PORTLAND PUBLIC SCHOOLS
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Carole Smith
Superintendent

OFFICE OF THE SUPERINTENDENT

November 25, 2008

To Members of the Board of Education:

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of School District No.1J, Multnomah County, Oregon (Portland Public Schools or the District) for the fiscal year ended June 30, 2008, together with the audit opinion thereon of our auditors as required by Oregon Revised Statutes 297.405 through 297.555, referred to as the Municipal Audit Law. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with District management. We believe the financial statements and related information are stated fairly in all material aspects in reflecting the financial position and results of operations of the District. All disclosures necessary to enable the reader to gain maximum understanding of the District's financial affairs have been included.

To provide a reasonable basis for making these representations, District management has established and maintains an internal control structure designed to ensure that the assets of the District are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). Our internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. The internal control structure is subject to periodic evaluation by management. We believe our internal control structure adequately safeguards the assets and provides reasonable assurance of proper recording of all financial transactions. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Financial Statement Presentation

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

The ***Introductory Section*** includes the table of contents, this transmittal letter, the District's organizational chart, and copies of certificates awarded for Portland Public Schools' 2007 CAFR.

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

The ***Statistical Section*** includes selected financial and demographic information, generally presented on a multi-year basis. This CAFR marks the fourth year for implementation of GASB Statement No. 44, resulting in new schedules designed to improve the understandability and usefulness of the information presented in the statistical section.

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

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

Profile of the District

Established in 1851, Portland Public Schools is the largest and oldest school district in the State of Oregon. The District covers an area over 145 square miles and has a population in excess of 500,000 including portions of the cities of Portland (pop. 687,373), Lake Oswego (estimated pop. 36,500), and Milwaukie (estimated pop. 20,800). The District maintains over 100 facilities with a total floor area of close to 9.5 million square feet. Please see the Statistical Section, Schedule 16 for details of each building's size, age, and enrollment.

Student enrollment at October 1, 2007 was 46,088. Enrollment counts are compiled on or about the first of October. An enrolled student is defined as a student who attends one or more schools or programs within the District. Regardless of the number of schools or programs attended, each student is counted only once; the counts are unduplicated.

Program Type	Grade ranges [1]	Number of Programs	Enrollment	Enrollment Distribution
Regular Schools and Programs				
Elementary Schools	PK-7, PK-8, K-5, K-7, K-8, 1-8	57	24,404	53%
Middle Schools	6-8, 7-8	11	5,665	12%
High Schools	9-12, 6-9	17	11,629	25%
Total Regular Schools		85	41,698	90%
Magnet/Special Focus Programs	PK, K-12, 9-12, 10-12, 11-12	4	1,432	4%
Total Regular & Special Focus		89	43,130	94%
Community-Based Programs	9-12, 6-8, 6-12	25	1,342	3%
Special Education Programs	K-12	16	539	1%
Public Charter Programs	K-4, K-5, K-12, 6-8, 9-12	7	1,077	2%
Total Programs and Enrollment		137	46,088	100%

[1] Definitions: PK:Pre-Kindergarten. K:Kindergarten

Source: PPS; Enrollment Summaries, October 2007

Since 1997, the District has experienced yearly declines in enrollment, but in recent years the rate of decline has decreased and begun to stabilize. Based on enrollment counts in October 2007, total enrollment has declined by 260 students from the previous year. Based on the number of births, modest net out-migration of students, and fairly constant proportion of school-age children enrolling in Portland Public Schools, a decrease of 260 students indicates that there has probably not been a major change in the current demographic situation. We anticipate that Portland Public Schools enrollments will remain stable and will begin to increase slightly by 2012.

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

Under Oregon State law, school districts are independent municipal corporations empowered to provide elementary and secondary educational services for the children residing within its boundaries. The District discharges this responsibility by building, operating, and maintaining school facilities, developing and maintaining approved educational programs and courses of study, including career/technical educational programs and programs for special needs students, and providing for transportation and feeding of students in accordance with District, State, and Federal programs. This report includes all funds of the District.

The District is required by the State of Oregon to adopt an annual budget for all funds subject to the requirements of Local Budget Law as outlined in Oregon Revised Statutes 294.305 through 294.520, inclusive. The budget for each individual fund is a plan for the financial operations to be conducted during the coming fiscal year and is adopted annually, prior to July 1, by the Board of Education after certification by the Multnomah County Tax Supervising and Conservation Commission. After adoption, the budget may be revised through procedures specified in State statute and Board policy.

