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November 25, 2009

Honorable County Chair, Board of County Commissioners
and Citizens of Multnomah County, Oregon

INTRODUCTION

We are pleased to submit the Comprehensive Annual Financial Report of Multnomah County, Oregon, for the fiscal year ended June 30, 2009, together with the opinion thereon of our independent certified public accountants, Moss Adams LLP. This report, required by Oregon Revised Statutes 297.425, is prepared by the Department of County Management. Also included are Audit Comments and Disclosures required under the Minimum Standards for Audits of Oregon Municipal Corporations Section of the Oregon Administrative Rules.

In addition, the County is required to have a comprehensive single audit of its Federal Assistance Programs in accordance with the Single Audit Act, Office of Management and Budget (OMB) Circular A-133 and the provisions of Government Auditing Standards promulgated by the U.S. Comptroller General as they pertain to financial and compliance audits. A report on the County's compliance with applicable Federal laws and regulations related to the Single Audit Act, OMB Circular A-133 is issued under separate cover and is available by request from the Department of County Management.

This report is prepared in conformance with the guidelines for financial reporting developed by the Government Finance Officers Association of the United States and Canada and the principles established by the Governmental Accounting Standards Board (GASB), including all effective GASB pronouncements. It presents fairly the financial position of the various funds of the County at June 30, 2009, and the results of operations of such funds and the cash flows of the proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America (US GAAP). The report consists of management's representations concerning the finances of the County. Consequently, management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide a reasonable basis for making these representations, County management has established a comprehensive internal control framework that is designed both to protect the County's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the County's financial statements. Because the cost of internal controls should not outweigh their benefits, the County's comprehensive framework of internal controls has been designed to provide reasonable assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

US 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 MD&A and should be read in conjunction with it. Multnomah County's MD&A can be found immediately following the independent auditors' report. Unless otherwise noted, dollar amounts are expressed in thousands.

PROFILE OF MULTNOMAH COUNTY, OREGON

Multnomah County, incorporated in 1854, is located in northwestern Oregon at the confluence of the Columbia and Willamette rivers, approximately 110 river miles and 80 highway miles from the Pacific Ocean. The County covers 465 square miles, and serves a population of 717,880 citizens. The cities of Portland and Gresham are the largest incorporated cities in the County.

Multnomah County is governed according to its Home Rule Charter, which became effective January 1967. The County's charter adopted in 1967 has had several subsequent amendments. The County is governed by a Board of County Commissioners consisting of four non-partisan members elected from designated districts within the County and the Chair of the Board, elected at large. The Board of County Commissioners conducts all legislative business of the County.

Multnomah County provides a full range of services, including public safety protection; corrections and probation; construction and maintenance of roads, highways, bridges and other infrastructure; health and social services; library and community enhancement; and internal business support. Certain sanitary and lighting services are provided as legally separate Service District Authorities, which function, in essence, as departments of the County and therefore are included in the County's financial statements as component units. Also included in the County's financial statements is information on the Library Foundation, a tax-exempt foundation whose primary purpose is to support the County's libraries through raising, receiving, administering and disbursing funds, grants, bequests and gifts for the benefit of the County libraries. The County also maintains a Hospital Facilities Authority whose primary purpose is to issue conduit debt for health care facilities. The Hospital Facilities Authority is also considered a component unit but it is not included in the County's financial statements. Additional information on these legally separate entities can be found in note 1 of the notes to the financial statements.

The County's budget is prepared on the modified accrual basis of accounting. In accordance with State statutes, the County budgets all funds except trust and agency funds. The County budget is adopted by the Board of County Commissioners by department for each fund. The expenditure appropriations lapse at the end of the fiscal year. Additional resources and corresponding appropriations may be added to the budget during the fiscal year through a supplemental budget process. Original and supplemental budgets may be modified during the fiscal year by the use of appropriation transfers between categories. The appropriation transfers must be approved by the Board of County Commissioners in public meetings. During the fiscal year, one supplemental budget was adopted.

