

MULTNOMAH COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004
(dollar amounts expressed in thousands)

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 care 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. In addition, functional expenses on the statement of activities include allocated indirect expenses. *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*.

MULTNOMAH COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004
(dollar amounts expressed in thousands)

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, personal income 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.

MULTNOMAH COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004
(dollar amounts expressed in thousands)

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.

MULTNOMAH COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004
(dollar amounts expressed in thousands)

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.

MULTNOMAH COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004
(dollar amounts expressed in thousands)

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. Cash 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.

Multnomah County residents approved a personal income tax effective from calendar year 2003 through calendar year 2005. The tax is a 1.25% levy on the Oregon taxable income of Multnomah County residents reduced by an exemption amount. The tax generated \$100,114 in its first year, and will generate an estimated \$125,000 for each of the two remaining calendar years the tax is in effect. The revenues generated from the tax will provide funding for public school districts within Multnomah County in addition to funding

MULTNOMAH COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004
(dollar amounts expressed in thousands)

for elderly, disabled and mentally ill persons, and programs for public safety and health. Included in the financial statements is an allowance for uncollectible accounts of \$4,572 for personal income taxes. This amount is shown net with taxes receivable on both the fund financial statements and the statement of net assets. In the statement of activities the reduction is recorded to the related property tax revenues, and on the fund financial statements the offset is recorded in deferred revenues.

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, temporary personal income tax, state gas tax, intergovernmental grants, and charges for services which are legally restricted to finance particular functions or activities. In addition, proceeds from general obligation 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

MULTNOMAH COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004
(dollar amounts expressed in thousands)

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. *Deferred revenues*

Deferred revenues reported in the government-wide financial statements represent unearned revenues. The deferred revenues will be recognized as revenue in the fiscal year they are earned in accordance with the accrual basis of accounting. Deferred revenues reported in the governmental fund financial statements represent unearned revenues or revenues which are measurable but not available, such as collections on the 2004 calendar year for the County's 1.25% personal income tax. In accordance with the modified accrual basis of accounting, these items are reported as deferred revenues.

8. *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.

MULTNOMAH COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004
(dollar amounts expressed in thousands)

9. *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.

10. *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.

11. *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.

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.

MULTNOMAH COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004
(dollar amounts expressed in thousands)

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 one supplemental budget and several other budgetary appropriations throughout the year, none of which was material.

B. Excess of expenditures over appropriations

For the year-ended June 30, 2004, expenditures exceeded appropriations in the following area:

<u>Fund</u>	<u>Agency</u>	<u>Amount</u>
General	Health Services	\$929

In the General Fund, the Health Department exceeded its appropriation as a result of mid-year changes to the Oregon Health Plan. These changes resulted in more clients, who had been Medicaid eligible, becoming uninsured, reducing the Health Department's Medicaid revenue collection for the year. Additionally, Health Department spending was restricted throughout the year, in response to this revenue shortfall, but it was not enough to completely bridge the gap. Because many of these clients who lost Medicaid coverage were already in service, medical ethics required that they continue to receive treatment, even if their care was uncompensated. The General fund's over expenditure in the Health department was funded by available fund balance.

In addition, the Building Project Fund noted a deficit in the fund balance at year-end. The deficit was a result of various capital projects including renovation to Multnomah County libraries. The County has entered into an internal loan agreement in order to reduce the Building Project's deficit fund balance. The loan is a five year agreement in which the General Fund will make a cash transfer each year for five years to aid the Capital Project's Fund balance. At June 30, 2004 the Building Project Fund noted a \$691 deficit fund balance.

MULTNOMAH COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004
(dollar amounts expressed in thousands)

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 as "Cash and investments."

State law requires that collateral be deposited with a value of 25% of the balances above federal deposit insurance, but in some instances, the Oregon State Treasury 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.

Funds deposited with fiscal agents for the purpose of meeting the payment of principal or interest on bonds or like obligations are not required to be collateralized per Oregon Revised Statutes, Chapter 295.005.

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 (LGIP), and various interest-bearing bonds of Oregon municipalities.

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's investment policy requires that a third party be used for safekeeping of investment instruments. Investment securities purchased pursuant to the County's investment policy are delivered versus payment by book entry or physical delivery to a third party custodian.

The County's investment policy also 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

MULTNOMAH COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004
(dollar amounts expressed in thousands)

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 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.