Service Efforts and Accomplishments

In 2007-08 the District marked its first year under the leadership of Carole Smith, who became Superintendent on October 1, 2007. Student achievement was generally higher in 2007-08 compared to 2006-07. Portland elementary schools joined others in the state with improved reading and math performance. Middle schools increased in math, with a slight decline in reading, while high schools did the reverse, with a small increase in reading and corresponding decline in math.

Grade Level	Reading	Math
Elementary (grades 3-5)	82.7% met standards Up 2.7 percentage points	80.6% met standards up 5.8 percentage points
Middle (grades 6-8)	76.7% met standards down 0.8 percentage point	78.5% met standards up 2.5 percentage points
High (grade 10)	64.9% met standards up 0.4 percentage point	55.1% met standards down 0.9 percentage points

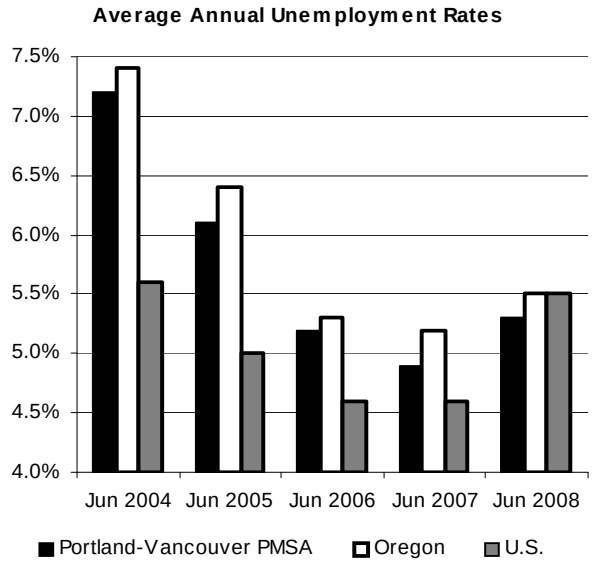
- Another indicator of student achievement is the state report cards issued by the Oregon Department of Education. The report cards assigned a grade ranging from “exceptional” to “unacceptable” to schools across the state based on student achievement, attendance, high school dropout rate, and percent of students tested on the state assessment tests. As in 2006-07, a quarter of Portland Public Schools receiving report cards for 2007-08 were rated “exceptional” even though only 11% of schools statewide earned that rating.
- Eight Portland schools moved up in the ratings: 3 elementary schools, 1 middle school, and 4 high schools. Meanwhile, 13 schools fell behind: 8 elementary schools, 1 middle school and 4 high schools.

Factors Affecting Financial Condition

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

Local economy. Portland, known as the "City of Roses," and the surrounding metropolitan area have a widely diversified economy. Centralized locations, accessible schools and excellent transportation facilities have established the area as a major distribution point on the West Coast for wholesale trade and high tech exports. During the year Trade, Transportation and Utilities accounted for the majority of the economy (24%).

Employment by Industry	June 2008	June 2007
Trade, Transportation, & Utilities	24%	20%
Education, Health Services, & Hospitality	22%	21%
Government	14%	14%
Professional, Business & Other Services	13%	13%
Manufacturing	12%	12%
Information, Financial & Real Estate	9%	14%
Construction & Mining	6%	6%



Unemployment in the Portland metropolitan area rose to 5.3% in June 2008, up from 4.8% in June 2007. During the year the area added 2,800 jobs, a 0.3% annual increase bringing the area job total to 1.044 million. Although the total number of jobs was virtually unchanged, there were shifts within the industry sectors; Trade Transportation & Utilities saw a 4% increase, while Information, Financial & Real Estate declined by 5%.

Oregon economy. In June 2008 Oregon's unemployment rate increased 0.3% during the year to 5.5%. Looking to the future, the state's June 2008 economic forecast predicted Oregon will likely follow the direction of recessionary trends in the US business cycle as it has in the past. As this report is issued in December 2008, economic conditions have changed significantly throughout the region, and Oregon's October unemployment rate has climbed to 7.3%, with the expectation it will escalate in a forecasted and prolonged recessionary cycle expected to last through the next biennium.

Long term financial planning. The voters approved a five-year local option levy on November 7, 2006. The assessment of $1.25 per $1,000 of assessed value began in the 2007-2008 school year, bringing in $35.9 million.

