,867)	(517,867)
Total other financing sources (uses)	<u>9,644,216</u>	<u>6,948,342</u>	<u>16,592,558</u>
Net change in fund balances	9,659,690	(378,482)	9,281,208
Fund balances - beginning of year	11,222,575	2,634,927	13,857,502
Fund balances - end of year	<u>\$ 20,882,265</u>	<u>\$ 2,256,445</u>	<u>\$ 23,138,710</u>

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, 2004

	Student Body Activities Fund	Cafeteria Fund	PERS Rate Stabilization Reserve Fund	Special Revenue Fund	BESC Cafeteria Fund	Total
REVENUES						
Federal and state support	\$ -	\$ 9,562,982	\$ -	\$ 28,775	\$ -	\$ 9,591,757
County and Intermediate sources	-	-	-	631,982	-	631,982
Charges for services	-	3,421,964	-	2,109,816	540,177	6,071,957
Extracurricular activities	7,259,049	-	-	-	-	7,259,049
Other	-	29,194	-	3,335,176	-	3,364,370
Total revenues	<u>7,259,049</u>	<u>13,014,140</u>	<u>-</u>	<u>6,105,749</u>	<u>540,177</u>	<u>26,919,115</u>
EXPENDITURES						
Current operating:						
Instruction						
Regular programs	7,380,361	-	-	2,919,037	-	10,299,398
Special programs	-	-	-	1,307,392	-	1,307,392
Summer school programs	-	-	-	274,584	-	274,584
Total instruction	<u>7,380,361</u>	<u>-</u>	<u>-</u>	<u>4,501,013</u>	<u>-</u>	<u>11,881,374</u>
Support services:						
Students	-	-	-	378,031	-	378,031
Instructional staff	-	-	-	848,343	-	848,343
General administration	-	-	-	14,050	-	14,050
School administration	-	-	-	459,418	-	459,418
Business	-	-	-	434,625	-	434,625
Central	-	-	-	25,589	-	25,589
Total support services	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,160,056</u>	<u>-</u>	<u>2,160,056</u>
Enterprise and community services:						
Food services	-	12,303,329	-	-	545,054	12,848,383
Community services	-	-	-	13,828	-	13,828
Total enterprise and community services	<u>-</u>	<u>12,303,329</u>	<u>-</u>	<u>13,828</u>	<u>545,054</u>	<u>12,862,211</u>
Total current expenditures	<u>7,380,361</u>	<u>12,303,329</u>	<u>-</u>	<u>6,674,897</u>	<u>545,054</u>	<u>26,903,641</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(121,312)</u>	<u>710,811</u>	<u>-</u>	<u>(569,148)</u>	<u>(4,877)</u>	<u>15,474</u>
OTHER FINANCING SOURCES						
Transfers in	124,312	19,904	9,500,000	-	-	9,644,216
Total other financing sources	<u>124,312</u>	<u>19,904</u>	<u>9,500,000</u>	<u>-</u>	<u>-</u>	<u>9,644,216</u>
Net change in fund balances	3,000	730,715	9,500,000	(569,148)	(4,877)	9,659,690
Fund balances - beginning of year	3,252,933	771,460	1,800,000	5,388,483	9,699	11,222,575
Fund balances - end of year	<u>\$ 3,255,933</u>	<u>\$ 1,502,175</u>	<u>\$ 11,300,000</u>	<u>\$ 4,819,335</u>	<u>\$ 4,822</u>	<u>\$ 20,882,265</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, 2004

	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	\$ -	\$ -	\$ 11,832,046	\$ 33,840,784	\$ 45,672,830
Investment earnings	-	-	53,382	169,070	222,452
Total revenues	<u>-</u>	<u>-</u>	<u>11,885,428</u>	<u>34,009,854</u>	<u>45,895,282</u>
EXPENDITURES					
Debt Service:					
Principal	4,205,000	1,200,000	10,875,000	30,700,000	46,980,000
Interest and fiscal charges	1,239,682	253,200	1,196,531	3,442,125	6,131,538
Bond issuance costs	-	-	110,568	-	110,568
Total expenditures	<u>5,444,682</u>	<u>1,453,200</u>	<u>12,182,099</u>	<u>34,142,125</u>	<u>53,222,106</u>
Excess of expenditures over revenues	<u>(5,444,682)</u>	<u>(1,453,200)</u>	<u>(296,671)</u>	<u>(132,271)</u>	<u>(7,326,824)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	5,438,009	1,453,200	-	-	6,891,209
Bond proceeds	-	-	11,900,000	-	11,900,000
Bond advance refunding principal	-	-	(11,325,000)	-	(11,325,000)
Bond advance refunding interest	-	-	(517,867)	-	(517,867)
Total other financing sources (uses)	<u>5,438,009</u>	<u>1,453,200</u>	<u>57,133</u>	<u>-</u>	<u>6,948,342</u>
Net change in fund balances	(6,673)	-	(239,538)	(132,271)	(378,482)
Fund balances - beginning of year	6,673	-	528,497	2,099,757	2,634,927
Fund balances - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 288,959</u>	<u>\$ 1,967,486</u>	<u>\$ 2,256,445</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**
For the year ended June 30, 2004

