



Department of County Management
MULTNOMAH COUNTY OREGON

501 SE Hawthorne, Suite 531
Portland, Oregon 97214
(503) 988-3312 phone
(503) 988-3292 fax

December 15, 2006

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, 2006, together with the opinion thereon of our independent certified public accountants, Moss Adams LLP. This report, required by State law, 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 188.

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, 2006, 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 692,825 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. 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.

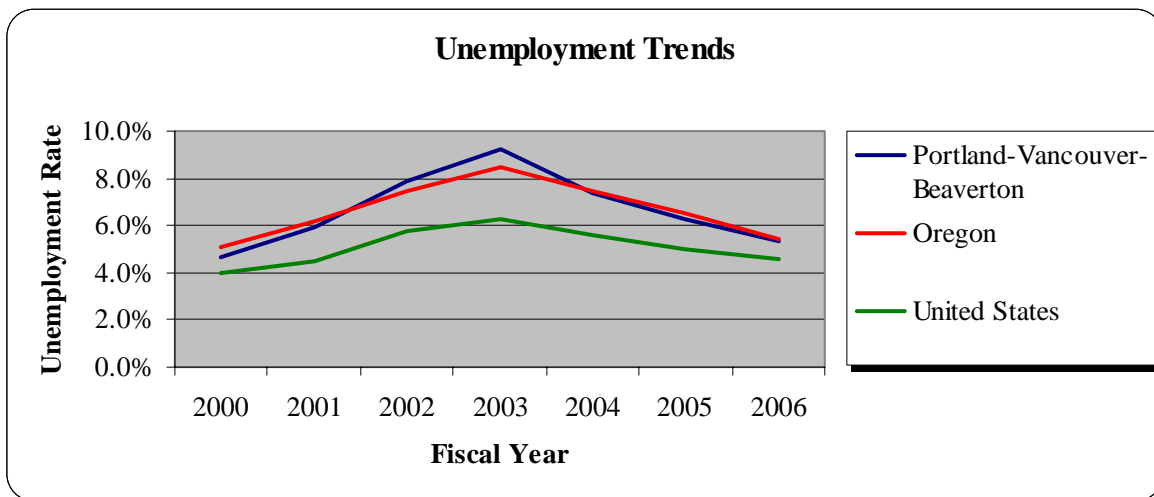
The County's budget is prepared on the modified accrual basis of accounting. In accordance with State statutes, the County budgets all funds except trust and agency funds. The County budget is adopted by the Board of County Commissioners by department for each fund. The expenditure appropriations lapse 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, two supplemental budgets were 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, the Federal State Program special revenue fund and the Willamette River Bridges fund the budget to actual comparisons are provided on pages 35-37 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 80.

