Note 1. Summary of Significant Accounting Policies

A. Reporting entity

Multnomah County (County) is a municipal corporation governed by an elected Board of Commissioners, comprised of a Board Chair and four commissioners. The accompanying financial statements present the County and its component units, entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the County's operations.

Blended component units. The Dunthorpe-Riverdale Sanitary Service District and the Mid County Street Lighting District serve residents within each district's geographical boundaries and are governed by a board comprised of the County's elected Board. The rates for user charges for both districts are approved by the Board. Each District is reported as an enterprise fund.

The County also maintains a Hospital Facilities Authority (Authority). The Authority only issues conduit debt for health facilities and the County has no assets or liabilities recorded for the Authority.

Complete financial statements for each of the individual component units may be obtained at the County's administrative offices.

B. 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 County (the primary government) and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the County is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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 or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement preparation

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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 and claims and judgments, are recorded only when payment is due.

Property taxes, excise taxes, business income taxes, intergovernmental revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the County.

The County reports the following major governmental funds:

The *General Fund* is the County’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Federal State Program Fund* accounts for the majority of revenues and expenditures related to federal and state financial assistance programs.

The *Justice Bond Capital Project Fund* accounts for revenues and expenditures related to construction projects which upgrade or expand existing jail facilities, construct new jail facilities, and pay for data processing linkages in the corrections system.

The County reports the following major proprietary funds:

Proprietary Funds account for the operations of predominantly self-supporting activities. Proprietary funds are classified as either enterprise or internal service. *Enterprise Funds* account for services rendered to the public on a user charge basis. The following are the County's major enterprise funds:

The *Dunthorpe-Riverdale Service District No. 1 Fund* accounts for the operation of the sanitary sewer system in southwest unincorporated Multnomah County.

The *Mid County Service District No. 14 Fund* accounts for the operation of the street lighting system throughout unincorporated Multnomah County.

The *Behavioral Health Managed Care Fund* accounts for all financial activity associated with the State required behavioral health capitated services.

Additionally, the County reports the following fund types:

Special revenue funds are primarily operating funds that account for revenue derived from specific taxes or other revenue sources, which are legally restricted to finance particular functions or activities. When a special revenue fund is not an operating fund, transfers are made from the special revenue fund to the operating funds authorized to make expenditures.

Debt service funds account for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

Capital projects funds account for expenditures on major construction projects or equipment acquisition. The principal sources of revenues are proceeds from certificates of participation issued to finance capital acquisitions, proceeds from the sale of County owned property, general obligation bond proceeds, full faith and credit bonds, and revenue bonds.

Internal Service funds account for activities and services performed primarily for other organizational units within the County. The County reports six internal service funds: Risk Management Fund, Fleet Management Fund, Telephone Fund, Data Processing Fund, Mail/Distribution Fund and Facilities Management Fund.

Fiduciary Funds account for assets held by the County for other governmental units. Disbursements from these funds are made in accordance with the trust agreement or applicable legislative enactment for each particular fund. For example, the County holds deposits and investments for the benefit of the participants in the County Library Retirement Pension Trust Fund. Fiduciary funds are custodial in nature (ie. assets equal liabilities) and do not measure the results of operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's sewer and lighting functions and various other functions of the County. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer and lighting districts, of the Behavioral Health fund, and of the County's internal service funds are charges to customers for sales and services. The sewer district also recognizes as operating revenue the portion of connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The County's cash and cash equivalents are considered to be cash on hand, demand deposits, and investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the County to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, municipal bonds, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). Investments for the County, as well as for its component units, are reported at fair value. The LGIP operates in accordance with appropriate state laws and regulations.

2. Receivables and payables

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to / from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Property tax receivables are deemed to be substantially collectible or recoverable through foreclosure. Accordingly, no allowance for doubtful tax accounts is deemed necessary. All other receivables are shown net of an allowance for uncollectibles.

Property taxes are levied and become a lien on July 1. Property taxes are assessed in October and tax payments are due November 15th of the same year. Under the partial payment schedule, the first one-third of taxes are due November 15th, the second one-third on February 15th, and the remaining one-third on May 15th. A three percent discount is allowed if full payment is made by November 15th and a two percent discount is allowed if two-thirds payment is made by November 15th. Taxes become delinquent if not paid by the due date and interest accrues after each trimester at a rate of one percent per month. Property foreclosure proceedings are initiated four years after the tax due date.

3. *Inventories and prepaid items*

Inventories of materials and supplies in the governmental funds are valued at average cost and are offset by a reservation of fund balance. Inventories of materials and supplies in the internal service funds are valued at the lower of average cost or market. All inventories are recorded as expenditures when consumed rather than when purchased.

Payments in excess of $10 to vendors which reflect costs applicable to future accounting periods are recorded as prepaid items in both government-wide and fund financial statements.