	<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	\$ 136,093,501	\$ 130,909,747	\$ 135,683,459	\$ 4,773,712
State School Fund	162,983,148	162,983,148	166,519,106	3,535,958
Local option taxes	17,067,552	22,251,306	17,164,911	(5,086,395)
County and intermediate sources	63,746,510	63,746,510	49,280,852	(14,465,658)
State Common School Fund	1,170,000	1,170,000	1,251,379	81,379
Charges for services	2,808,500	2,808,500	3,578,214	769,714
Investment earnings	800,000	800,000	844,998	44,998
Other	5,905,071	5,905,071	5,842,037	(63,034)
Total revenues	<u>390,574,282</u>	<u>390,574,282</u>	<u>380,164,956</u>	<u>(10,409,326)</u>
EXPENDITURES				
Current Operating:				
Instruction:				
Regular programs:				
Salaries and benefits	162,616,300	159,698,329	152,970,161	6,728,168
Materials and services	6,002,428	6,476,021	5,458,344	1,017,677
Total regular programs	<u>168,618,728</u>	<u>166,174,350</u>	<u>158,428,505</u>	<u>7,745,845</u>
Special programs:				
Salaries and benefits	50,152,438	47,160,985	46,859,664	301,321
Materials and services	13,389,631	13,329,462	12,368,909	960,553
Total special programs	<u>63,542,069</u>	<u>60,490,447</u>	<u>59,228,573</u>	<u>1,261,874</u>
Total instruction	<u>232,160,797</u>	<u>226,664,797</u>	<u>217,657,078</u>	<u>9,007,719</u>
Support services:				
Students:				
Salaries and benefits	31,339,562	30,175,733	29,215,061	960,672
Materials and services	2,654,896	2,721,347	1,177,282	1,544,065
Total students	<u>33,994,458</u>	<u>32,897,080</u>	<u>30,392,343</u>	<u>2,504,737</u>
Instructional staff:				
Salaries and benefits	9,814,622	9,392,902	9,161,817	231,085
Materials and services	2,110,353	2,536,594	1,429,328	1,107,266
Total instructional staff	<u>11,924,975</u>	<u>11,929,496</u>	<u>10,591,145</u>	<u>1,338,351</u>
General administration:				
Salaries and benefits	1,695,927	1,855,351	1,612,942	242,409
Materials and services	1,219,728	1,380,190	2,713,046	(1,332,856)
Total general administration	<u>2,915,655</u>	<u>3,235,541</u>	<u>4,325,988</u>	<u>(1,090,447)</u>
School administration:				
Salaries and benefits	27,214,870	26,300,081	25,240,649	1,059,432
Materials and services	569,899	225,085	121,193	103,892
Total school administration	<u>27,784,769</u>	<u>26,525,166</u>	<u>25,361,842</u>	<u>1,163,324</u>

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY, OREGON
General Fund (Continued)
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the year ended June 30, 2004

	<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>		
Support services (continued):				
Business:				
Salaries and benefits	17,842,425	17,229,974	16,616,373	613,601
Materials and services	36,005,692	36,178,348	34,343,589	1,834,759
Total business	<u>53,848,117</u>	<u>53,408,322</u>	<u>50,959,962</u>	<u>2,448,360</u>
Central:				
Salaries and benefits	10,399,313	9,726,866	8,556,933	1,169,933
Materials and services	3,398,750	4,039,566	4,971,463	(931,897)
Total central	<u>13,798,063</u>	<u>13,766,432</u>	<u>13,528,396</u>	<u>238,036</u>
Facilities acquisition & construction:				
Materials and services	-	-	943,391	(943,391)
Total facilities acquisition & construction	<u>-</u>	<u>-</u>	<u>943,391</u>	<u>(943,391)</u>
Total support services	<u>144,266,037</u>	<u>141,762,037</u>	<u>136,103,067</u>	<u>5,658,970</u>
Other expenditures:				
Debt Service				
Principal	960,384	552,243	552,243	-
Interest	275,000	683,141	431,441	251,700
Total debt service	<u>1,235,384</u>	<u>1,235,384</u>	<u>983,684</u>	<u>251,700</u>
Total current expenditures	<u>377,662,218</u>	<u>369,662,218</u>	<u>354,743,829</u>	<u>14,918,389</u>
Operating contingency	<u>7,000,000</u>	<u>7,000,000</u>	<u>-</u>	<u>7,000,000</u>
Total expenditures	<u>384,662,218</u>	<u>376,662,218</u>	<u>354,743,829</u>	<u>21,918,389</u>
Excess of revenues over expenditures	<u>5,912,064</u>	<u>13,912,064</u>	<u>25,421,127</u>	<u>11,509,063</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(8,612,064)</u>	<u>(16,612,064)</u>	<u>(16,535,425)</u>	<u>76,639</u>
Proceeds from the sale of property	<u>-</u>	<u>-</u>	<u>756,800</u>	<u>756,800</u>
Total other financing sources and (uses)	<u>(8,612,064)</u>	<u>(16,612,064)</u>	<u>(15,778,625)</u>	<u>833,439</u>
Net change in fund balance	<u>(2,700,000)</u>	<u>(2,700,000)</u>	<u>9,642,502</u>	<u>12,342,502</u>
Fund balance - beginning of year	<u>2,700,000</u>	<u>2,700,000</u>	<u>3,548,452</u>	<u>848,452</u>
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,190,954</u>	<u>\$ 13,190,954</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, 2004

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Extracurricular activities	\$ 7,500,000	\$ 7,500,000	\$ 7,259,049	\$ (240,951)
EXPENDITURES				
Current Operating:				
Instruction:				
Regular programs				
Materials and services	8,186,681	8,186,681	7,380,361	806,320
Excess of expenditures over revenues	(686,681)	(686,681)	(121,312)	565,369
OTHER FINANCING SOURCES				
Transfers in	186,681	186,681	124,312	(62,369)
Net change in fund balance	(500,000)	(500,000)	3,000	503,000
Fund balance - beginning of year	3,500,000	3,500,000	3,252,933	(247,067)
Fund balance - end of year	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>	<u>\$ 3,255,933</u>	<u>\$ 255,933</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, 2004

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Charges for services	\$ 4,353,302	\$ 4,353,302	\$ 3,421,964	\$ (931,338)
Federal and state support	10,067,920	10,067,920	9,562,982	(504,938)
Other	-	-	29,194	29,194
Total revenues	<u>14,421,222</u>	<u>14,421,222</u>	<u>13,014,140</u>	<u>(1,407,082)</u>
EXPENDITURES				
Current Operating:				
Enterprise and Community Services:				
Food services:				
Salaries and benefits	7,183,946	7,236,780	6,495,539	741,241
Materials and services	<u>6,992,874</u>	<u>6,940,040</u>	<u>5,807,790</u>	<u>1,132,250</u>
Total food services	<u>14,176,820</u>	<u>14,176,820</u>	<u>12,303,329</u>	<u>1,873,491</u>
Excess of revenues over expenditures	244,402	244,402	710,811	466,409
OTHER FINANCING SOURCES				
Transfers in	<u>27,500</u>	<u>27,500</u>	<u>19,904</u>	<u>(7,596)</u>
Net change in fund balance	271,902	271,902	730,715	458,813
Fund balance - beginning of year	<u>200,000</u>	<u>200,000</u>	<u>771,460</u>	<u>571,460</u>
Fund balance - end of year	<u><u>\$ 471,902</u></u>	<u><u>\$ 471,902</u></u>	<u><u>\$ 1,502,175</u></u>	<u><u>\$ 1,030,273</u></u>