At year-end, the carrying amount of the County's deposits was \$10,522 and the bank balance was \$10,486. 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 \$36 represents petty cash accounts that were uninsured and uncollateralized.

As a means of limiting its exposure to fair value losses resulting from rising interest rates, the County's investment policy limits maturities as follows:

<u>Maturity</u>	<u>Cumulative Constraint</u>
Less than 30 days	10%
Less than 90 days	25%
Less than 270 days	50%
Less than 1 year	70%
Less than 3 years	100%

If the goals of maturity limits are exceeded by 5% or more for ten successive business days, prompt notification to the County's Chief Financial Officer and the County's Investment Advisory Board is required. In addition, to limit its exposure to losses due to asset concentration, the County's investment policy and Oregon Revised Statutes limit asset concentration as follows:

1. Corporate indebtedness must be rated on the settlement date A-1 or AA or better by Standard and Poor's Corporation or P-1 or Aa by Moody's Investors Service, or the equivalent rating by any nationally recognized statistical rating organization.
2. Notwithstanding item one, corporate indebtedness must be rated A-2 or A by Standard & Poor's and P-2 or A by Moody's, or the equivalent rating by any nationally recognized statistical rating organization when issued by a business enterprise that has its headquarters in Oregon, employs more than 50% of its permanent workforce in Oregon, or has more than 50% of its tangible assets in Oregon.

MULTNOMAH COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004
(dollar amounts expressed in thousands)

3. Commercial paper and other corporate debt up to 25% of the total investment portfolio is allowed, but may exceed that limit up to 30% for a period not to exceed ten consecutive business days.
4. U.S. Government Agencies are limited to 75% of the investment portfolio.

Additionally, to limit its exposure to asset concentration risk, the County restricts the total investment that can be made in the corporate indebtedness of a single corporate entity and its affiliates and subsidiaries to 5% of the total investment portfolio. The County did not have any investments that exceeded this limit during the year.

The County has one investment that is uninsured and unregistered, is held by a counterparty and is not in the County's name. The investment is a pension trust investment that is held for the benefit of employees of the former Library Association of Portland. At the close of the year, the market value of the investment was \$14,001. More information can be found about this investment in note 4F, on page 67.

As of June 30, 2004, the County had the following investments and maturities:

Investment Type	Fair Value	Weighted Average Yield	Risk Concentration	Investment Maturity (in years)	
				Less than 1	1-3
US Agencies	\$65,320	1.93	46%	\$37,447	\$27,873
Corporate Debt	13,454	1.37	9%	13,454	-
Commercial Paper	20,454	1.25	14%	20,454	-
US Treasuries	9,885	2.11	7%	9,885	-
Local Government					
Investment Pool	24,229	1.29	17%	24,229	-
Cash and Equivalents	10,522	1.13	7%	10,522	-
Total	<u>\$143,864</u>			<u>\$115,991</u>	<u>\$27,873</u>

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:

MULTNOMAH COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004
(dollar amounts expressed in thousands)

MULTNOMAH COUNTY
Accounts Receivable

	Governmental Activities							
	General	Federal State Program	Justice Bond Project	Internal Service Funds	Nonmajor Funds	Total Governmental Activities	Business- type Activities	Total
Receivables:								
Taxes:								
Income	\$ 81,543	\$ -	\$ -	\$ -	\$ -	\$ 81,543	\$ -	\$ 81,543
Property	9,950			-	1,716	11,666		11,666
Other	2,463			-	1,701	4,164		4,164
Accounts	10,882	42,103	574	793	8,363	62,715	10	62,725
Loans	-	875	-	-	-	875	-	875
Interest	547	-	-	-	-	547	-	547
Special assessments	10	-	-	-	-	10	30	40
Contracts	1,997	-	-	-	11,349	13,346	-	13,346
Gross receivables	107,392	42,978	574	793	23,129	174,866	40	174,906
Less: allowance for discounts/uncollectibles	(4,572)	(5,297)	-	-	-	(9,869)	(4)	(9,873)
Net total receivables	<u>\$102,820</u>	<u>\$ 37,681</u>	<u>\$ 574</u>	<u>\$ 793</u>	<u>\$ 23,129</u>	<u>\$164,997</u>	<u>\$ 36</u>	<u>\$165,033</u>

MULTNOMAH COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004
(dollar amounts expressed in thousands)

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:

	<u>Unavailable</u>
Personal income tax receivable	\$ 79,783
Delinquent property taxes receivable (General Fund)	8,432
Delinquent property taxes receivable (other governmental funds)	1,449
Grant draw downs prior to meeting all eligibility requirements	7,980
Contracts receivable	13,346
Contract revenue received in advance	551
Loans receivable	875
Tax title land sales inventory	287
Special assessments receivable	10
Allowance for doubtful accounts – personal income tax	(4,572)
Total deferred revenue for governmental funds	<u>\$ 108,141</u>

MULTNOMAH COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004
(dollar amounts expressed in thousands)

C. Capital assets

Capital asset activity for the year ended June 30, 2004 was as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 13,987	\$ -	\$ (221)	\$ 13,766
Work in progress	37,986	-	(37,986)	-
Total capital assets, not being depreciated	<u>51,973</u>	<u>-</u>	<u>(38,207)</u>	<u>13,766</u>
Capital assets, being depreciated:				
Buildings	339,017	61,553	(1,712)	398,858
Improvements other than buildings	433	-	-	433
Machinery and equipment	114,690	12,670	(6,726)	120,634
Bridges	72,616	11,746	(160)	84,202
Infrastructure	810,589	3,178	-	813,767
Total capital assets being depreciated	<u>1,337,345</u>	<u>89,147</u>	<u>(8,598)</u>	<u>1,417,894</u>
Less accumulated depreciation for:				
Buildings	(83,058)	(8,902)	1,219	(90,741)
Improvements other than buildings	(142)	(11)	-	(153)
Machinery and equipment	(94,809)	(7,775)	6,612	(95,972)
Bridges	(55,913)	(1,241)	4	(57,150)
Infrastructure	(443,861)	(20,306)	-	(464,167)
Total accumulated depreciation	<u>(677,783)</u>	<u>(38,235)</u>	<u>7,835</u>	<u>(708,183)</u>
Total capital assets being depreciated, net	<u>659,562</u>	<u>50,912</u>	<u>(763)</u>	<u>709,711</u>
Governmental activities capital assets, net	<u>\$ 711,535</u>	<u>\$ 50,912</u>	<u>\$ (38,970)</u>	<u>\$ 723,477</u>
Business-type activities:				
Capital assets, being depreciated:				
Improvements other than buildings	\$ 4,272	\$ 430	\$ (328)	\$ 4,374
Machinery and equipment	41	-	-	41
Total capital assets being depreciated	<u>4,313</u>	<u>430</u>	<u>(328)</u>	<u>4,415</u>
Less accumulated depreciation for:				
Improvements other than buildings	(1,798)	(200)	104	(1,894)
Machinery and equipment	(41)	-	-	(41)
Total accumulated depreciation	<u>(1,839)</u>	<u>(200)</u>	<u>104</u>	<u>(1,935)</u>
Business-type activities capital assets, net	<u>\$ 2,474</u>	<u>\$ 230</u>	<u>\$ (224)</u>	<u>\$ 2,480</u>

MULTNOMAH COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004
(dollar amounts expressed in thousands)

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

Governmental activities:	
General government	\$ 14,418
Health services	7
Social services	4
Public safety & justice	269
Community services	46
Library	3,218
Roads and bridges	20,273
Total depreciation expense – governmental activities	<u>\$38,235</u>
Business-type activities:	
Sewer	\$ 42
Lighting	158
Behavioral Health Managed Care	-
Total depreciation expense – business-type activities	<u>\$ 200</u>

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, 2004 is as follows:

Due to / from other funds:

<u>Receivable Funds</u>	<u>Payable Funds</u>	<u>Amount</u>
Asset Preservation	SB 1145	\$ 1,100
Risk Management	Building Project	1,375
Risk Management	Federal and State	5,150
		<u>\$ 7,625</u>

MULTNOMAH COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004
(dollar amounts expressed in thousands)

Interfund Transfers:

Following are the County's interfund transfers for the year ended June 30, 2004. 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	Justice Bond Capital Project Fund	Nonmajor Governmental Funds	Internal Service Funds	Total
General Fund	\$ -	\$ -	\$17,960	\$ 145	\$18,105
Nonmajor Governmental Funds	1,625	4,850	4,741	-	11,216
Internal Service Funds	-	-	3,465	-	3,465
Total transfers out	<u>\$ 1,625</u>	<u>\$ 4,850</u>	<u>\$26,166</u>	<u>\$ 145</u>	<u>\$32,786</u>