4. *Restricted amounts*

Certain revenues derived from specific taxes or other earmarked revenue sources are considered restricted assets. Such revenues include dedicated property taxes, state gas tax, intergovernmental grants, and charges for services which are legally restricted to finance particular functions or activities. In addition, proceeds from general obligations bonds, revenue bonds, and full faith and credit bonds are restricted to support the specific purpose for which the debt was issued. Such net assets are classified as restricted on the Statement of Net Assets and they are recorded in separate funds supporting the specific function or operation.

5. *Capital assets*

Capital assets, which includes property, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, sewers, street lighting, and similar items), and their improvements, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than $5,000 (amount not in thousands) and an estimated useful life of at least three years. 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.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction phases of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the year, the County incurred no interest expense for capital assets for business-type activities.

Property, plant, and equipment of the County, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

• Motor vehicles	3 years
• Sewer systems	50 years
• Street lighting	10 to 30 years
• Equipment, including software	3 to 10 years
• Buildings and improvements	40 years

6. *Other assets – unamortized pension asset*

The County recognized a net pension asset in the Statement of Net Assets in connection with the debt the County issued in 1999 to fund the County's Public Employees Retirement System (PERS) unfunded accrued actuarial liability (UAAL). The pension asset is amortized over thirty years, the life of the debt, resulting in $6,152 of amortization expense annually. Amortization expense on the pension asset is included in the general government line item on the Statement of Activities.

7. *Compensated absences*

It is the County's policy to permit employees to accumulate earned but unused vacation, compensatory and sick leave benefits. There is no liability for unpaid accumulated sick leave since the County does not have a policy to pay any amounts when employees separate from service with the County. All vacation pay and compensatory time is accrued when incurred in the government-wide statements and proprietary funds statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements at June 30. Liabilities for compensated absences are liquidated as employees separate from service and receive payment for accumulated leave benefits. Expenditures for liquidating the liabilities are recorded in the General, Special Revenue, Capital Projects and Internal Service Funds.

8. Long-term obligations

In the government-wide financial statements and for proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Post employment health care benefits considered to be special termination benefits are recognized as a liability in the government-wide financial statements. The liability reflects both the lump sum payments to employees and the present value of expected future payments. When incurred, 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 the 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 premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. The post employment benefits liability and expenditure in the governmental fund financial statements are limited to amounts that become due and payable as of the end of the fiscal year.

9. Fund equity

In the fund financial statements, governmental funds report reservation of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

10. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

(amounts expressed in thousands)

Note 2. Stewardship, compliance, and accountability

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the trust funds. All annual appropriations lapse at fiscal year end.

During the month of February each year, all agencies of the County submit requests for appropriations to the County Chair so that a budget may be prepared. By May 15, the proposed budget is presented to the County Board of Commissioners for approval. The Board holds public hearings and a final budget must be prepared and adopted no later than June 30.

The adopted budget is prepared by fund and department. The County's department managers may make transfers of appropriations within a department and fund. Transfers of appropriations between departments or funds require the approval of the Board. The legal level of budgetary control, (i.e., the level at which expenditures may not legally exceed appropriations) is the fund and department level. The Board approved several supplemental budgetary appropriations throughout the year, none of which were material.

B. Excess of expenditures over appropriations

For the year ended June 30, 2003, expenditures exceeded appropriations in three areas:

Fund	Agency	Amount
General	Health Services	$3,833
Revenue Bond Project	Business & Community Services	173
Dunthorpe-Riverdale Service District	Business & Community Services	53

In the General Fund, the Health Department exceeded its appropriation as a result of a new revenue contract with the Oregon Office of Medical Assistance Programs (OMAP) which was not finalized until after the year ended. Under the terms of the contract, the Health Department received $7,322 in Medicaid revenue to reimburse expenditures incurred in fiscal years 2002 and 2003 but was required to pay the 50% local match required by the federal Medicaid program, in the amount of $3,661, which was not budgeted. While this transaction was the primary reason the Health Department over expended its appropriation, it also resulted in $3,661 net revenue to the County.

The Department of Business and Community Services exceeded its appropriation in two areas. The Revenue Bond Project fund, which supports the Port City Development Project, incurred an over expenditure as a result of environmental and construction problems that were required to be corrected before the building could be approved for occupancy. The Dunthorpe-Riverdale Service District's over expenditure was due to unscheduled emergency maintenance to repair the sewer system owned by the District.

All over expenditures were funded by available fund balances.

Note 3. Detailed notes on all funds

A. Deposits and investments

Multnomah County pools virtually all funds for investment purposes. All appropriate funds are allocated interest based on the average daily cash balance of the fund and the average monthly yield of the County's investment portfolio. Each fund type's portion of this pool is displayed on the Combined Balance Sheet as "Cash and investments."

At year-end, the carrying amount of the County's deposits was $24,577 and the bank balance was $24,544. The bank balance was covered by federal depository insurance or by collateral held by one or more of the State's authorized collateral pool managers in the name of the County as the County's agent. The balance of $33 represents petty cash accounts that were uninsured and uncollateralized. State law requires that collateral be deposited with a value of 25% of the balances above federal deposit insurance, but in some instances, the State Banking Commission can require banks to provide more than 25% of the balances of municipal corporations' deposits as collateral. The County cannot, however, determine which, if any, institutions have been required to meet a collateral requirement larger than 25%. The County independently monitors its depository institutions for indications that could potentially cause loss of County funds.