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, 2004

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
County and Intermediate sources	\$ 5,004,744	\$ 772,407	\$ 892,796	\$ 120,389
Federal and state support	45,088,181	54,350,975	49,599,419	(4,751,556)
Other	740,833	710,380	678,424	(31,956)
Total revenues	<u>50,833,758</u>	<u>55,833,762</u>	<u>51,170,639</u>	<u>(4,663,123)</u>
EXPENDITURES				
Current Operating:				
Instruction:				
Regular programs:				
Salaries and benefits	5,591,524	5,381,681	4,650,142	731,539
Materials and services	1,305,996	1,990,105	1,912,114	77,991
Total regular programs	<u>6,897,520</u>	<u>7,371,786</u>	<u>6,562,256</u>	<u>809,530</u>
Special programs:				
Salaries and benefits	22,612,064	22,336,624	20,159,646	2,176,978
Materials and services	3,136,812	5,410,478	4,894,156	516,322
Total special programs	<u>25,748,876</u>	<u>27,747,102</u>	<u>25,053,802</u>	<u>2,693,300</u>
Summer school programs:				
Salaries and benefits	-	7,421	36,627	(29,206)
Materials and services	-	20,091	22,330	(2,239)
Total summer school programs	<u>-</u>	<u>27,512</u>	<u>58,957</u>	<u>(31,445)</u>
Total instruction	<u>32,646,396</u>	<u>35,146,400</u>	<u>31,675,015</u>	<u>3,471,385</u>
Support Services:				
Students:				
Salaries and benefits	4,069,283	3,803,527	3,311,420	492,107
Materials and services	2,069,248	1,751,518	2,052,646	(301,128)
Total students	<u>6,138,531</u>	<u>5,555,045</u>	<u>5,364,066</u>	<u>190,979</u>
Instructional staff:				
Salaries and benefits	5,874,609	8,527,234	6,252,245	2,274,989
Materials and services	2,992,095	1,520,686	3,156,573	(1,635,887)
Total instructional staff	<u>8,866,704</u>	<u>10,047,920</u>	<u>9,408,818</u>	<u>639,102</u>
School administration:				
Salaries and benefits	176,165	921,692	645,868	275,824
Materials and services	140,003	84,913	459,163	(374,250)
Total school administration	<u>316,168</u>	<u>1,006,605</u>	<u>1,105,031</u>	<u>(98,426)</u>
Business:				
Salaries and benefits	23,222	79,784	70,809	8,975
Materials and services	57,869	118,538	110,659	7,879
Total business	<u>81,091</u>	<u>198,322</u>	<u>181,468</u>	<u>16,854</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, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Support Services (continued):				
Central:				
Salaries and benefits	366,273	1,582,495	756,204	826,291
Materials and services	1,179,371	557,751	1,259,938	(702,187)
Total central	1,545,644	2,140,246	2,016,142	124,104
Total support services	16,948,138	18,948,138	18,075,525	872,613
Enterprise and Community Services:				
Food Services:				
Materials and services	219,445	351,480	294,235	57,245
Total food services	219,445	351,480	294,235	57,245
Community Services:				
Salaries and benefits	932,280	1,344,924	885,785	459,139
Materials and services	87,499	42,820	240,079	(197,259)
Total community services	1,019,779	1,387,744	1,125,864	261,880
Total enterprise and community services:	1,239,224	1,739,224	1,420,099	319,125
Total current expenditures	50,833,758	55,833,762	51,170,639	4,663,123
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, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
OTHER FINANCING SOURCES				
Transfers in	\$ 1,500,000	\$ 9,500,000	\$ 9,500,000	\$ -
Net change in fund balance	1,500,000	9,500,000	9,500,000	-
Fund balance - beginning of year	1,800,000	1,800,000	1,800,000	-
Fund balance - end of year	<u>\$ 3,300,000</u>	<u>\$ 11,300,000</u>	<u>\$ 11,300,000</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, 2004

	<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	\$ 1,434,956	\$ 1,440,056	\$ 631,982	\$ (808,074)
Federal and state support	282,350	282,350	28,775	(253,575)
Charges for services	1,828,406	1,828,406	2,109,816	281,410
Other	2,734,188	2,729,088	3,335,176	606,088
Total revenues	<u>6,279,900</u>	<u>6,279,900</u>	<u>6,105,749</u>	<u>(174,151)</u>
EXPENDITURES				
Current Operating:				
Instruction:				
Regular programs:				
Salaries and benefits	3,171,748	3,063,307	2,527,305	536,002
Materials and services	710,913	819,354	391,732	427,622
Total regular programs	<u>3,882,661</u>	<u>3,882,661</u>	<u>2,919,037</u>	<u>963,624</u>
Special programs:				
Salaries and benefits	1,396,407	2,090,927	1,203,742	887,185
Materials and services	1,151,596	457,076	103,650	353,426
Total special programs	<u>2,548,003</u>	<u>2,548,003</u>	<u>1,307,392</u>	<u>1,240,611</u>
Summer school programs:				
Salaries and benefits	271,830	288,745	248,807	39,938
Materials and services	11,251	(5,664)	25,777	(31,441)
Total summer school programs	<u>283,081</u>	<u>283,081</u>	<u>274,584</u>	<u>8,497</u>
Total instruction	<u>6,713,745</u>	<u>6,713,745</u>	<u>4,501,013</u>	<u>2,212,732</u>
Support Services:				
Students:				
Salaries and benefits	475,613	357,236	248,146	109,090
Materials and services	38,193	156,570	129,885	26,685
Total students	<u>513,806</u>	<u>513,806</u>	<u>378,031</u>	<u>135,775</u>
Instructional staff:				
Salaries and benefits	961,243	801,440	536,197	265,243
Materials and services	419,691	579,494	312,146	267,348
Total instructional staff	<u>1,380,934</u>	<u>1,380,934</u>	<u>848,343</u>	<u>532,591</u>
General administration:				
Salaries and benefits	65,397	7,000	8,535	(1,535)
Materials and services	-	58,397	5,515	52,882
Total general administration	<u>65,397</u>	<u>65,397</u>	<u>14,050</u>	<u>51,347</u>
School administration:				
Salaries and benefits	410,436	229,901	368,566	(138,665)
Materials and services	229,057	409,592	90,852	318,740
Total school administration	<u>639,493</u>	<u>639,493</u>	<u>459,418</u>	<u>180,075</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, 2004

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive/ (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Support Services (continued):				
Business:				
Materials and services	409,961	409,961	434,625	(24,664)
Central:				
Materials and services	6,473	6,473	25,589	(19,116)
Total support services	3,016,064	3,016,064	2,160,056	856,008
Enterprise and Community Services:				
Community Services:				
Salaries and benefits	-	11,818	13,678	(1,860)
Materials and services	50,091	38,273	150	38,123
Total community services	50,091	50,091	13,828	36,263
Total current expenditures	9,779,900	9,779,900	6,674,897	3,105,003
Excess of expenditures over revenues	(3,500,000)	(3,500,000)	(569,148)	2,930,852
Fund balance - beginning of year	3,500,000	3,500,000	5,388,483	1,888,483
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,819,335</u>	<u>\$ 4,819,335</u>