The District does not have adequate funds for capital improvements. The only capital bond in PPS history raised $196.7 million in 1995, and the levy expired in 2005. The Board commissioned a thorough facilities review process in 2006-07, and based upon the findings, has committed to a long-term program of comprehensive rebuilding and renovation that will eventually impact almost every school building. District staff are developing both interim and long-term facilities plans. As part of this planning, the Board will determine the appropriate financing strategy, a key component of which will be a capital bond levy to finance such projects as roof replacements, boiler upgrades, new pipe installations, and electrical upgrades, as well as remodeling, replacing, or building schools, since the average age of the school buildings in the District is over 60 years old. In 2008 the Board has earmarked about $4.5 million in the General Fund to maintain minimum levels of investment in buildings and technology, composed of $3 million for facilities improvements and $1.5 million for computer and technology upgrades.

The Board of Education and custodians came to a settlement under which the District funded $14.5 million to pay the custodians' compensation claims for lost pay, medical benefits, and other damages. The court approved the settlement agreement and payments were made in November 2007.

Independent Audits

The provisions of Oregon Revised Statutes, Section 297.405 to 297.555 require an independent audit of the financial records and fiscal affairs of the District. The auditors selected by the Board of Education, Talbot, Korvola & Warwick, LLP, have completed their examination of the basic financial statements and, accordingly, have included their unqualified Independent Auditor's Report in the financial section of this report.

The Single Audit Act of 1984 and the Single Audit Act Amendments of 1996 require state and local governments that expend $500,000 or more in federal assistance in a year have a special form of audit conducted for that year. Since 1989, Portland Public Schools has issued a separate report on these requirements and the requirements of the implementing circular, U.S. Office of Management and Budget's Circular A-133, *Audits of State and Local Governments*. Talbot, Korvola & Warwick, LLP have also provided various required reports. Contained in the separately issued Single Audit Report is the Schedule of Expenditures of Federal Awards, and the required reports on internal controls and compliance with laws and regulations.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its comprehensive annual financial report for the fiscal year ended June 30, 2007. This was the 28th consecutive year that the District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a governmental entity must publish an easily readable and efficiently organized CAFR that satisfies both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for this coveted Certificate.

The Association of School Business Officials International (ASBO) awarded its Certificate of Excellence in Financial Reporting to the District for its comprehensive annual financial report for the fiscal year ended June 30, 2007. This was the 28th consecutive year that the District earned this significant award. Receiving the Award is recognition that the District has met the highest standards of excellence in school financial reporting as adopted by ASBO. The District believes that this 2008 CAFR, which will be submitted to ASBO for review, will also conform to these standards.

We wish to express our appreciation to our Controller, Carol Ann Kirby, CPA, our Assistant Controller, Sharie Lewis, CPA, the staff of the Accounting Department, and members of other District departments who assisted in the preparation of this Comprehensive Annual Financial Report. We further extend our appreciation to the members of the Board of Education, employees of the District, and the citizens of Portland whose continued cooperation, support, and assistance have contributed greatly to the achievements of Portland Public Schools.

Respectfully submitted,

Carole Smith, Superintendent

Heidi B. Franklin, CPA, Chief Financial Officer

SCHOOL DISTRICT NO. 1J, MULTNOMAH COUNTY, OREGON
Principal Officials
At June 30, 2008