E. Short-term debt

Tax Revenue Anticipation Note

The County issues short-term debt in order to meet current operational needs during months when property tax collections are slow. At July 1, 2003 the County issued \$40,000 in tax revenue anticipation notes. The notes carry an interest rate of 1.75% and are due at June 30, 2004. Short-term liability activity for the year-ended June 30, 2004 was as follows:

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Tax revenue anticipation note	\$ -	\$ 40,000	\$ 40,000	\$ -	\$ -

F. 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 these governmental activities. The original amount of general obligation bonds issued in

MULTNOMAH COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004
(dollar amounts expressed in thousands)

prior years was \$139,700. In February 1999, the County advance refunded a portion of these general obligation bonds by issuing \$66,115 in new general obligation bonds.

General obligation bonds are direct obligations, 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:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities	3.70-6.00%	<u>\$ 86,445</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 5,420	\$ 3,787
2006	5,685	3,525
2007	5,960	3,256
2008	6,255	2,972
2009	6,555	2,677
2010-2014	36,815	8,817
2015-2017	19,755	1,397
Total	<u>\$ 86,445</u>	<u>\$ 26,431</u>

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.

MULTNOMAH COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004
(dollar amounts expressed in thousands)

Revenue bonds outstanding at year-end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities	4.00-5.20%	<u>\$ 7,425</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 490	\$ 337
2006	515	314
2007	540	291
2008	560	267
2009	585	243
2010-2014	3,410	763
2015-2016	1,325	62
Total	<u>\$ 7,425</u>	<u>\$ 2,277</u>

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, 2004, \$31,160 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, 2004, \$181,103 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, 2004, \$48,325 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 July 1, 2003 the \$10,470

MULTNOMAH COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004
(dollar amounts expressed in thousands)

Certificates of Participation were called and paid off. Full faith and credit bond obligations outstanding at year-end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities	4.00-7.74%	<u>\$ 270,203</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 8,375	\$ 12,277
2006	9,230	11,855
2007	10,420	11,361
2008	11,725	10,785
2009	11,700	10,117
2010-2014	66,776	55,626
2015-2019	94,164	41,729
2020-2024	30,715	115,629
2025-2029	22,836	161,644
2030	4,262	38,887
Total	<u>\$ 270,203</u>	<u>\$ 469,910</u>

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:

<u>Asset</u>	<u>Governmental Activities</u>
Buildings	\$ 72,878
Less: Accumulated depreciation	(24,515)
Total	<u>\$ 48,363</u>

MULTNOMAH COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004
(dollar amounts expressed in thousands)

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

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities	3.75-7.25%	<u>\$ 28,596</u>

Future minimum lease payments are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 2,554	\$ 1,350
2006	2,699	1,217
2007	2,836	1,072
2008	2,996	917
2009	2,825	753
2010-2014	13,070	1,692
2015-2019	1,616	163
Total	<u>\$ 28,596</u>	<u>\$ 7,164</u>

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:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities	5.65-7.20%	<u>\$ 634</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 92	\$ 38
2006	95	35
2007	87	27
2008	83	22
2009	90	15
2010-2014	177	23
2015-2016	10	-
Total	<u>\$ 634</u>	<u>\$ 160</u>

MULTNOMAH COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004
(dollar amounts expressed in thousands)

Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
General Obligation Bonds	\$ 91,610	\$ -	\$ 5,165	\$ 86,445	\$ 5,420
Revenue Bonds	7,890	-	465	7,425	490
Full Faith and Credit Bonds	276,763	-	6,560	270,203	8,375
Capital Leases	41,501	-	12,905	28,596	2,554
Loans Payable	718	-	84	634	92
Compensated Absences	16,055	20,948	19,756	17,247	5,174
Governmental activity long-term liabilities:	<u>\$ 434,537</u>	<u>\$ 20,948</u>	<u>\$ 44,935</u>	<u>\$ 410,550</u>	<u>\$ 22,105</u>
<u>Business-Type Activities</u>					
Compensated Absences	<u>\$ 11</u>	<u>\$ 21</u>	<u>\$ 17</u>	<u>\$ 15</u>	<u>\$ 8</u>

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, 2004, the amount of these bonds outstanding totaled \$62,180.