Oregon Revised Statutes, Chapter 294, authorizes the County to invest in obligations of the U.S. Treasury, U.S. Government agencies and instrumentalities, bankers' acceptances guaranteed by a qualified financial institution, commercial paper, corporate bonds, repurchase agreements, State of Oregon Local Government Investment Pool, and various interest-bearing bonds of Oregon municipalities.

The County's investment policy requires that the market value plus accrued interest of the securities collateralizing repurchase agreements exceeds the face amount of the repurchase agreement by margins prescribed in writing by the Oregon Short-Term Fund Board, providing the County with a margin against a decline in the market value of the securities. Daily marking-to-market also protects the County against declines in market value. The market value plus accrued interest of the securities purchased under repurchase agreements did not fall below the required level during the year.

The County's investments are governed by a written investment policy that is reviewed annually by both the Oregon Short-Term Fund Board and the Multnomah County Investment Advisory Board, and is adopted annually by the Board of County Commissioners. The policy specifies the County's investment objectives, benchmarks, required diversification by security type and by maturity, and the reporting requirements.

The County is authorized to invest in the LGIP, an external investment pool, within prescribed limits. The investments are booked at fair value and are the same as the value of the pool shares. The LGIP investments are governed by a written investment policy that is reviewed annually by the Oregon Short- Term Fund Board. The Oregon Short-Term Fund Board is comprised of members of local government and private investment professionals, who are appointed by the Governor of the State of Oregon.

Investments are categorized into these three categories of credit risk:

1) Insured or registered, or securities held by the County or its agent in the County’s name.
2) Uninsured and unregistered, with securities held by the counterparty’s trust department or agent in the County’s name.
3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the County’s name.

(amounts expressed in thousands)

At year end, the County's investment balances were as follows:

	Category 1	Category 2	Category 3	Reported Amount / Fair Value
US Government Agencies	$ 40,152	$ 279	$ -	$ 40,431
US Government Treasuries	9,963	-	-	9,963
Repurchase Agreements	-	-	-	-
Bankers' Acceptances	2,582	-	-	2,582
Corporate Debt / Commercial Paper	24,914	-	-	24,914
Pension Trust Investments:				
Guaranteed Interest Account	-	-	4,692	4,692
Fixed Income Account	-	-	9,974	9,974
Total	$ 77,611	$ 279	$14,666	92,556
Investments not subject to categorization:				
Local Government Investment Pool				43,090
Cash Deposits and Certificates of Deposit				24,576
Total Cash and Investments				$ 160,222

Due to higher cash flows at certain times during the year, the government's investment in overnight repurchase agreements for which the underlying securities were held by the dealer increased significantly. As a result, the amounts that were in category 3 at those times were substantially higher than at year-end.

B. Receivables

Receivables as of year-end for the County's individual major funds, and nonmajor and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

(amounts expressed in thousands)

MULTNOMAH COUNTY
Accounts Receivable

	General	Federal State Program	Justice Bond Project	Dunthorpe Riverdale Service District	Mid County Service District	Behavioral Health Managed Care	Internal Service Funds	Nonmajor Funds	Total
Receivables:									
Taxes	$12,963	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,965	$15,928
Accounts	5,935	36,769	574	1	-	61	812	8,132	52,284
Loans	-	943	-	-	-	-	-	-	943
Interest	793	-	-	-	-	-	-	-	793
Special assessments	10	-	-	14	14	-	-	-	38
Contracts	2,151	-	-	-	-	-	-	11,567	13,718
Gross receivables	21,852	37,712	574	15	14	61	812	22,664	83,704
Less: allowance for uncollectibles	-	-	-	(2)	(2)	-	-	-	(4)
Net total receivables	$21,852	$37,712	$574	$13	$12	$61	$812	$22,664	$83,700

Revenues of Dunthorpe Riverdale and Mid County Service Districts are reported net of uncollectible amounts. Total uncollectible amounts related to revenues are all for prior periods.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Government funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	Unavailable
Delinquent property taxes receivable (General Fund)	$ 8,757
Delinquent property taxes receivable (other governmental funds)	1,539
Grant draw downs prior to meeting all eligibility requirements	4,431
Contracts receivable	13,718
Contract revenue received in advance	588
Loans receivable	943
Tax title land sales inventory	276
Special assessments receivable	10
Total deferred revenue for governmental funds	$ 30,262

(amounts expressed in thousands)