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, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
REVENUES				
Charges for services	\$ 558,085	\$ 558,085	\$ 540,177	\$ (17,908)
EXPENDITURES				
Current Operating:				
Enterprise and Community Services:				
Food services:				
Salaries and benefits	288,163	346,495	367,280	(20,785)
Materials and services	257,077	198,745	177,774	20,971
Total food services	545,240	545,240	545,054	186
Excess (deficiency) of revenues over (under) expenditures	12,845	12,845	(4,877)	(17,722)
Fund balance - beginning of year	10,000	10,000	9,699	(301)
Fund balance - end of year	<u>\$ 22,845</u>	<u>\$ 22,845</u>	<u>\$ 4,822</u>	<u>\$ (18,023)</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, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
EXPENDITURES				
Debt Service:				
Principal	\$ 4,205,000	\$ 4,205,000	\$ 4,205,000	\$ -
Interest and fiscal charges	1,240,183	1,240,183	1,239,682	(501)
Total expenditures	5,445,183	5,445,183	5,444,682	(501)
OTHER FINANCING SOURCES				
Transfers in	5,444,683	5,444,683	5,438,009	(6,674)
Net change in fund balances	(500)	(500)	(6,673)	(6,173)
Fund balance - beginning of year	7,580	7,580	6,673	(907)
Fund balance - end of year	<u>\$ 7,080</u>	<u>\$ 7,080</u>	<u>\$ -</u>	<u>\$ (7,080)</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, 2004

	<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	\$ 1,200,000	\$ 1,200,000	\$ 1,200,000	\$ -
Interest and fiscal charges	253,200	253,200	253,200	-
Total expenditures	1,453,200	1,453,200	1,453,200	-
OTHER FINANCING SOURCES				
Transfers in	1,453,200	1,453,200	1,453,200	-
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, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
REVENUES				
Property and other taxes	\$ 11,992,225	\$ 11,992,225	\$ 11,832,046	\$ (160,179)
Investment earnings	71,800	71,800	53,382	(18,418)
Total revenues	12,064,025	12,064,025	11,885,428	(178,597)
EXPENDITURES				
Debt Service:				
Principal	10,875,000	10,875,000	10,875,000	-
Interest and fiscal charges	1,271,563	1,271,063	1,196,531	74,532
Bond issuance costs	-	-	110,568	(110,568)
Total expenditures	12,146,563	12,146,063	12,182,099	(36,036) *
Excess of expenditures over revenues	(82,538)	(82,038)	(296,671)	(214,633)
OTHER FINANCING SOURCES (USES)				
Bond proceeds	-	-	11,900,000	11,900,000
Bond advance refunding principal	-	-	(11,325,000)	(11,325,000) *
Bond advance refunding interest	-	-	(517,867)	(517,867) *
Total other financing sources (USES)	-	-	57,133	57,133
Net change in fund balance	(82,538)	(82,038)	(239,538)	(157,500)
Fund balance - beginning of year	150,000	150,000	528,497	378,497
Fund balance - end of year	\$ 67,462	\$ 67,962	\$ 288,959	\$ 220,997

*Debt Service expenditures, while in excess of appropriation, are not out of compliance with Oregon Budget Law. According to ORS 294.326 expenditures of the proceeds of advance refunding bonds, such as for bond issuance costs, are allowed exceptions under local budget law.

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, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
REVENUES				
Property and other taxes	\$ 33,811,750	\$ 33,811,750	\$ 33,840,784	\$ 29,034
Investment earnings	199,000	199,000	169,070	(29,930)
Total revenues	34,010,750	34,010,750	34,009,854	(896)
EXPENDITURES				
Debt Service:				
Principal	30,700,000	30,700,000	30,700,000	-
Interest	3,443,625	3,442,125	3,442,125	-
Total expenditures	34,143,625	34,142,125	34,142,125	-
Excess of expenditures over revenues	(132,875)	(131,375)	(132,271)	(896)
Fund balance - beginning of year	230,000	230,000	2,099,757	1,869,757
Fund balance - end of year	\$ 97,125	\$ 98,625	\$ 1,967,486	\$ 1,868,861

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, 2004

	<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	\$ 20,834	\$ 20,834	\$ 37,227	\$ 16,393
EXPENDITURES				
Current Operating:				
Support Services:				
Central:				
Salaries and benefits	331,187	331,187	328,931	2,256
Materials and services	816,181	940,917	793,922	146,995
Total Support Services	1,147,368	1,272,104	1,122,853	149,251
Facilities Acquisition & Construction:				
Materials and services	100,000	100,000	77,910	22,090
Total current expenditures	1,247,368	1,372,104	1,200,763	171,341
Excess of expenditures over revenues	(1,226,534)	(1,351,270)	(1,163,536)	187,734
Fund balance - beginning of year	1,226,534	1,835,765	1,835,765	-
Fund balance - end of year	<u>\$ -</u>	<u>\$ 484,495</u>	<u>\$ 672,229</u>	<u>\$ 187,734</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, 2004

	<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	\$ 174,497	\$ 174,497	\$ 607,583	\$ 433,086
EXPENDITURES				
Current Operating:				
Support Services:				
Instructional staff:				
Materials and services	770,700	770,700	490,713	279,987
Business:				
Materials and services	1,000	1,000	11,020	(10,020)
Central:				
Materials and services	871,771	871,771	143,932	727,839
Total support services	1,643,471	1,643,471	645,665	997,806
Facilities Acquisition & Construction:				
Salaries and benefits	429,468	392,329	399,621	(7,292)
Materials and services	7,836,211	7,873,350	6,573,380	1,299,970
Total Facilities Acquisition & Construction:	8,265,679	8,265,679	6,973,001	1,292,678
Total expenditures	9,909,150	9,909,150	7,618,666	2,290,484
Excess of expenditures over revenues	(9,734,653)	(9,734,653)	(7,011,083)	2,723,570
Fund balance - beginning of year	15,595,290	15,595,290	16,041,441	446,151
Fund balance - end of year	<u>\$ 5,860,637</u>	<u>\$ 5,860,637</u>	<u>\$ 9,030,358</u>	<u>\$ 3,169,721</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, 2004

