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November 23, 2010

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

We are pleased to submit the Comprehensive Annual Financial Report of Multnomah County, Oregon, for the fiscal year ended June 30, 2010, 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 included with this report beginning on page 176.

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, 2010, 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 724,680 residents. The cities of Portland and Gresham are the largest incorporated cities in the County.

Multnomah County is governed according to its Home Rule Charter. The County's charter, adopted in January 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.

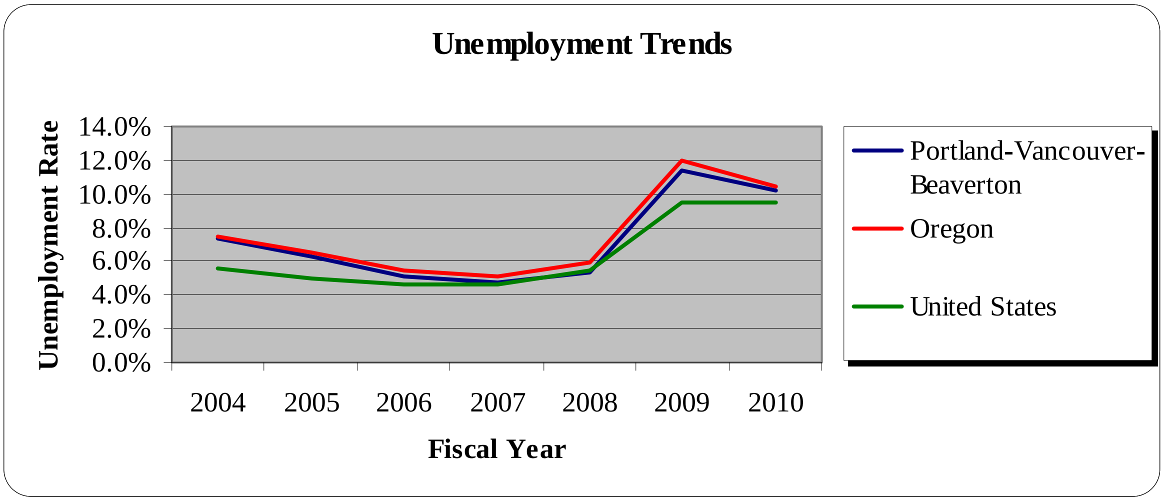
Budget to actual comparisons are provided in this report for each individual governmental and proprietary fund for which an appropriated annual budget has been adopted. The General fund, Federal State Program special revenue fund and the Library special revenue fund budget to actual comparisons are provided on pages 40-42 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 84.

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 began to show some signs of stabilization during fiscal year 2010. Like the rest of the nation, the region has experienced declining real estate values, rising unemployment, and increased foreclosures. The economic performance of the region has, historically, lagged the rest of the nation. Housing prices in the Portland-Vancouver-Beaverton PMSA, for example, have not fallen as rapidly as in other parts of the country. Yet, it is likely that the current, local economic conditions will continue to linger for another couple years.