C. Capital assets

Capital asset activity for the year ended June 30, 2003 was as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 14,219	$ -	$ (232)	$ 13,987
Work in progress	16,866	21,120	-	37,986
Total capital assets, not being depreciated	31,085	21,120	(232)	51,973
Capital assets, being depreciated:				
Buildings	330,789	10,102	(1,874)	339,017
Improvements other than buildings	433	-	-	433
Machinery and equipment	116,316	5,062	(6,688)	114,690
Bridges	69,335	3,281	-	72,616
Infrastructure	807,682	2,907	-	810,589
Total capital assets being depreciated	1,324,555	21,352	(8,562)	1,337,345
Less accumulated depreciation for:				
Buildings	(75,942)	(8,038)	922	(83,058)
Improvements other than buildings	(131)	(11)	-	(142)
Machinery and equipment	(91,328)	(10,092)	6,611	(94,809)
Bridges	(55,852)	(61)	-	(55,913)
Infrastructure	(423,633)	(20,228)	-	(443,861)
Total accumulated depreciation	(646,886)	(38,430)	7,533	(677,783)
Total capital assets being depreciated, net	677,669	(17,078)	(1,029)	659,562
Governmental activities capital assets, net	$ 708,754	$ 4,042	$ (1,261)	$ 711,535
Business-type activities:				
Capital assets, being depreciated:				
Improvements other than buildings	$ 4,086	$322	$ (136)	$ 4,272
Machinery and equipment	50	-	(9)	41
Total capital assets being depreciated	4,136	322	(145)	4,313
Less accumulated depreciation for:				
Improvements other than buildings	(1,686)	(134)	22	(1,798)
Machinery and equipment	(45)	(5)	9	(41)
Total accumulated depreciation	(1,731)	(139)	31	(1,839)
Business-type activities capital assets, net	$ 2,405	$ 183	$ (114)	$ 2,474

(amounts expressed in thousands)

Depreciation expense was charged to functions / programs of the primary government as follows:

Governmental activities:	
General government	$ 5,583
Health services	786
Social services	1,900
Public safety & justice	3,664
Community services	35
Library	5,681
Roads and bridges	20,781
Total depreciation expense – governmental activities	$38,430

Business-type activities:	
Sewer	$ 40
Lighting	93
Behavioral Health Managed Care	6
Total depreciation expense – business-type activities	$ 139

D. Interfund receivables, payables, and transfers

The County records "due to" and "due from" transactions in order that individual funds will be able to meet cash flow needs at year end and prevent a fund from reporting a negative cash balance. The composition of interfund balances as of June 30, 2003 is as follows:

Due to / from other funds:

Receivable Fund (Internal Service fund)	Payable Funds (Governmental funds)	Amount
Risk Management	Emergency Communications	$ 15
Risk Management	Recreation	1
Risk Management	Animal Control	1
Risk Management	Federal and State	12,333
		$ 12,350

(amounts expressed in thousands)

Interfund Transfers:

Following are the County's interfund transfers for the year ended June 30, 2003. The general fund transfers to the major and nonmajor governmental funds were made to meet the local match on Federal and State grant expenditures or to provide additional resources for current operations.

	Transfers In:				
Transfers Out:	General Fund	Federal State Program Fund	Nonmajor Governmental Funds	Internal Service Funds	Total
General Fund	$ -	$ 122	$17,309	$ 1,315	$18,746
Federal State Program Fund	5,056	-	-	-	5,056
Nonmajor Governmental Funds	1,462	-	11,467	-	12,929
Enterprise Funds	-	440	-	-	440
Internal Service Funds	-	-	3,963	1,085	5,048
Total transfers out	$ 6,518	$ 562	$32,739	$ 2,400	$42,219

E. Long-term debt

General Obligation Bonds

The County issues general obligation bonds to provide funds for the rehabilitation, construction and acquisition of various library and public safety facilities and related equipment. General obligation bonds have been issued for both governmental activities. The original amount of general obligation bonds issued in prior years was $139,700. In February 1999, the County advance refunded a portion of the above general obligation bonds by issuing $66,115 in new general obligation bonds.

General obligation bonds are direct obligations and pledge the full faith and credit of the County and are backed by the County's authority to levy property taxes. These bonds are generally issued as 20-year serial bonds with equal amounts of principal and interest maturing each year. General obligation bonds currently outstanding are as follows:

(amounts expressed in thousands)

Purpose	Interest Rates	Amount
Governmental activities	3.70-6.00%	$ 29,430
Governmental activities - refunding	3.90-5.65%	62,180
		$ 91,610

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30	Principal	Interest
2004	$ 5,165	$ 4,033
2005	5,420	3,787
2006	5,685	3,525
2007	5,960	3,256
2008	6,255	2,972
2009-2013	35,535	10,388
2014-2017	27,590	2,503
Total	$ 91,610	$ 30,464