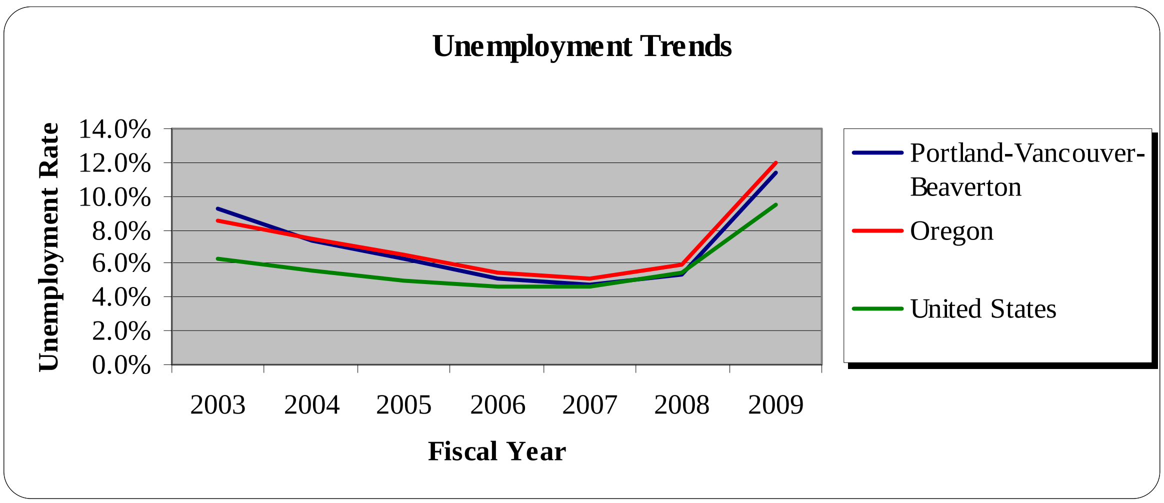
Budget to actual comparisons are provided in this report for each individual governmental and proprietary fund for which an appropriated annual budget has been adopted. For the General fund and the Federal State Program special revenue fund the budget to actual comparisons are provided on pages 35-36 as part of the basic financial statements for the governmental funds. For all other governmental funds with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which starts on page 77.

FACTORS AFFECTING FINANCIAL CONDITION

Local Economy: The Portland metropolitan area is the financial, trade, transportation and service center for Oregon, southwest Washington State and the Columbia River basin. Its manufacturing base includes electronics, machinery, transportation equipment, and fabricated metals.

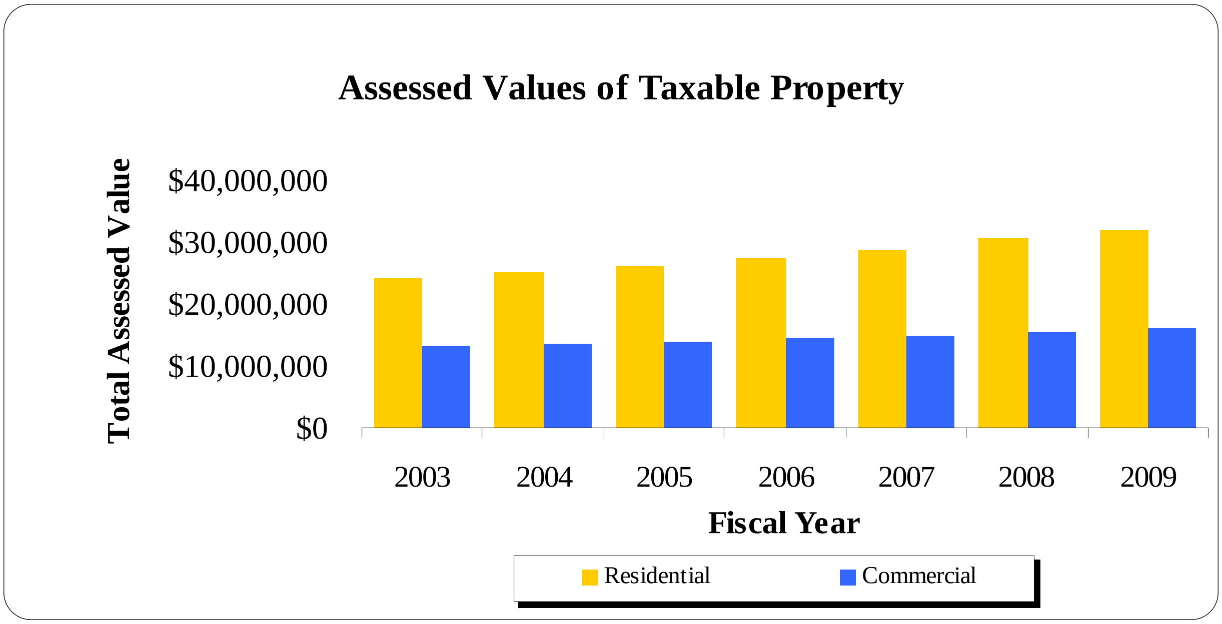
The Portland-Vancouver-Beaverton PMSA's (Primary Metropolitan Statistical Area) economy continued to weaken throughout fiscal year 2009. Some signs of stabilization have emerged during the first quarter of fiscal year 2010. Like the rest of the nation, the region has experienced declining real estate values, rising unemployment, and increased foreclosures. The impacts of the financial crisis, housing market bubble, and slowing of consumer spending continue to be seen locally.