	<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	\$ 72,931	\$ 72,931	\$ 39,904	\$ (33,027)
EXPENDITURES				
Current Operating:				
Support Services:				
Business:				
Materials and services	2,500	2,500	2,500	-
Facilities Acquisition & Construction:				
Salaries and benefits	-	-	6,685	(6,685)
Materials and services	5,435,869	5,435,869	2,119,892	3,315,977
Total Facilities Acquisition & Construction:	5,435,869	5,435,869	2,126,577	3,309,292
Total expenditures	5,438,369	5,438,369	2,129,077	3,309,292
Excess of expenditures over revenues	(5,365,438)	(5,365,438)	(2,089,173)	3,276,265
Fund balance - beginning of year	5,365,438	5,365,438	5,351,374	(14,064)
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,262,201</u>	<u>\$ 3,262,201</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, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
REVENUES				
Charges for services	\$ 4,664,408	\$ 5,001,602	\$ 4,749,985	\$ (251,617)
Investments	55,000	55,000	34,110	(20,890)
Insurance recoveries	-	2,271,586	2,051,386	(220,200)
Other	25,000	25,000	28,109	3,109
Total revenues	<u>4,744,408</u>	<u>7,353,188</u>	<u>6,863,590</u>	<u>(489,598)</u>
EXPENDITURES				
Current Operating:				
Support Services:				
Salaries and benefits	477,109	477,109	348,267	128,842
Materials and services	392,500	392,500	193,000	199,500
Claims expense	4,306,000	6,860,585	6,710,172	150,413
Total expenditures	<u>5,175,609</u>	<u>7,730,194</u>	<u>7,251,439</u>	<u>478,755</u>
Excess of expenditures over revenues	(431,201)	(377,006)	(387,849)	(10,843)
Fund balance - beginning of year	964,200	627,006	627,006	-
Fund balance - end of year	<u>\$ 532,999</u>	<u>\$ 250,000</u>	239,157	<u>\$ (10,843)</u>
Less salaries and benefits accrued under GAAP			(8,660)	
Retained earnings at end of year, GAAP basis			<u>\$ 230,497</u>	

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

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OTHER FINANCIAL SCHEDULES

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON
General Fund
Schedule of Property Tax Transactions
For the Year Ended June 30, 2004

Tax Year	Taxes Uncollected June 30, 2003	Levy as Extended by Assessor	Discounts Allowed	Interest	Cancellations and Adjustments	Property Tax Collections	Taxes Uncollected June 30, 2004
DISTRICT LEVIES							
Multnomah County:							
General Tax:							
Current Year	\$ -	\$ 149,651,208	\$ (3,587,204)	\$ 93,174	\$ (658,997)	\$ (140,890,368)	\$ 4,607,813
Prior Years	5,050,516		5,903	217,173	(439,296)	(2,928,274)	1,906,022
2001-2002	1,917,665		5,015	138,684	(244,376)	(853,113)	963,875
2000-2001	1,027,300		3,047	167,144	(125,338)	(696,298)	375,855
1999-2000	358,282		1,933	80,054	(21,753)	(340,423)	78,093
1998-1999	64,234		2,887	(49,855)	35,314	(13,532)	39,048
1997-1998	41,003		1,310	(24,310)	15,512	(5,528)	27,987
1996-1997	15,465		394	(9,843)	10,039	(3,589)	12,466
1995-1996	9,172			793	(1,060)	(1,726)	7,179
and prior	139,639			23,922	(4,318)	(37,438)	121,805
Total General Tax:	8,623,276	149,651,208	(3,566,715)	636,936	(1,434,273)	(145,770,289)	8,140,143
				minus allocation to the Bond Sinking Debt Service Fund:			
							(59,976)
							8,080,167
Local Option Taxes:							
Current Year	-	17,513,645	(419,810)	10,904	(77,122)	(16,488,366)	539,251
Prior Year	576,400	674	674	24,785	(50,136)	(334,195)	217,528
2001-2002	208,958		546	15,112	(26,628)	(92,959)	105,029
2000-2001	103,021		306	16,762	(12,569)	(69,827)	37,693
Total Local Option Taxes:	888,379	17,513,645	(418,284)	67,563	(166,455)	(16,985,347)	899,501
Cancel/Omit							
Current Year	-	311,855	(7,475)	194	(1,373)	(293,599)	9,602
Total Multnomah County:	9,511,655	167,476,708	(3,992,474)	704,693	(1,602,101)	(163,049,235)	8,989,270
Washington County:							
All Years ¹		1,193,996				(1,193,996)	
Clackamas County:							
All Years ¹		146,210				(146,210)	
Total All Counties:	\$ 9,511,655	\$ 168,816,914	\$ (3,992,474)	\$ 704,693	\$ (1,602,101)	\$ (164,389,441)	\$ 8,989,270

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, 2004 were considered immaterial.

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON
General Fund
Schedule of Property Tax Transactions
For the Year Ended June 30, 2004

	<u>Tax Revenue</u>	<u>Deferred Taxes</u>
Reconciliation to Financial Statements:		
Property tax collections for the year ended June 30, 2004	\$164,389,441	
Non-levied tax revenue received for the year ended June 30, 2004	316,118	
Uncollected property taxes at June 30, 2004		\$ 8,989,270
Uncollected property taxes susceptible to accrual at June 30, 2004	845,206	(769,228)
Non-levied tax revenue susceptible to accrual at June 30, 2004	139,892	(139,517)
Property taxes & non-levy rev susceptible to accrual at June 30, 2003, and collected during the year ended June 30, 2004	(1,010,242)	
Less property tax revenues allocated to Bond Sinking Debt Service Fund	(11,832,047)	
Total property taxes - General Fund	\$152,848,368	
Total Deferred Revenues - General Fund		\$ 8,080,525

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON
Debt Service Funds
Schedule of Property Tax Transactions
For the Year Ended June 30, 2004