Revenue Bonds

The County also issues bonds where the government pledges specific revenue sources or income derived from the acquired or constructed assets to pay debt service. In October 1998, the County issued $3,155 of revenue bonds to finance constructing, renovating, improving and equipping County-owned facilities, and entered into a public / private partnership with the Regional Children's Campus (RCC), a 501(c)(3) non profit agency. In November 2000, the County issued $2,000 of revenue bonds to finance the costs of acquiring land and constructing, renovating, improving and equipping certain facilities to be used as a vocational training center for developmentally disabled residents of Multnomah County. The County entered into a public / private partnership with Port City Development, a 501(c)(3) non profit agency. Also in November 2000, the County issued $3,500 of revenue bonds to re-finance the costs of acquiring real property and constructing facility improvements related to the Oregon Food Bank. The total original amount of bonds issued in prior years was $8,655. Revenue bonds outstanding at year-end are as follows:

Purpose	Interest Rates	Amount
Governmental activities	4.00-5.20%	$ 7,890

(amounts expressed in thousands)

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending June 30	Principal	Interest
2004	$ 465	$ 357
2005	490	337
2006	515	314
2007	540	291
2008	560	267
2009-2013	3,245	921
2014-2016	2,075	147
Total	$ 7,890	$ 2,634

Full Faith and Credit Bonds

On April 1, 1999, the County issued $36,125 in Certificates of Participation at a net interest cost of 4.71% to finance the costs of acquiring land and facilities. Certificates of Participation are direct obligations and pledge the full faith and credit of the County. At June 30, 2003, $32,480 of these bonds were outstanding.

On December 1, 1999, the County issued $184,548 in taxable Revenue Pension Obligation Bonds to fund the County's unfunded accrued actuarial liability (UAAL). The County estimates that by funding the actuarial liability, the County will receive a present value savings of about $35,776 between the amount calculated by the Oregon Public Employees Retirement System (PERS) to retire the UAAL and the amount of the debt repayment. The total interest cost is 7.67%. Payment of principal and interest, except for a term bond, will be guaranteed by MBIA. At June 30, 2003, $182,893 of these bonds were outstanding.

On April 1, 2000, the County issued $61,215 in full faith and credit bonds to finance the costs of acquiring and installing the integrated enterprise computer system, acquire land, acquire facilities and construct other County facilities and structures. Full faith and credit bonds are direct obligations and pledge the full faith and credit of the County. At June 30, 2003, $51,775 of these bonds were outstanding.

On May 15, 2003, the County issued $9,615 in Full Faith and Credit Refunding Obligations, Series 2003 with an average interest rate of 1.50% to 3.25%. This issue was used to refund $10,470 of outstanding Certificates of Participation, Series 1993 with an average interest rate of 2.75% to 7.50%. On May 15, 2003 net proceeds of $9,558 were deposited into a bank account along with other County funds to retire the 1993 Series Certificates. On July 1, 2003 the County paid off the outstanding balance on the certificates. The transaction resulted in a net economic gain of $1,316. The advance refunding of the 1993 Series Certificates will decrease debt service payments over the next ten years by $615. At June 30, 2003 the outstanding balance of these certificates was $10,470.

(amounts expressed in thousands)

Full faith and credit bond obligations outstanding at year-end are as follows:

Purpose	Interest Rates	Amount
Governmental activities	4.00-7.74%	$ 276,763

Annual debt service requirements to maturity for full faith and credit bonds are as follows:

Year Ending June 30	Principal	Interest
2004	$ 6,560	$ 12,400
2005	8,375	12,339
2006	9,230	11,780
2007	10,420	11,286
2008	11,725	10,738
2009-2013	67,274	50,425
2014-2018	78,216	54,939
2019-2023	52,984	91,293
2024-2028	23,355	151,525
2029-2030	8,624	75,450
Total	$ 276,763	$ 482,175

Capital Leases

The County has entered into various lease/purchase agreements to acquire property and equipment. The County also has capital lease obligations recorded in the Data Processing Fund, an Internal Service Fund. These lease agreements qualify as capital leases for accounting purposes and have been capitalized in accordance with generally accepted accounting principles.

Assets acquired through capital leases are as follows:

Asset	Governmental Activities
Buildings	$ 71,927
Less: Accumulated depreciation	(22,244)
Total	$ 49,683

(amounts expressed in thousands)

Capital lease obligations outstanding at year-end are as follows:

Purpose	Interest Rates	Amount
Governmental activities	3.75-7.25%	$ 31,031
Governmental activities – refunding	2.75-7.50%	10,470
Total		$ 41,501

Future minimum lease payments are as follows:

	Governmental Activities	
Year Ending June 30	Principal	Interest
2004	$ 12,905	$ 1,860
2005	2,554	1,350
2006	2,699	1,217
2007	2,836	1,072
2008	2,996	917
2009-2013	15,540	2,358
2014-2018	1,971	250
Total	$ 41,501	$ 9,024

Loans Payable

The County has entered into several loans with other governmental agencies for the purpose of making capital improvements. The loan obligations outstanding at year-end are as follows:

Purpose	Interest Rates	Amount
Governmental activities	5.65-7.20%	$ 718

Annual debt service requirements to maturity for long term loans outstanding at year-end are as follows:

Year Ending June 30	Principal	Interest
2004	$ 85	$ 44
2005	92	38
2006	95	35
2007	87	27
2008	83	22
2009-2013	251	37
2014-2016	25	1
Total	$ 718	$ 204

(amounts expressed in thousands)

Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2003 was as follows:

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	$ 96,535	$ -	$ 4,925	$ 91,610	$ 5,165
Revenue Bonds	8,335	-	445	7,890	465
Full Faith and Credit Bonds	272,833	9,615	5,685	276,763	6,560
Capital Leases	46,613	-	5,112	41,501	12,905
Loans Payable	797	-	79	718	85
Compensated Absences	16,161	20,452	20,558	16,055	5,090
Governmental activity long-term liabilities:	$ 441,274	$ 30,067	$ 36,804	$ 434,537	$ 30,270
Business-Type Activities					
Compensated Absences	$ 87	$ 18	$ 94	$ 11	$ 7

Defeased General Obligation Bonds

In prior years, the County defeased certain general obligation bond issues by placing the proceeds of the new bonds in irrevocable trusts to provide for all future debt service on the old bonds. Accordingly, the trust account assets and related liability for the defeased bonds are not included in the County's financial statements. At June 30, 2003, the amount of these bonds outstanding totaled $62,180.

Defeased Certificates of Participation

In prior years, the County defeased certain certificates of participation issues by placing the proceeds of the new certificates in irrevocable trusts to provide for all future debt service on the old certificates. Accordingly, the trust account assets and related liability for the defeased certificates are not included in the County's financial statements. At June 30, 2003, the amount of these certificates outstanding totaled $22,840.

Conduit Financing

On November 1, 1997, the County issued $31,600 in Educational Facilities Revenue Bonds which have not been recorded in the County's financial statements. The proceeds of these bonds were assigned to the University of Portland (the University) to finance capital improvements to the University, pay issue costs and advance refund $17,750 of the Series 1994 issue. On April 1, 2000, the County issued an additional $17,160 in Conduit Educational Revenue Bonds for the University to finance the construction of a student housing facility, parking garage and street lighting. These bonds are not recorded on the books of the County but are assigned to the University. The responsibilities of the County in this bond transaction were limited to adopting the resolution authorizing the issuance of the bonds, executing the bonds and the bond documents to which it is a party, issuing and delivering the Bonds, assigning certain of its rights to the Trustee as provided in the indenture, and directing the Trustee as to the application of monies received from the University to pay the bonds in accordance with the indenture. The County has no obligation to take any other action relating to the bonds. Since the County does not own any of the assets constructed or assume any liabilities associated with repayment, there is no balance sheet disclosure or recognition of revenues and expenditures within the County's financial statements. As of June 30, 2003, \$41,505 of Educational Facilities Revenue Bonds were outstanding.

On December 3, 1998, the County created a component unit, the Hospital Facilities Authority of Multnomah County, Oregon (the Authority). On March 1, 1999, the Authority issued \$26,000 in Hospital Revenue Bonds (Terwilliger Plaza), which have not been recorded as a liability for purposes of compliance with generally accepted accounting principles. The proceeds of these bonds were used by health care facilities to finance various capital projects and refund outstanding bonds. The Hospital Revenue Bonds have not been recognized as a liability of the County because the bonds are secured solely by the provisions of the Bond indenture and payments are made by the health care facilities. Terwilliger Plaza has pledged the gross revenues of the health care facility making up Terwilliger Plaza to secure payment of the bonds. The bonds shall not be payable from a charge upon any funds, assets, nor shall the County be subject to any liability. No holder or holders of the bonds shall ever have the right to exercise the taxing power of the County to pay the bonds or the interest, nor to enforce payment against any property of the County. Upon completion of the project, the assets constructed or purchased are owned by Terwilliger Plaza. Since the County does not own any of the assets or assume any of the liabilities associated with the repayment, there is no balance sheet disclosure or recognition of revenues within the County's financial statements. As of June 30, 2003, \$25,200 of these bonds were outstanding.

On December 1, 1999, the County issued \$9,830 in Higher Education Variable Rate Demand Revenue Bonds. The proceeds of these bonds were used to provide funds to reimburse Concordia University for the costs of acquiring, constructing and improving the educational facilities of the University (the Project), fund a debt service reserve fund and pay the costs of issuing the bonds. The Higher Education Revenue Bonds have not been recognized as a liability of the County because the bonds are secured solely by the provisions of the Bond indenture and payments are made by the University. As the County does not own any of the assets constructed or assume any liabilities associated with the Project, there is no balance sheet disclosure or recognition of revenues and expenditures within the County's financial statements. As of June 30, 2003, $9,230 of the Higher Education Variable Rate Demand Revenue Bonds were outstanding.