FACTORS AFFECTING FINANCIAL CONDITION

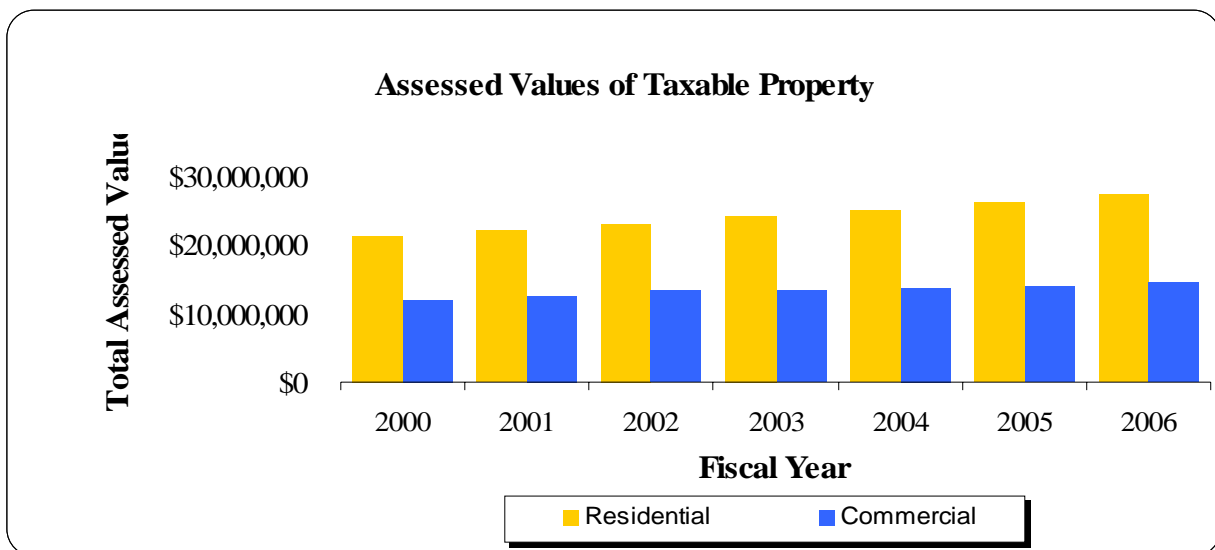
Local Economy: The Portland metropolitan area is the financial, trade, transportation and service center for Oregon, southwest Washington State and the Columbia River basin. Its manufacturing base includes electronics, machinery, transportation equipment, and fabricated metals.

The Portland-Vancouver-Beaverton PMSA's (Primary Metropolitan Statistical Area) economy improved throughout fiscal year 2006. The area's unemployment rate had improved to 5.3% at June 30, 2006, compared to a rate of 6.2% at June 30, 2005. However the unemployment rate for the area is still higher than the national average of 4.6% for June of 2006 compared to 5.0% for June 2005. The chart below compares the area's unemployment rate to the State's and the Nation's.



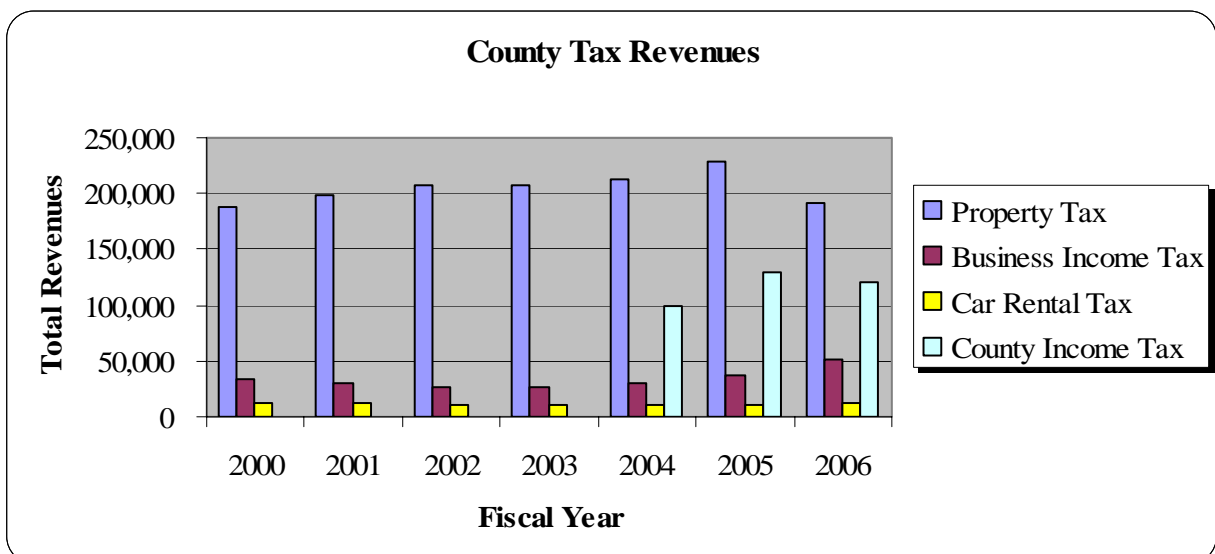
Financial outlook: The financial outlook for the County's general fund over the next five years is somewhat stronger than previous forecasts primarily due to gradual increases in economic conditions in the area. The regional economy is approaching a period of sustainable growth, but given the depth of our recession it will take longer for the region to experience a sizable employment and revenue growth. The State of Oregon has been making a strong push for recovery, but in order to catch up with the nation this trend must continue.