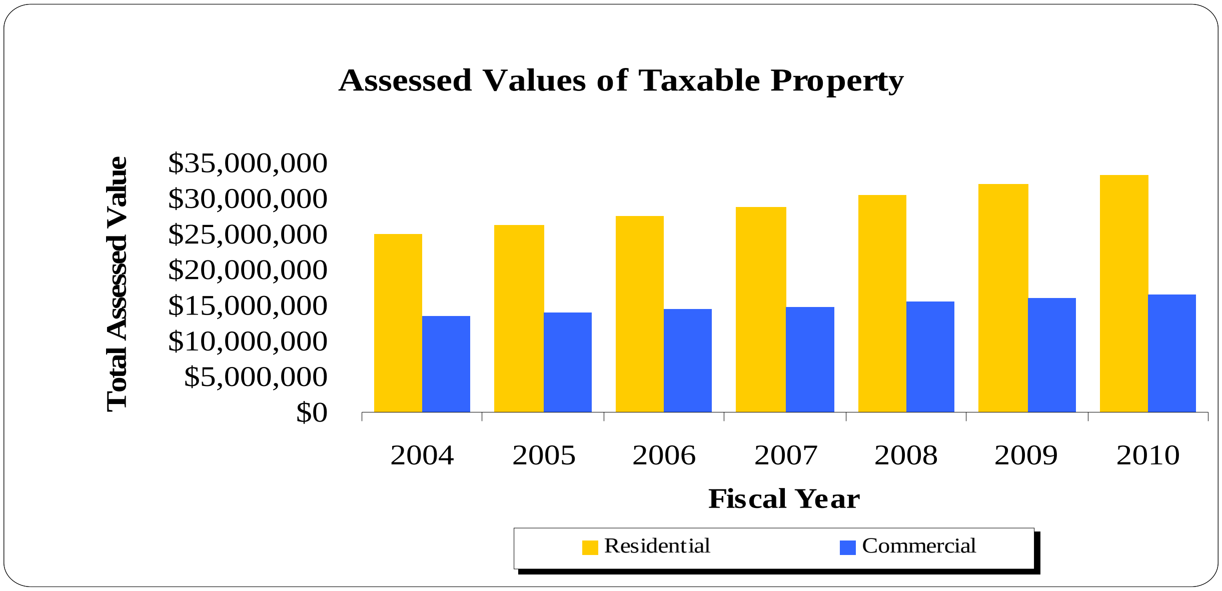
The area's unemployment rate has remained high for the past two years. At of June 30, 2010 the Portland-Vancouver-Beaverton PMSA's unemployment rate was at 10.2%, down slightly from 10.6% a year ago, but still higher than in 2008. The unemployment rate for the area is slightly better than the State of Oregon as a whole but it still exceeds the national average of 9.5% in June 2010. The chart below compares the area's unemployment rate to the rates for the state and nation.



Financial outlook: Multnomah County has been fortunate to have weathered the economic recession better than many local governments. The County has closed significant budget gaps forecast in fiscal year 2010 while maintaining a wide array of health, social, and public safety services. Prudent financial planning, careful management of long term liabilities, and a low inflation environment have enabled the County to trim an estimated $45.9 million budget shortfall to a much more manageable level of $5.4 million for fiscal year 2011. The current forecast assumes slow to moderate growth in employment and personal income over the next few years. Barring an unforeseen, "double dip" recession the General Fund should be able to provide funding for current services. The current five year forecast assumes that revenues and expenditures will be in balance through fiscal year 2015.

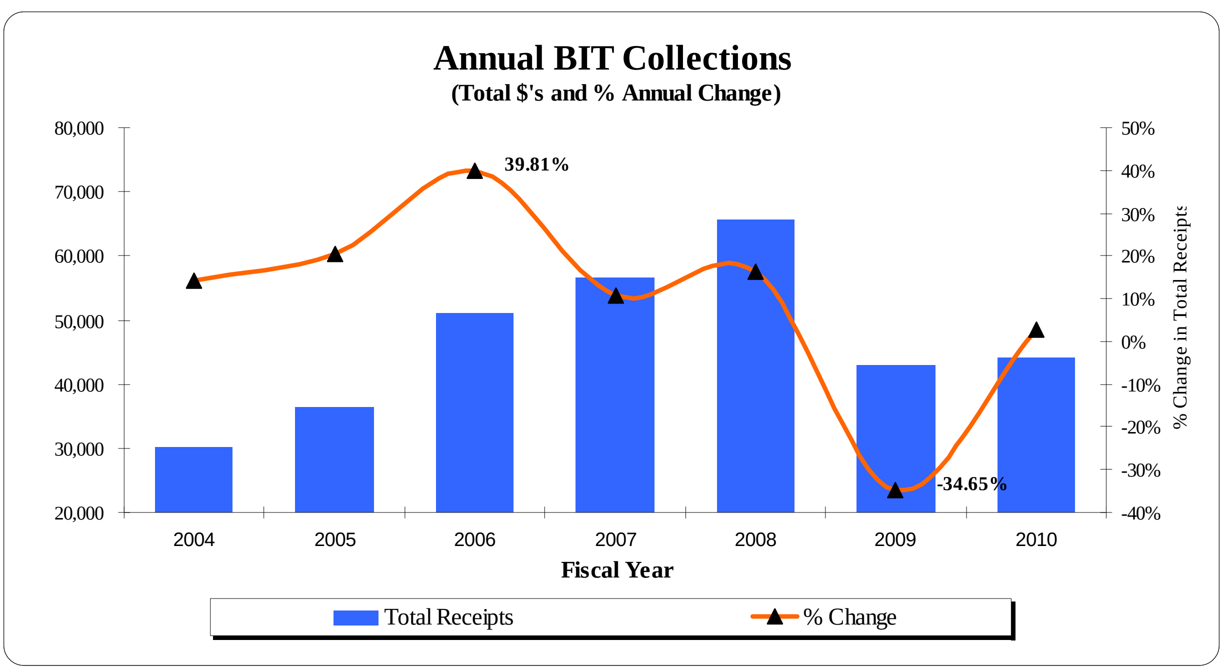
The economic recession has had an impact on the County's revenue stream. The business income tax, in particular, has experienced some significant declines since fiscal year 2008. However, the property tax, which accounts for approximately 65% of General Fund revenues, has remained relatively insulated from declining real estate values. Property taxes are governed by two state constitutional measures, Measure 5 and Measure 50, which set limits on the amount of tax that can be collected. In general, property taxable values cannot grow by more than 3% year over year. For the upcoming year, property tax collections are expected to grow by about 2.75% reflecting the constitutional growth limits combined with the fact that new construction is expected to remain at depressed levels.