DISTRICT LEVIES	Tax Year	Taxes Uncollected June 30, 2003	Levy as Extended by Assessor	Discounts Allowed	Interest	Cancellations and Adjustments	Property Tax Collections	Taxes Uncollected June 30, 2004
Multnomah County:								
Bond Tax:								
Current Year	2003-2004	\$ -	\$ 34,484,923	\$ (826,618)	\$ 21,471	\$ (151,856)	\$ (32,466,116)	\$ 1,061,804
Prior Years	2002-2003	1,208,784		1,413	51,978	(105,140)	(700,849)	456,186
	2001-2002	375,118		981	27,128	(47,803)	(166,879)	188,545
	2000-2001	197,745		587	32,174	(24,126)	(134,031)	72,349
	1999-2000	73,381		396	16,396	(4,455)	(69,723)	15,995
	1998-1999	12,521		563	(9,718)	6,884	(2,638)	7,612
	1997-1998	10,323		330	(6,121)	3,905	(1,392)	7,045
	1996-1997	2,282		58	(1,452)	1,481	(530)	1,839
		<u>1,880,154</u>	<u>34,484,923</u>	<u>(822,290)</u>	<u>131,856</u>	<u>(321,110)</u>	<u>(33,542,158)</u>	<u>1,811,375</u>
Total Multnomah County:			Plus allocation from the General Fund to the Bond Sinking Debt Service Fund:					<u>59,976</u>
								<u>1,871,351</u>
Washington County:								
All Years ¹			241,836				(241,836)	
Clackamas County:								
All Years ¹			29,156				(29,156)	
Total All Counties:		<u>\$ 1,880,154</u>	<u>\$ 34,755,915</u>	<u>\$ (822,290)</u>	<u>\$ 131,856</u>	<u>\$ (321,110)</u>	<u>\$ (33,813,150)</u>	<u>\$ 1,871,351</u>
Reconciliation to Financial Statements:								
							\$ 33,813,150	
							31,454	
								\$ 1,871,351
							168,419	(225,189)
							750	(674)
							(172,988)	
							11,832,047	
							<u>\$ 45,672,832</u>	
								<u>\$ 1,645,488</u>

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, 2004 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
Schedule By Source
June 30, 2004

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, 2004

<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, 2004

<u>Function and Activity</u>	<u>Governmental Funds Capital Assets July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Governmental Funds Capital Assets June 30, 2004</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

Table I
Changes in Net Assets
(accrual basis of accounting)
Last 3 Years *

Governmental Activities	2002	2003	2004
Expenses by Function/Program			
Instruction	\$ 278,299,538	\$ 246,091,005	\$ 264,429,734
Support services	167,000,814	160,169,734	160,112,027
Enterprise and Community Services	14,879,069	14,736,156	13,737,717
Facilities acquisition & construction	-	15,638,257	9,177,488
Interest and fees on long-term debt	12,209,858	10,607,253	5,381,506
Total Expenses	<u>472,389,279</u>	<u>447,242,405</u>	<u>452,838,472</u>
Program Revenues			
Charges for services:			
Instruction	8,165,250	6,318,753	3,561,322
Supporting Services	-	-	2,126,708
Enterprise and Community Services	4,693,192	4,213,286	3,962,141
Total charges for services	<u>12,858,442</u>	<u>10,532,039</u>	<u>9,650,171</u>
Operating Grants & Contributions	83,955,434	75,616,763	69,603,337
Total Program Revenues	<u>96,813,876</u>	<u>86,148,802</u>	<u>79,253,508</u>
Total Net (Expense)/Revenue	<u>(375,575,403)</u>	<u>(361,093,603)</u>	<u>(373,584,964)</u>
General Revenues by Source			
Property taxes, levies for operations	128,574,250	131,056,316	135,183,185
Property taxes, levies for debt service	39,312,267	47,081,715	45,672,830
Local option taxes	14,879,271	16,263,204	17,164,911
State School Fund	193,284,103	150,705,317	183,619,106
State Common School Fund	1,527,383	3,100,444	1,251,379
County & intermediate sources	10,863,837	24,440,903	50,805,630
Investment earnings	5,310,974	2,187,551	1,786,274
Other	2,278,644	5,343,708	6,383,011
Gain on disposal of capital assets	2,098,078	239,238	5,492,841
Total Revenues	<u>398,128,807</u>	<u>380,418,396</u>	<u>447,359,167</u>
Change in Net Assets	<u>\$ 22,553,404</u>	<u>\$ 19,324,793</u>	<u>\$ 73,774,203</u>

* The District implemented GASB Statements 34 & 35 beginning in 2002. As a result, ten years data is not available. Over time, ten fiscal years will be presented.

Source data:

School District No. 1, Multnomah County, financial statements

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON

Table II

**General District Expenditures and Other Financing Uses by Function and Program
General Fund
Last Ten Years**

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
General Fund:					
Instruction:					
Regular Programs	\$ 148,965,576	\$ 150,813,899	\$ 150,133,204	\$ 150,321,408	\$ 155,011,503
Special Education	<u>31,088,264</u>	<u>36,387,363</u>	<u>38,189,666</u>	<u>40,481,167</u>	<u>42,524,537</u>
Total Instruction	<u>180,053,840</u>	<u>187,201,262</u>	<u>188,322,870</u>	<u>190,802,575</u>	<u>197,536,040</u>
Support services:					
Students	-	-	-	-	-
Instructional Support	47,800,715	44,345,697	41,351,498	43,610,554	53,132,634
General Administration	3,204,345	4,251,456	4,673,486	4,635,215	5,106,413
School Administration	-	-	-	-	-
Business	-	-	-	-	-
Central	-	-	-	-	-
Administrative Support	2,840,300 ¹	6,334,685 ²	11,773,641	12,399,427	14,460,242
Operation and Maintenance	38,417,126	37,564,506	39,673,723	36,645,684	35,242,254
Student Transportation	<u>9,665,395</u>	<u>9,676,852</u>	<u>10,335,147</u>	<u>12,738,556</u>	<u>13,702,513</u>
Total Support services	<u>101,927,881</u>	<u>102,173,196</u>	<u>107,807,495</u>	<u>110,029,436</u>	<u>121,644,056</u>
Facilities acquisition & const.	1,370,106	1,650,714	1,251,757	994,734	807,839
Debt Service	-	-	-	2,659,232 ³	1,562,153
Transfers Out	20,659,574	22,075,004	20,876,984	21,796,278	20,979,306
Bond Defeasement	-	-	-	-	-
Total General Fund	<u>\$ 304,011,401</u>	<u>\$ 313,100,176</u>	<u>\$ 318,259,106</u>	<u>\$ 326,282,255</u>	<u>\$ 342,529,394</u>
Student enrollment:					
Average daily membership	<u>49,287</u>	<u>49,276</u>	<u>49,357</u>	<u>49,712</u>	<u>49,532</u>
Cost per Pupil:					
Instruction	\$ 3,653	\$ 3,799	\$ 3,816	\$ 3,838	\$ 3,988
Students	-	-	-	-	-
Instructional Support	970	900	838	877	1,073
General Administration	65	86	95	93	103
School Administration	-	-	-	-	-
Business	-	-	-	-	-
Central	-	-	-	-	-
Administrative Support	58	129	239	249	292
Operation and Maintenance	779	762	804	737	712
Student Transportation	196	196	209	256	277
Capital Outlay	28	33	25	20	16
Debt Service	-	-	-	53 ³	32
Transfers Out	419	448	423	438	424
Total Cost per Pupil	<u>\$ 6,168</u>	<u>\$ 6,353</u>	<u>\$ 6,449</u>	<u>\$ 6,561</u>	<u>\$ 6,917</u>
Percent Change	<u>-5.18%</u>	<u>3.00%</u>	<u>1.51%</u>	<u>1.74%</u>	<u>5.43%</u>

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 Support services in the 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 Support services in the General Fund.