The area's unemployment rate increased to 11.4% at June 30, 2009 as compared to 5.3% a year ago. The unemployment rate for the area is similar to the State rate, but exceeds the national average of 9.5% for June of 2009. The chart below compares the area's unemployment rate to the rates for the State and the Nation.



Financial outlook: The financial outlook for the County's general fund over the next five years has improved over this time last year. In November, 2008 County financial analysts forecast an operating deficit of $45.9 million for fiscal year 2011. That deficit was substantially closed with adoption of the fiscal year 2010 budget. The revised operating deficit is now forecast at $3.9 million, or 1.1% of general fund expenditures. The Board took positive actions to address the forecast general fund shortfall in fiscal year 2010. These actions include partnership agreements with a number of our labor unions to freeze wages and cost of living adjustments for fiscal year 2010, a 4.5% increase in the rate imposed for the Motor Vehicle Rental Tax, and implementation of ongoing program reductions totaling $22 million. Assuming a protracted, but modest, economic recovery takes place, general fund revenues and expenditures should be roughly in balance from fiscal year 2013 to fiscal year 2015.

The region's slowing economy has had an impact on the County's revenue stream. Property taxes are expected to grow at 2.3% over the next year, with new residential and commercial construction expected to remain at depressed levels. The chart on the following page shows the County's residential and commercial assessed property tax values over the past eight years. Residential properties have experienced a 38% increase in taxable property values over an eight year period compared to a 24% increase for commercial property values over the same period. Because assessed, or taxable values, are significantly below real market values for most properties, property tax collections should be relatively inelastic despite falling real market values.