The following chart highlights the County's residential and commercial assessed (taxable) 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 values remain below real market values for most properties, property tax collections should be relatively inelastic despite falling real market values. It is important to note, though, that if real market values continue to decline there will eventually be an adverse impact on the rate of property tax growth.



Business income tax (BIT) is the second largest source of revenue in the General Fund and it is set at a rate of 1.45% of net income. BIT collections generally parallel the business cycle. Immediately prior to the onset of the recession, in fiscal year 2008, BIT collections were nearly $66 million. Two years later they have declined by nearly a third, with fiscal year 2010 collections coming in at just over $44 million. This decline came on the heels of five years of double-digit growth.

The following chart highlights the volatility of BIT collections over the past seven years. Current forecasts assume slow to moderate growth in revenue but collections are not expected to reach 2008 levels in this forecast period. The County did take a proactive measure to establish a separate contingency amount in the General Fund to guard against further downturns in the BIT. This "BIT Stabilization Reserve" was set at $6 million in fiscal year 2010 reflecting the difficulty of accurately forecasting this key revenue source. Business income tax revenues are forecast to increase at less than historical levels through fiscal year 2012.



Motor vehicle rental taxes account for about 5% of ongoing General Fund revenues. Tax collections are highly influenced by the economy. For example, motor vehicle rental tax collections declined for three consecutive years following the September 11, 2001 terrorist attacks. With the travel and tourism industry being particularly hard hit by the current recession, tax collections have declined by about 14% since fiscal year 2008.

In June, 2009 the Board increased the motor vehicle rental tax from 12.5% to 17% as part of balancing the fiscal year 2010 budget. The rate increase generated an additional $4.2 million for the General Fund. The expectation is for motor vehicle rental tax to return to modest growth levels over the five year forecast period but it is interesting to note that collections from the "base" tax rate in fiscal year 2010 were roughly the same as they were in fiscal year 2001. In other words, tax collections have been flat for ten years not accounting for the change in the rate.

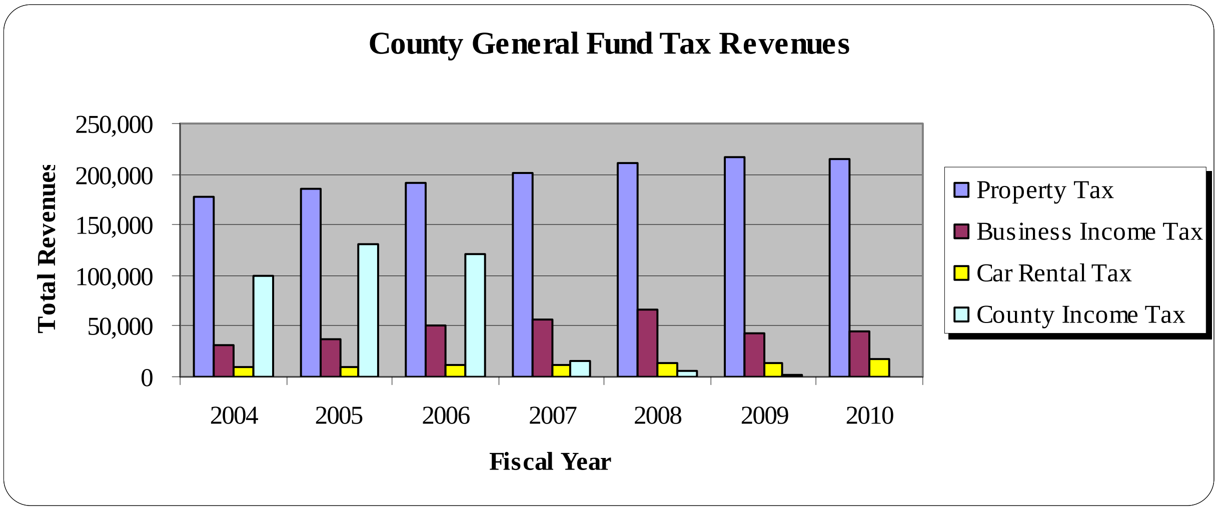
A number of years ago the County's Budget Office identified a "structural deficit" in the General Fund. This is chiefly the result of property tax limitation measures passed by Oregon voters in 1990 and 1997. As noted earlier, property taxes cannot grow (with a few exceptions) by more than 3% a year. Since property taxes make up a large percentage of General Fund revenues, the property tax limits have the effect of constraining overall revenue growth. The volatility of the BIT also factors into this equation. Expenditures, on the other hand, typically tend to grow faster than revenues.