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

MULTNOMAH COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004
(dollar amounts expressed in thousands)

repayment, there is no balance sheet disclosure or recognition of revenues and expenditures within the County's financial statements. As of June 30, 2004, \$39,935 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 fund or asset, 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, 2004, \$24,800 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, 2004, \$9,060 of the Higher Education Variable Rate Demand Revenue Bonds were outstanding.

Note 4. Other information

A. Hospital Facilities Authority of Multnomah County

The primary purpose of the Authority is to issue conduit debt for various health care facilities. The Authority is a related organization for which the County is not financially accountable because the County does not control or will have a financial

MULTNOMAH COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004
(dollar amounts expressed in thousands)

benefit or burden relationship with the Authority even though the County's board is the same governing board as the Authority. At June 30, 2004 the net assets of the Authority were \$4,897 (unaudited).

B. 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, 2004, 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 6/30/04	Fiscal year ended 6/30/03
Unpaid claims, beginning of fiscal year	\$ 10,006	\$ 9,263
Incurred claims (including IBNRs)	16,885	14,852
Claim payments	(16,301)	(14,109)
Unpaid claims, end of fiscal year	<u>\$ 10,590</u>	<u>\$ 10,006</u>

MULTNOMAH COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004
(dollar amounts expressed in thousands)

C. Subsequent events

On July 1, 2004, the County issued \$20,000 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 3.0% and the yield is 1.6%. The notes mature on June 30, 2005.

On October 1, 2004, the County issued \$54,235 in Full Faith and Credit Refunding Obligations. The proceeds will be used to advance refund any or all of the callable portions of the Certificates of Participation, Series 1998, Certificates of Participation, Series 1999A and Full Faith and Credit Obligations, Series 2000A and to pay the costs of issuance and delivery of the obligations. The obligations carry a variable interest rate from 3.0% to 5.0% and mature on August 1, 2019.

On November 2, 2004 the voters of Multnomah County defeated a ballot measure to repeal the temporary County personal income tax. With the repeal being defeated the tax remains in effect.

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.

MULTNOMAH COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004
(dollar amounts expressed in thousands)

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, 2004:

<u>Year ended June 30</u>	
2005	\$ 3,375
2006	1,661
2006	1,191
2007	657
2008	802
2009 - 2013	940
2014 - 2018	590
2019 - 2023	590
2024 - 2028	590
2029 - 2033	300
Total minimum payments	<u>\$ 10,696</u>

The County recorded \$3,830 in rent expense for the year ended June 30, 2004.

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 retirees' policies. Retirees may not convert the benefit into an in-lieu payment to secure coverage under independent plans.

At June 30, 2004, there were 561 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, 2004, the County paid \$1,831 for these benefits, which was net of \$2,404 of retiree contributions. The County records a liability on the Statement of Net Assets for these post employment benefits in the amount of \$55,190.

MULTNOMAH COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004
(dollar amounts expressed in thousands)

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.

Annual pension cost. For 2004, the County's annual pension cost of \$27,388 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. This actuarial valuation is the most recent available at the time of printing this report. The actuarial assumptions

MULTNOMAH COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004
(dollar amounts expressed in thousands)

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

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/02	\$ 30,344	100%	\$ -
6/30/03	31,419	100%	-
6/30/04	27,388	100%	-

Following is a Schedule of Funding Progress for PERS:

Public Employees Retirement System Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) – Entry Age (b)</u>	<u>Unfunded (Funded) AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll [(b-a)/c]</u>
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

MULTNOMAH COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004
(dollar amounts expressed in thousands)

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. The Oregon Supreme Court ruling is expected to be made in January 2005.

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's Chief Financial Officer 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, 2004, there were 265 plan members. Current employees have an annual covered payroll of \$4,990. The total payroll and covered payroll are the same because the Plan is frozen. There are 120 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.

MULTNOMAH COUNTY, OREGON
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2004
(dollar 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%	\$ 5,433	20%
1/1/99	10,750	11,445	695	94%	5,422	13%
1/1/00	10,998	11,321	323	97%	5,056	6%
1/1/01	11,197	11,240	43	100%	5,008	1%
1/1/02	13,273	11,552	(1,721)	115%	5,255	(33%)
1/1/03	14,739	13,014	(1,725)	113%	4,946	(35%)
1/1/04	14,332	12,912	(1,420)	111%	4,990	(28%)

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, 2004, the amount deferred and investment earnings thereon, adjusted to fair market value, amount to \$100,003. The amounts accumulated under the Plan including investment earnings, are excluded from the financial statements of the County.