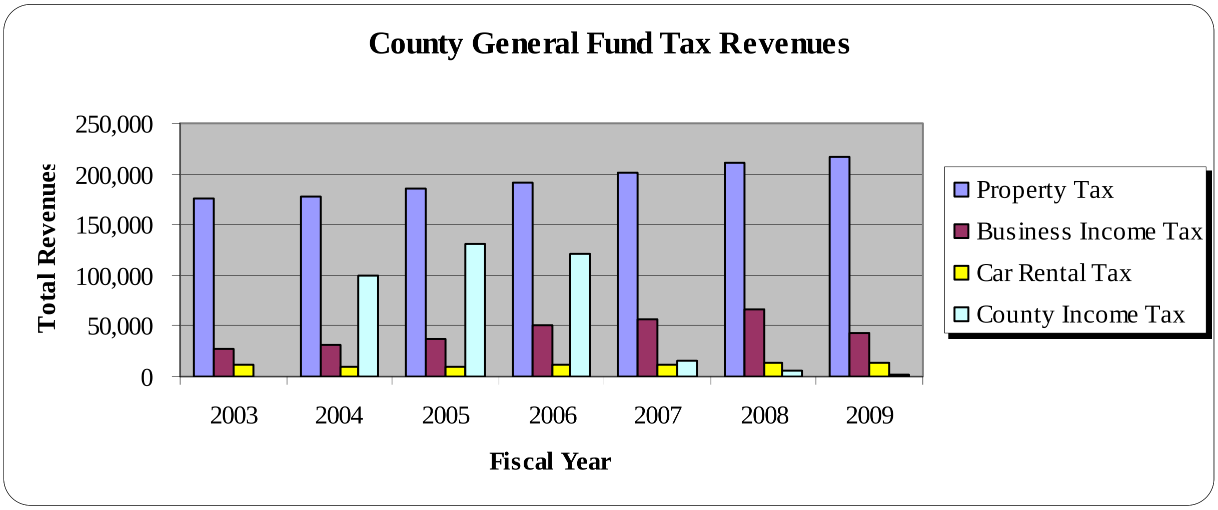
Business income tax is the second largest source of revenue for the County and it has been set at a rate of 1.45% of net income. Business income tax collections parallel the business cycle. As credit markets froze and the economy entered into a severe recession, business income tax collections plummeted. Fiscal year 2009 business income taxes fell by 36% or $23.5 million from fiscal year 2008. This decline comes after five years of double-digit growth. Business income tax collections had risen in fiscal year 2008 by 14%, following fiscal year 2007 collections that were 12% higher than the previous year. The forecast for fiscal year 2010 calls for collections to remain at fiscal year 2009 levels. If the economy does not continue to stabilize collections could be even lower. Business income tax revenues are not forecast to increase until fiscal year 2012.

Motor vehicle rental taxes, which decreased in each of the three years immediately following the September 11th terrorist attacks, fell by 4.38% in fiscal year 2009 after growing by 30% from fiscal year 2004 to 2008. The Board increased the motor vehicle rental tax from 12.5% to 17% in June 2009. Consequently, fiscal year 2010 collections are expected to be up by $4.5 million from fiscal year 2009. However, after adjusting for the increase in the tax rate, collections are forecast to be down 6.9% from fiscal year 2009 and 11% from their peak in fiscal year 2008.

Overall, ongoing General Fund revenue is expected to grow by 1.59% for fiscal year 2011 over estimated fiscal year 2010 revenues. For fiscal year 2012 to fiscal year 2015, revenue growth is forecast between 3.17% and 4.47% annually. Expenditures, before any Board actions required to balance revenues and expenditures, are expected to grow between 2.91% and 4.7% annually, taking into account the rate of inflation, employee benefits and long term fixed costs.

The State of Oregon provides a significant portion of the County's funding (mostly recorded in the Federal and State Special Revenue Fund). The State's general fund is highly dependent upon income taxes, with approximately 85% of State general fund revenue attributable to personal income tax. Heading into the 2009 legislative session the State estimated a $4 billion deficit for the 2009-2011 biennium. The State Legislature passed two revenue measures during the 2009 session - HB 2649 and HB 3405 which are expected to raise $733 million in General Fund revenue. These measures have been referred to the voters and their outcome will be decided in a January 26, 2010 special election. Should the measures be repealed, there would likely be a significant impact on County revenues received from the State.

During 2003 Multnomah County voters approved a temporary personal income tax of 1.25% on residents for fiscal years 2004, 2005, and 2006. The tax primarily provided support to the schools in the County but also provided support to the County's health, human services, and public safety programs. Fiscal year 2006 was the final year the tax would be imposed, and in fiscal year 2009 the County's general fund recognized $2,122 in collections on delinquent accounts as compared to $6,611 in tax revenue in fiscal year 2008. The following graph highlights the County's major tax sources.



Financial and budget policies. The County has established financial and budget policies which are reviewed and adopted annually by the Board of County Commissioners in connection with the budget process. Some of the goals of the financial policies include preserving capital through prudent budgeting and financial management, achieving a stable balance between the County's ongoing financial commitments and the continuing revenues available to the County, and to leverage local dollars with Federal and State funding grants. These financial policies ensure the County has appropriately recorded and accounted for transactions in our financial statements.