The region's slow but steady growth will impact the County's revenue stream. Property taxes are expected to grow at 2.8% over the next year and new residential and commercial construction will continue to have a major impact on the County in upcoming years. The following chart measures the County's total residential and commercial assessed property tax values over the past seven years. Residential properties have experienced a 29% increase in taxable property values over a seven year period compared to a 22% increase for commercial property values over the same period. The steady increase in residential property is primarily due to new construction in the Portland area, but this increase is expected to level off somewhat due to the slowdown of the housing market.



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. Increased business income tax collections in fiscal year 2006 suggest that we are seeing continued growth after four years of declining revenues, and we expect this trend to continue in the upcoming years. In addition, motor vehicle rental taxes which have decreased over the past three years are expected to grow by 2.5% as travelers gain confidence and we see an increase in air traffic and car rentals in Portland. Overall revenue growth is forecast between 2.5% to 3.5% over the next five years. Expenditures are expected to grow between 4.5% and 6.0% annually, taking into account the normal rate of inflation, employee benefits and long term fixed costs.

During 2003 Multnomah County voters approved a temporary personal income tax of 1.25% for residents to fund services for fiscal years 2004, 2005, and 2006. The tax primarily provides support to the schools in the County but also provides 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 the County's general fund recognized \$120,919 as compared to \$130,187 in tax revenue in fiscal year 2005. In fiscal year 2006 the County began planning for the end of the three year personal income tax. The graph below highlights the County's major tax revenues sources.



Financial and budget policies. As a guideline for the budget process the County has established financial and budget policies which have been reviewed and adopted 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 include the use of one-time only resources because in the short run it appears more beneficial to allocate such resources to the highest priority public service that would otherwise be unfunded than to restrict them to costs that will not recur in following years. However, 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. As mentioned earlier, fiscal year 2006 was the last year of the three year temporary personal income tax measure and the County has begun to establish necessary general fund reserves to lessen the impact of the sunset of the personal income tax revenues. The 2007 adopted budget includes approximately \$16,000 of one-time only funds. These one-time only funds include \$6,000 for public safety programs, \$2,755 for health and social services programs, and \$2,474 for programs offered in the schools. In preparing the 2008 budget, the County will be in the position of identifying programs that will no longer receive funding due to a lack of ongoing resources.

The County's financial and budget policies also state 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 funded at approximately 5% each of total budgeted revenues 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 Chair has an Executive Committee that includes the Board Chair's Chief Operating Officer, Department Directors, and the Chief Financial Officer. The Executive Committee holds ongoing planning sessions to develop short-term and long-term goals and to address the financial stability of the County. The County's Chief Financial Officer also meets with City of Portland Financial and Budget Officers and with representatives from the City of Gresham to confer on financial issues that either overlap or impact each entity.

Major initiatives. The construction on the County's new 525-bed Wapato jail and secure alcohol and drug treatment facility was completed during fiscal year 2005. Currently there are insufficient funds to operate this facility and as a result the jail remains empty. The Chair and the Sheriff are in discussions with State of Oregon corrections officials about leasing the facility or renting jail beds to the State or to other jurisdictions. Other capital project initiatives include addressing the County's bridge rehabilitation and replacement needs. Thus far the County has been successful in obtaining \$25,000 in State and Federal awards for current bridge projects but an estimated long-term shortfall of \$215,000 still exists between identified needs and identified funds over the next twenty years. The County is currently engaged in a project to replace the Sauvie Island bridge. The total cost for the Sauvie Island bridge project is estimated to be \$45,500 and the project is estimated to be completed in 2009.

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, 2005. This was the twenty-first 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
Chief Financial Officer



Cara Fitzpatrick
Accounting Manager