(amounts expressed in thousands)

Note 4. Other information

A. Risk management

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the County carries commercial insurance. The County established risk management programs for liability and workers' compensation, whereby premiums are calculated on payroll expenses in all funds and are paid into the risk management fund. The funds are available to pay claims, claim reserves, and reduce administrative costs of the program. These interfund premiums are used to offset the amount of claims expenditure reported in the risk management fund. As of June 30, 2003, interfund premiums exceeded reimbursable expenditures.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are re-evaluated periodically to consider the effect of inflation, recent claim settlement trends (including frequency and amount of payouts), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. An excess coverage insurance policy covers individual workers' compensation claims in excess of $500. Settlements have not exceeded coverages for each of the past three fiscal years.

Changes in the balances of claims liabilities during the past two years are as follows:

	Fiscal year ended 6/30/03	Fiscal year ended 6/30/02
Unpaid claims, beginning of fiscal year	$ 9,263	$ 8,712
Incurred claims (including IBNRs)	14,852	15,775
Claim payments	(14,109)	(15,224)
Unpaid claims, end of fiscal year	$ 10,006	$ 9,263

(amounts expressed in thousands)

B. Restatement of prior year net assets

In fiscal year 2002, the County implemented GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.* In preparing the current year's financial statements, the County noted two prior period adjustments related to the implementation of GASB No. 34. These transactions are noted below along with the restated net asset number:

Governmental funds net assets as previously reported	$ 408,020
Unamortized net pension asset related to the 1999 pension obligation bond issue	168,657
Post employment medical benefits payable	(55,190)
Net assets, Governmental activities, June 30, 2002, restated	$ 521,487

The effect of this restatement on fiscal year 2002 would have increased expenses for the general government activities line item by $6,152 resulting in a total decrease in net assets of $28,484 for the governmental activities in the Statement of Activities.

C. Subsequent events

On July 1, 2003, the County issued $40,000 in Tax and Revenue Anticipation Notes to meet current cash flow needs of the County, prior to the receipt of property tax revenues in November. The interest rate on the notes is 1.75% and the yield is .85%. The notes mature on June 30, 2004.

In May of 2003, the voters of Multnomah County approved a personal income tax effective January 1, 2003. The tax is a three-year measure that raises local funds to prevent further cuts to Multnomah County's public schools and programs that help the County's most vulnerable residents. During the period of July 1, 2003 to the date of this report, the County has been working on implementing this tax. It is intended to be a temporary, local answer to recent state budget cuts and a poor economy. The tax is a 1.25% levy on the Oregon taxable income of Multnomah County residents reduced by an exemption amount. The tax will generate an estimated $128,000 for each of the three calendar years the tax is in effect. The majority of the money will be divided equally on a per-pupil basis to all County school districts. The remainder will be spent on public safety and programs that serve the elderly, disabled and mentally ill.

(amounts expressed in thousands)

D. Commitments and contingent liabilities

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

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the County's legal counsel the resolution of these matters will not have a material adverse effect on the financial condition of the County.

The following is a schedule by years of future minimum rental payments required under operating leases for certain land, buildings and equipment used in governmental operations that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2003:

Year ended June 30	
2004	$ 3,329
2005	2,594
2006	1,077
2007	693
2008	485
2009 - 2013	1,306
2014 - 2018	590
2019 - 2023	590
2024 - 2028	590
2029 - 2033	418
Total minimum payments	$ 11,672

The County had $4,783 in rent expense for the year ended June 30, 2003.

E. Other post employment benefits

The County provides postretirement health care benefits, as per the requirements of collective bargaining agreements, for certain retirees and their dependents. The benefits vary by agreement, and depend upon a retiree's years of service. In general, the County pays 50% of the premiums of health care coverage for retirees from age 58 to age 65. The County's regular health care benefit providers underwrite the retiree's policies. Retirees may not convert the benefit into an in-lieu payment to secure coverage under independent plans.

At June 30, 2003, there were 467 retirees that were receiving the post employment health care benefit. The County finances the plan by creating a reserve account that meets the actuarially determined amount of benefits that will be payable in the future. For the year ended June 30, 2003, the County paid $1,177 for these benefits, which was net of $1,839 of retiree contributions. In fiscal year 2003, the County recognized a liability on the Statement of Net Assets for these post employment benefits in the amount of $55,190.

F. Employee retirement systems, pension plans and deferred compensation plan

Pension plans

The County participates in the Oregon Public Employees Retirement System (PERS), a cost-sharing multiple-employer defined benefit public employee pension plan that covers substantially all employees; maintains a single employer defined benefit plan for employees transferred to the County from the former Library Association of Portland; and maintains a defined contribution plan for substantially all County employees for the purpose of individual retirement savings.

Oregon Public Employees Retirement System (PERS)

Plan description. The County participates in PERS, a cost-sharing, multiple-employer defined benefit pension plan administered by the PERS Pension board. PERS provides retirement, disability, and death benefits to plan members and their beneficiaries. State statutes authorize the State to establish and amend all plan provisions. PERS issues a publicly available financial report that includes financial statements and required supplementary information. The reports may be obtained by writing:

PERS
PO Box 23700
Tigard, OR 97281-3700

Summary of significant accounting policies – basis of accounting and valuation of investments. The financial statements of PERS are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. The County's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. All plan investments are reported at fair market value.