<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
\$ 161,878,770	\$ 156,421,886	\$ 161,989,456	\$ 149,803,286	\$ 158,428,505
<u>47,359,762</u>	<u>58,761,699</u>	<u>57,256,967</u>	<u>55,520,634</u>	<u>59,228,573</u>
<u>209,238,532</u>	<u>215,183,585</u>	<u>219,246,423</u>	<u>205,323,920</u>	<u>217,657,078</u>
-	29,039,622 ⁴	29,694,267	28,167,370	30,392,343
51,993,849	15,483,389	11,613,180	11,105,578	10,591,145
5,491,143	5,216,157	3,323,942	2,693,485	4,325,988
-	25,989,859	27,581,331	26,100,103	25,361,842
-	56,037,473	53,972,966	51,458,624	50,959,962
-	8,918,219	10,871,513	10,330,001	13,528,396
14,274,750	-	-	-	-
35,793,914	-	-	-	-
14,096,579	-	-	-	-
<u>121,650,235</u>	<u>140,684,719</u>	<u>137,057,199</u>	<u>129,855,161</u>	<u>135,159,676</u>
499,956	-	-	-	943,391
1,865,109	2,767,862	2,776,058	5,589,580	983,684
9,888,370	6,896,908	6,973,589	8,850,365	16,535,425
2,759,464	-	-	-	-
<u>\$ 345,901,666</u>	<u>\$ 365,533,074</u>	<u>\$ 366,053,269</u>	<u>\$ 349,619,026</u>	<u>\$ 371,279,254</u>
<u>48,900</u>	<u>48,478</u>	<u>48,152</u>	<u>46,945</u> ⁵	<u>44,882</u> ⁵
\$ 4,279	\$ 4,439	\$ 4,553	\$ 4,374	\$ 4,850
-	599	617	600	677
1,063	319	241	237	236
112	108	69	57	96
-	536	573	556	565
-	1,156	1,121	1,096	1,135
-	184	226	220	301
292	-	-	-	-
732	-	-	-	-
288	-	-	-	-
10	-	-	-	21
38	57	58	119	22
202	142	145	189	368
<u>\$ 7,016</u>	<u>\$ 7,540</u>	<u>\$ 7,602</u>	<u>\$ 7,448</u>	<u>\$ 8,272</u>
<u>1.43%</u>	<u>7.47%</u>	<u>0.82%</u>	<u>-2.03%</u>	<u>11.06%</u>

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

4) 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.

5) Estimated amount from Oregon Department of Education, Update #9 for 2002-2003 and 2003-2004

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

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON

Table III

**General District Revenues and Other Financing sources by Source - Budgetary Basis
General Fund
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	
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
2004	380,164,956	152,848,370	844,998	9,420,251	1,251,379	166,519,106	49,280,852 ⁴

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.

⁴ Fiscal year 2004 is the first year Multnomah County collected Itax

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

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON

Table IV

**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		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
			Current Tax Collections	Current Tax Collections as a Percentage of Current Net Levy			Percentage of Current Net Levy	Percentage of Current Net Levy		
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%	
2004	211,583,564	203,293,962	191,749,647	94.32%	6,452,944	198,202,591	97.50%	10,860,621	5.34%	

Note: Responsibility for the collection of all property taxes rests within the County's 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.

Source data:

Levy amounts from Multnomah County, Tax Supervising and Conservation Commission
School District No. 1, Multnomah County, financial statements; Schedule of Property Tax Transactions

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

Year Ended June 30	Total	General Fund	General Obligation Bond Debt Service Fund	General Obligation Bond Debt Service Fund	Bond Sinking Debt Service Fund
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	-	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
2004	198,521,200	152,848,370	33,840,784	-	11,832,046

¹The 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

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON
Table VI
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
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%
2004	371,279,254	155,248,999	41.81%

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, and Bond Defeasance
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%
2004	46,324,224	48,323,730	104.32%

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

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON

Table VII

**Property Tax Rates - Direct and Overlapping Governments
Last Ten Years**

Year Ended June 30	Property Tax Rate per \$1,000 of Assessed Value									
	Total	School District No. 1	Multnomah Education Service District	Portland Community College	City of Portland	Multnomah County	Port of Portland	Metropolitan Service District		
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		
2004	14.60	4.77	0.46	0.28	4.58	4.34	0.07	0.10		

Total Taxes Certified

Year Ended June 30	Total Taxes Certified							
	Total	School District No. 1	Multnomah Education Service District	Portland Community College	City of Portland	Multnomah County	Port of Portland	Metropolitan Service District
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
2004	817,357,981	211,583,564	20,189,919	36,960,949	286,683,736	229,007,534	7,176,417	25,755,862

Source data: Multnomah County, Tax Supervising and Conservation Commission

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

Year Ended June 30	Assessed Valuation			
	Total	Real Property ²	Personal Property ²	Public Utility Property ²
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 ¹	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
2004	29,572,717,648	26,464,086,805	1,796,571,156	1,312,059,687

¹ 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.

² Valuations for Washington and Clackamas counties are estimated based on Multnomah County distribution.

Source data:

Multnomah County Division of Assessment and Taxation, and the
Tax Supervising and Conservation Commission

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON
Table IX
Computation of Legal Debt Margin
June 30, 2004

Real Market Value	\$ 47,935,003,326
Allowable Proportion	0.0795
	3,810,832,764
Debt Limit: 7.95% of Real Market Value ¹	
Amount of Debt Applicable to Debt Limit:	
General Obligation Bonded Debt	34,675,000
Less: Amount Available in Debt Service Funds	(3,915,268)
	30,759,732
Amount of Debt Applicable to Debt Limit:	
	\$ 3,780,073,032
Legal Debt Margin	

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.