SCHOOL BOARD

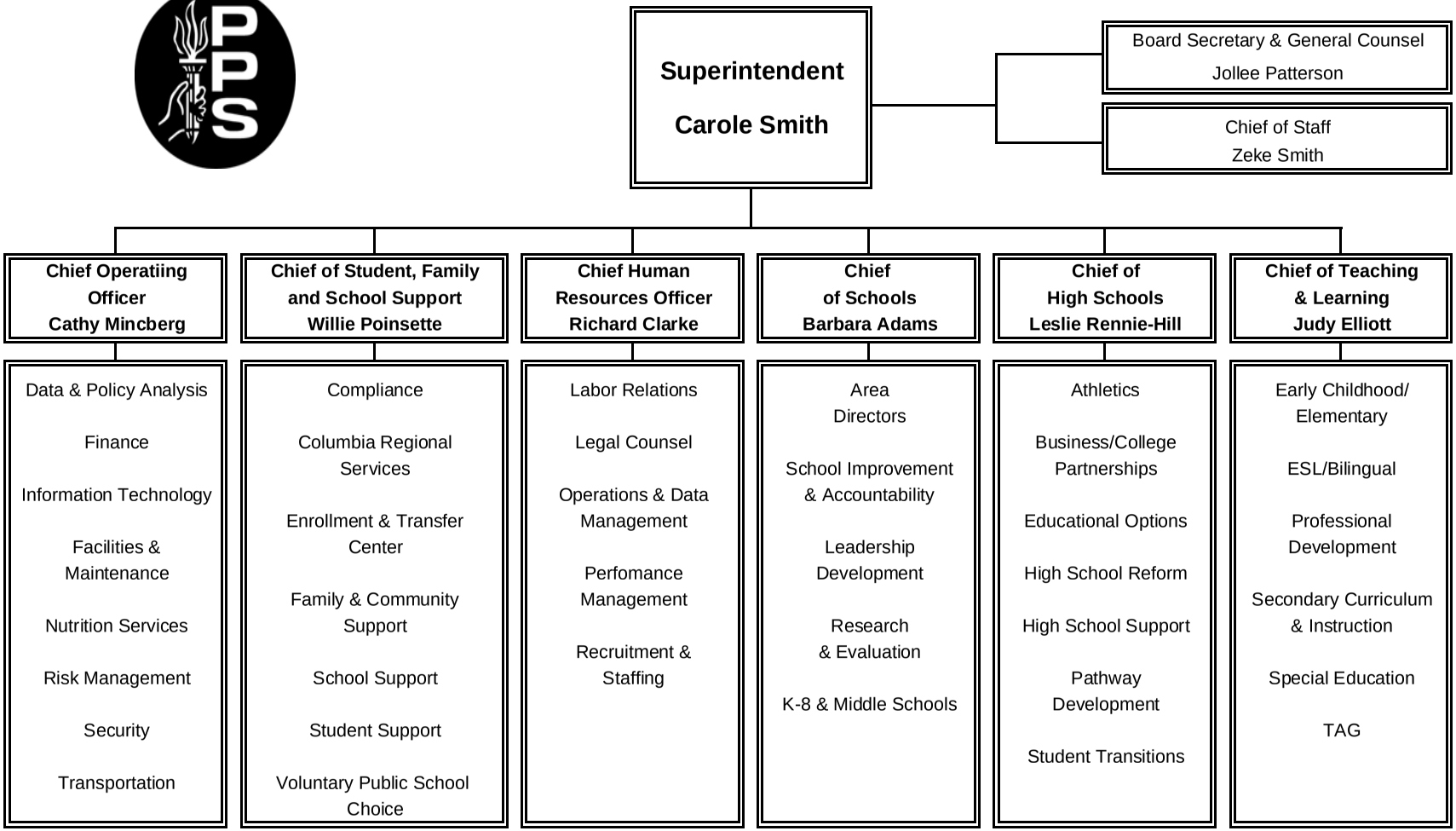
Member	Zone	Term Expires	Phone	Email
Ruth Adkins	1	June 30, 2011	503-351-9278	radkins@pps.k12.or.us
David Wynde	2	June 30, 2011	503-916-6153	dwynde@pps.k12.or.us
Bobbie Regan	3	June 30, 2011	503-292-0659	bregan@pps.k12.or.us
Dan Ryan [1]	4	June 30, 2009		
Sonja Henning	5	June 30, 2009	503-916-6654	shenning@pps.k12.or.us
Trudy Sargent	6	June 30, 2009	503-916-6655	tsargent@pps.k12.or.us
Dilafruz Williams	7	June 30, 2011	503-775-2158	dwillia1@pps.k12.or.us

ADMINISTRATIVE STAFF

Carole Smith .....Superintendent
Cathy Mincberg, Ed. D. .....Chief Operating Officer
Heidi B. Franklin, CPA ..... Chief Financial Officer
Jollee Patterson .....General Counsel

[1] On June 30, 2008, Dan Ryan resigned from the Board and was replaced on August 28, 2008, by Martin Gonzalez. Mr. Gonzalez can be contacted at 971-409-3245 (phone) or mgonzalez@pps.k12.or.us (email).

Portland Public Schools
Organizational Chart
June 30, 2008



Certificate of Achievement for Excellence in Financial Reporting

Presented to

School District No. IJ
Multnomah County
Oregon

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

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

President

Executive Director

ASSOCIATION OF SCHOOL BUSINESS OFFICIALS INTERNATIONAL

This Certificate of Excellence in Financial Reporting

is presented to

School District No. IJ, Multnomah County, Oregon

For its Comprehensive Annual Financial Report (CAFR)
For the Fiscal Year Ended June 30, 2007
upon recommendation of the Association's Panel of Review
which has judged that the Report substantially conforms
to principles and standards of ASBO's Certificate of Excellence Program

President

Executive Director