The County's adopted financial and budget policies generally provide for the County to use one time only resources for costs that will not recur in future years. However, the policies allow the use of one-time only resources when, in the short term, it would be more beneficial to allocate such resources to the highest priority public services than to restrict them to non-recurring costs. The result of this practice is to expand operational levels and public expectations beyond the capacity of the organization to generate continuing funding which can lead to future budget shortfalls. The 2010 adopted budget includes approximately $11.6 million of one-time only funds. These one-time only funds are used to provide a $6 million business income tax reserve, $1.5 million for partial funding for an assessment and taxation system upgrade, $1.1 million to cover vacant space costs and $1 million for delinquent payments from the expired temporary personal income tax, from this $700 passed to Multnomah County Schools. The remaining $2 million includes carryover funds and other one-time only program expenditures.

By adopting the financial and budget policies, the Board acknowledges that, to avoid financial instability, continuing requirements should be insulated from temporary fluctuations. Therefore one of the goals of the Board is to fund and maintain two general fund reserves designated as unappropriated fund balance and set at 5% each of budgeted "corporate" revenues (i.e., property taxes, business income taxes, motor vehicle rental tax, interest and investment earnings) of the general fund. These reserves are to be used for periods where revenues experience significant declines or used for non-recurring extreme emergencies such as disaster relief. Maintaining an appropriate reserve also helps the County maintain its favorable bond rating, which is currently Aa1 from Moody's Investors Services.

Long-term financial planning. The County's Chief Financial Officer and Budget Director work closely with the Chair's Chief Operating Officer and Department Directors to develop short-term and long-term financial goals and to address the financial stability of the County. The County's Chief Financial Officer and Budget Director also meet with other local jurisdictions to confer on financial issues that either overlap or impact each entity.

Major initiatives. The tension between ongoing revenues and annual expenditure growth, also referred to as the "structural deficit," was a major focus for the County in fiscal year 2009. However, Board actions taken in the fiscal year 2010 budget will significantly improve the County's fiscal condition and allow the County to pursue some major long range goals.

Planning for a number of capital project initiatives has recently been undertaken. The 2009 State Legislature authorized the County to implement a Vehicle Registration Fee to provide revenue for replacement of the Sellwood Bridge. The Legislature also committed an appropriation of $30,000 for improvements to the bridge interchange with state highway 43 which will limit the amount of local funds necessary for the project. The Board is working with the County's federal representatives to secure an additional $40,000 to offset construction costs. Recently, the Board authorized staff to begin design work on a new, 37,500 square foot County Court facility to be located in Gresham. Construction costs are estimated at $21,000 with 2012 – 2013 targeted for occupancy. The fiscal year 2009 budget provided a $1,000 contribution toward development of a sub-acute mental health facility. Renovation of the site which will house the facility is scheduled to be completed early in 2012. The County is currently in the process of identifying and securing funding to provide for annual operating costs. Finally, the Chair and the Sheriff are in discussions with State of Oregon corrections officials to pursue options to make use of the Wapato jail facility, which remains unopened following the completion of the construction. The options being discussed will be considered during the upcoming special session of the State Legislature, scheduled to convene in February, 2010.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County for its comprehensive annual financial report (CAFR) for the year ended June 30, 2008. This was the twenty-fourth year that the County has received this prestigious award. In order to be awarded a Certificate of Achievement, the County published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the employees in the Department of County Management who maintained the records and assisted in the preparation of this report. Special thanks are extended to the General Ledger Staff who were instrumental in preparing this report. Appreciation is also extended to the Chair of the Board, Board of County Commissioners, Department Directors, and other County personnel for their assistance and support in planning and conducting the financial operations of the County in a prudent manner.

Respectfully Submitted,

Mindy Harris — Cara Fitzpatrick

Mindy Harris	Cara Fitzpatrick
Chief Financial Officer	Accounting Manager