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON
Table X
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 r	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
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	46,945 ³	45,323,151,918	578,848,897 ²	0.01277	1,356	12,330
2004	427,037	44,882 ³	47,935,003,326	537,302,875	0.01121	1,258	11,971

¹ Real market value excludes urban renewal.

² Fiscal year 2003 includes the debt related to the advance payment of PERS unfunded actuarial liability.

³ Fiscal years 2003 and 2004 ADMr are estimated amounts from Oregon Department of Education, Updates #9

Source data:

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

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON

Table XI

**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		
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
2004	41,575,000	4,638,656	46,213,656	371,279,254	0.12

Source data:

School District No. 1, Multnomah County financial statements.

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON
Table XII
Schedule of Overlapping Debt
June 30, 2004

<u>Overlapping Government</u>	Percent Within District	Overlapping Gross Property-tax Backed Debt
City of Portland	84.03%	\$ 223,284,983
Multnomah County	71.57%	90,047,431
Portland Community College	43.51%	130,085,535
Tri-Met	34.62%	32,303,446
Metro	34.46%	53,013,429
Port of Portland	31.68%	17,305,409
Tualatin Valley Fire & Rescue District	2.25%	144,990
City of Beaverton	1.79%	334,046
Tualatin Hills Park & Rec. District	1.31%	233,430
Clackamas County	1.06%	196
City of Milwaukie	0.69%	18,673
Washington County	0.60%	398,923
Tualatin Valley Water (Wolf Creek Bond)	0.43%	8,131
City of Lake Oswego	0.13%	46,118
Mt Hood Community College	0.07%	75
Clackamas County RFPD #1	0.05%	4,229
Total		<u><u>\$ 547,229,044</u></u>

Source data:
Oregon State Treasury, Debt Management Division

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON
Table XIII
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
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	46,945 ⁴	58,298 ⁴	43,889	0.935
2004	48,883	44,882 ⁴	54,510 ⁴	41,561	0.926

Ethnic composition for fiscal year 2004:

European-American	28,990	59.30%
African-American	8,020	16.41%
Asian American	4,925	10.08%
Hispanic-American	5,744	11.75%
American Indian	1,048	2.14%
Unspecified	156	0.32%
Total	48,883	100.00%

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 amounts from Oregon Department of Education, Update #9 for FY 2003 and FY 2004

Source data:

Enrollment and ADA: School District No. 1, Multnomah County, Budget Department

ADMr and ADMw: Oregon Department of Education

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON

Table XIV

**Property Value, Construction Permits and Bank Deposits
Last Ten Years**

Year Ended June 30	City of Portland						Multnomah County				
	Commercial Constructor		Residential Construction		Total Construction		Bank Deposit (in Thousands)	Property Value		Total	
	Permits	Value	Permits	Value	Permits	Value		Commercial	Residential		Nontaxable
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	28,368,362,171	38,145,504,280	17,089,959,476	83,603,825,927
2004	3,399	809,739,996	5,838	325,753,107	9,237	1,135,493,103	- 1	- 1	- 1	- 1	-

¹ Fiscal year 2004 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.

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON
Table XV
Surety Bonds of Principal Officials
June 30, 2004

<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

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON
Table XVI
Principal Taxpayers in Multnomah County
June 30, 2004

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Assessed Valuation</u>	<u>Percentage of Total Value</u>
Ten Largest Taxpayers			
Qwest Corporation	Telephone Utility	\$ 440,769,567	0.97%
Portland General Electric	Electric Utility	341,868,880	0.75%
Pacificorp	Electric Utility	271,934,000	0.60%
Wacker Siltronic Corp	Computer and Electronics	211,842,450	0.47%
Northwest Natural Gas Co.	Gas Utility	149,728,420	0.33%
Boeing Company	Aircraft Parts	143,485,820	0.32%
Oregon Steel Mills Inc	Steel Manufacturing	135,060,590	0.30%
Freightliner Corporation	Commercial Vehicle Manuf.	131,602,990	0.29%
LC Portland, LLC	Rental, Commercial Rental	130,196,970	0.29%
Fred Meyer Stores Inc	Retail	<u>115,006,530</u>	<u>0.25%</u>
Total of Ten Largest Taxpayers		2,071,496,217	4.55%
All Other Taxpayers		43,471,216,696	95.45%
Total All Taxpayers		<u><u>\$ 45,542,712,913</u></u>	<u><u>100.00%</u></u>

Source data:
Multnomah County, Division of Assessment and Taxation

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON
Table XVII
Miscellaneous Statistics
June 30, 2004

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	59
Intermediate and middle	17
Secondary	10
Alternative, special administrative, support, and holding facilities	<u>20</u>
Total number of facilities:	<u><u>106</u></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>Under 18</u>	<u>Percentage</u> <u>18-65</u>	<u>Percentage</u> <u>Over 65</u>
1970	28%	57%	15%
1980	26%	61%	13%
1990	22%	64%	14%
2000	20%	69%	11%

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.

SCHOOL DISTRICT NO.1, MULTNOMAH COUNTY OREGON
Table XVII
Miscellaneous Statistics, continued
June 30, 2004

Elections:

Registered voters in Multnomah County:	<u>Total</u>
June 30, 2000	341,210
June 30, 2001	365,596
June 30, 2002	356,211
May 20, 2003	363,841
May 18, 2004	363,589
Percentage decrease from 2002 to 2003	-0.1%
 Votes cast last general election (November 5, 2002)	 245,238
Percent of registered voters voting	67.5%

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:

Election Information per Multnomah County Elections Division

Demographic and general information per School District No. 1, Multnomah County, Budget Department.

Population and income information per Portland State University, Population Research Center.

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PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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- (503) 620-2632 • FAX (503) 684-7523

November 19, 2004

2003-2004 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, 2004, and have issued our report thereon dated November 19, 2004.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2004, 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.

2003-2004 and 2004-2005 BUDGETS

The budgets adopted by the District for the years ended June 30, 2004 and ending June 30, 2005 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, except for the following:

For the 2004-05 budget, the School Board adopted a budget for two funds that increased appropriations more than 10% from the approved budget. We understand that the District corrected this error subsequent to June 30, 2004.

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, 2004, were reviewed and appeared to comply with the legal requirements pertaining to the investment of public funds contained in ORS 294.045. We have been informed that the District exceeded its allowable investment in the State's Local Government Investment Pool at certain times during the year.

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 2003-2004. The debt outstanding appeared to be within this limit.

OUTSTANDING WARRANTS

The District had no outstanding endorsed warrants at June 30, 2004.

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, 2004.

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, 2004.