Funding policy. The contribution requirements of the County are established and may be amended by the State. The County is required by collective bargaining agreements to contribute the required 6.0% of annual covered payroll. The County is also required to contribute at an actuarially determined rate; the current rate is 7.94% of annual covered payroll.

(amounts expressed in thousands)

Annual pension cost. For 2003, the County's annual pension cost of $31,419 for PERS was equal to the County's required and actual contributions. The required contribution was determined as part of the December 31, 2001 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.0% investment rate of return (net of administrative expenses), (b) projected salary increases due to inflation of 3.5% per year, and (c) projected wage growth, excluding seniority / merit raises, of 4.25% per year. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The County's unfunded actuarial accrued liability is being amortized using the closed group fixed term method. The remaining amortization period at December 31, 2001, was 26 years.

Three-Year Trend Information for PERS

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/01	$ 31,607	100%	$ -
6/30/02	30,344	100%	-
6/30/03	31,419	100%	-

Following is a Schedule of Funding Progress for PERS:

Public Employees Retirement System Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded (Funded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c)]
12/31/93	$147,577	$249,433	$101,856	59%	$122,873	83%
12/31/95	201,614	330,154	128,540	61%	142,614	90%
12/31/97	291,095	449,588	158,493	65%	155,915	102%
12/31/99	935,746	859,337	(76,409)	109%	191,152	(40)%
12/31/01	Pooled	Pooled	(203,703)	Pooled	207,148	(98)%

Local government member employers had an opportunity to elect to participate in the state and local Government Rate Pool as of January 1, 2002. The County elected to participate in this pool. Therefore, the actuarial value of assets and the actuarial accrued liability for the County are blended with other employers participating in the pool, and are not available for the County exclusively.

The actuarial information included in the above table was prepared using the recently enacted amendments to PERS. There is current litigation involving PERS benefits, and there will likely be litigation over PERS benefits in the future. The most widespread of the current actions involves the sustainability of the 2003 legislation, which will be reviewed by the Oregon Supreme Court. If the Supreme Court voids all or part of the 2003 legislation, it could have a significant impact on the actuarial information reported above.

Multnomah County Library Retirement Plan

Plan description, summary of significant accounting policies, and funding requirements. The Multnomah County Library Retirement Plan is a single employer defined contribution plan. Prior to July 1, 1990, the Plan was administered by the Library Association of Portland (the Association), a not-for-profit association. Effective July 1, 1990, the Association was transferred to the County, and the County Board of Commissioners became responsible for amending Plan provisions. The Principal Financial Group is contracted by the County to be the trustee of the Plan, and the County Finance Director is the Plan administrator. The Plan is now closed and all employees transferred are covered by PERS. The Plan does not issue a stand alone financial report. All related financial data is contained in this report, and is prepared using the accrual basis of accounting.

All former Association employees who were 21 years of age and had completed two years of service were eligible to participate in the Plan. Retirement benefits are based on salary and length of service, are calculated using a formula, and are payable in a lump sum or monthly using several payment options. The Plan also provides death benefits.

At June 30, 2003, there were 273 plan members. Current employees have an annual covered payroll of $4,946. The total payroll and covered payroll are the same because the Plan is frozen. There are 118 participants currently receiving benefits. The assets of the Plan consist of unallocated insurance contracts and therefore are appropriately valued at contract value. Employer contributions to the Plan, participant benefits, and participant refunds are recognized using the accrual basis of accounting. The costs of administering the Plan are deducted from the earnings. The annual required contribution, or annual pension cost, of the County was $0, due to the plan being fully funded.

(amounts expressed in thousands)

Following is a Schedule of Funding Progress for the Plan:

Multnomah County Library Retirement Plan Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded (Funded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c)]
1/1/98	$ 5,655	$ 6,715	$ 1,060	84.2%	$ 5,433	19.5%
1/1/99	10,750	11,445	695	93.9%	5,422	12.8%
1/1/00	10,998	11,321	323	97.1%	5,056	6.4%
1/1/01	11,197	11,240	43	99.6%	5,008	0.9%
1/1/02	13,273	11,552	(1,721)	114.9%	5,255	(32.7%)
1/1/03	14,739	13,014	(1,725)	113.3%	4,946	(34.9%)

Deferred Compensation Plan

Plan description. The County offers employees a deferred compensation plan (the Plan) administered by the County. The Plan is a defined contribution plan created in accordance with Internal Revenue Code Section 457. The Plan is available to all represented and non-represented County employees, and permits them to defer a portion of their salary until future years. Amounts deferred are not available to employees until termination, retirement, death, or unforeseeable emergency. All assets and income of the Plan are held in trust for the exclusive benefit of the participants and their beneficiaries. No Plan assets have been used for purposes other than the payment of benefits.

At June 30, 2003, the amount deferred and investment earnings thereon, adjusted to fair market value, amount to $85,395. The amounts accumulated under the Plan including investment earnings, are excluded from the financial statements of the County.