The resulting "structural deficit" is forecast at 1.1% to about 2.5% of General fund expenditures over the next five years. This represents the ongoing gap that exists before any Board actions required to balance revenues and expenditures. It is an estimate that takes into account the rate of inflation, growth in employee benefits and long term fixed costs. Because the budget, by state statute, must be balanced it is likely that the County will need to trim program spending, allocate one-time sources of revenue, or some combination thereof to bring expenditures in line with revenues. Under very limited circumstances, however, does the County draw down on budgeted reserves to meet ongoing operational requirements.

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 Legislature was able to close this gap through budget reductions, the use of federal stimulus dollars allocated under the American Recovery and Reinvestment Act (ARRA), and new revenue from the passage of Measures 66 and 67.

The resulting budget was able to preserve many programs of importance to local jurisdictions. The County was, therefore, provided with a relatively stable, if slightly reduced level of state support for the biennium. The prospects for the upcoming (2011-2013) biennium are not looking as promising. The use of ARRA funds to backfill state programs was a one-time measure and the Legislature will need to cover a shortfall of approximately $1.5 billion from this source alone. As the recession has continued on and unemployment rates have remained high, income tax collections have continued to fall short of expectations. At this time, the state is forecasting an overall, $3.2 billion shortfall for the 2011-2013 biennium. It is unclear how this shortfall will impact County revenues or which programs might be at risk of reduction.

In 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 2010 the County's general fund recognized $905 in collections on delinquent accounts as compared to $2,122 in tax revenue in fiscal year 2009. 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 2011 adopted budget includes approximately $13.9 million of one-time only funds. These one-time only funds are used to provide a $4 million business income tax reserve, $1.7 million to support management of a variety of state and federal grants, $4.5 million to complete the purchase and implementation of an assessment and taxation system upgrade, $.75 million for planning and hosting the 2011 National Association of Counties (NACO) conference, and approximately $.9 million for Board "earmark" projects. 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 a general fund reserve designated as unappropriated fund balance and set at 10% of budgeted "corporate" revenues (i.e., property taxes, business income taxes, motor vehicle rental tax, interest and investment earnings) of the general fund. The reserve is 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 ratings. Moody's Investor Services currently rates the County as Aaa, the highest possible rating, for general obligation debt and Aa1 for full faith and credit debt.

Long-term financial planning. The County's Chief Financial Officer and Budget Director work closely with the Board of County Commissioners and the Chair's Chief Operating Officer 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 "structural deficit," was a major focus for the County in closing an estimated $45.9 million general fund shortfall in fiscal year 2009. However, Board actions taken over the past two years 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 needed for the project. The Board is working with the County's federal representatives to secure an additional $40,000 to offset construction costs. In October 2010, the Board authorized the construction and financing of a 41,732 square foot County Court facility to be located in Gresham. The facility will also house the County's relocated information technology data center. Construction costs are estimated at $20,000 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 along with a community based organization is currently in the process of identifying and securing funding to provide for annual operating costs.

AWARDS AND ACKNOWLEDGEMENTS

Awards. 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, 2009. This was the twenty-fifth 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.

Acknowledgements. 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

Mindy Harris
Chief Financial Officer, Interim DCM Director

Cara Fitzpatrick

Cara Fitzpatrick
Accounting Manager