MetroCAFR

Comprehensive Annual Financial Report

For the year ended June 30, 2006

METRO

PEOPLE PLACES
OPEN SPACES

Oregon

Metro
People places • open spaces

Clean air and clean water do not stop at city limits or county lines. Neither does the need for jobs, a thriving economy and good transportation choices for people and businesses in our region. Voters have asked Metro to help with the challenges that cross those lines and affect the 25 cities and three counties in the Portland metropolitan area.

A regional approach simply makes sense when it comes to protecting open space, caring for parks, planning for the best use of land, managing garbage disposal and increasing recycling. Metro oversees world-class facilities such as the Oregon Zoo, which contributes to conservation and education, and the Oregon Convention Center, which benefits the region's economy.

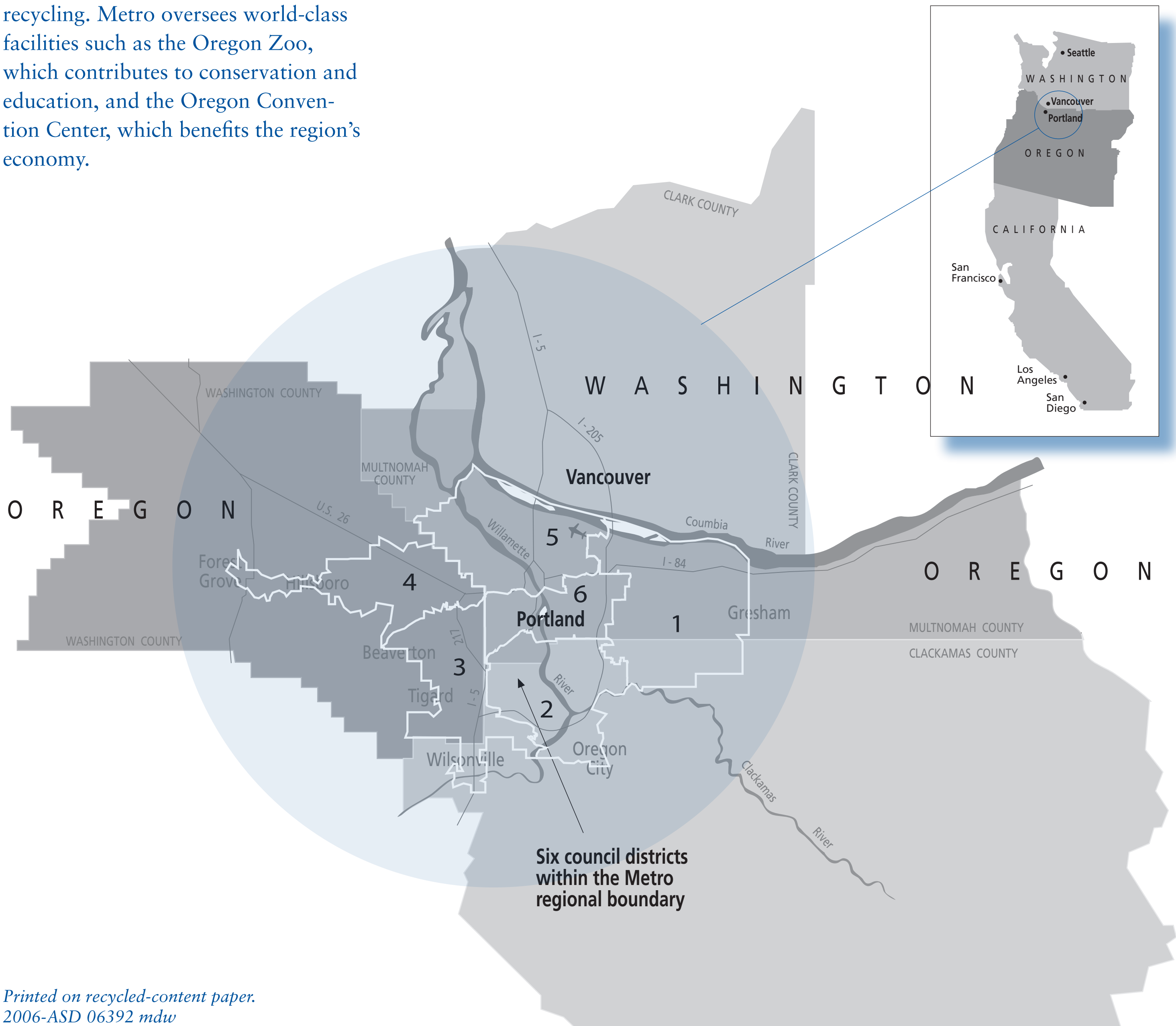
Your Metro representatives

Metro Council President – David Bragdon

Metro Councilors – Rod Park, District 1; Brian Newman, District 2; Carl Hosticka, deputy council president, District 3; Susan McLain, District 4; Rex Burkholder, District 5; Robert Liberty, District 6.

Auditor – Alexis Dow, CPA

Metro's web site:
www.metro-region.org



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MetroCAFR

Comprehensive Annual Financial Report

For the year ended June 30, 2006

Finance and Administrative Services
Department

Chief Financial Officer
William Stringer

Prepared by
Accounting Services Division

Accounting Compliance Officer
Donald R. Cox Jr., CPA

Financial Reporting Supervisor
Karla J. Lenox, CPA

METRO
PEOPLE PLACES
OPEN SPACES

Oregon

PDF User's Guide

This guide is intended to assist readers in finding information in the Adobe Acrobat® Portable Document Format (PDF) version of the Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2006. This PDF utilizes the Bookmark functions to assist readers in locating information quickly.

Viewing the CAFR

To view the document with facing pages, click on the "Facing" button to view the pages and their content side-by-side. Many of the pages in this document span two pages and should be viewed as they would appear in the print document with pages facing one another.

The "Facing" button is located at the bottom right of the status bar. These buttons appear as window panes and will change the view of the PDF.

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The Comprehensive Annual Financial Report for the year ended June 30, 2006 and other financial information are available online at www.metro-region.org (drop-down menu in quicklinks in upper left corner of home page>Budget and financial information page with links down left side of page).

METRO

Comprehensive Annual Financial Report
For the Year Ended June 30, 2006

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Introductory Section

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METRO

December 8, 2006

To the Council and Citizens of the Metro Region:

In accordance with ORS 297.425, Metro's Finance and Administrative Services Department, Accounting Services Division is pleased to submit the Comprehensive Annual Financial Report of Metro, for the fiscal year ended June 30, 2006, together with the report thereon of Metro's independent auditors.

The Comprehensive Annual Financial Report (CAFR) presents the financial position of Metro as of June 30, 2006, and the results of its operations as well as cash flows for its proprietary fund types for the year then ended. The financial statements and supporting schedules have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and meet the requirements of the standards as prescribed by the Secretary of State, State of Oregon.

The CAFR is prepared to provide meaningful financial information to legislative bodies, creditors, investors and the public. There are four main sections in this report:

The **Introductory Section** includes the table of contents, this transmittal letter and Metro's organizational charts.

The **Financial Section** includes the independent auditor's report, Management's Discussion and Analysis, basic financial statements for the entity as a whole, other required supplemental information, notes to the financial statements as well as combining and individual statements and schedules for Metro's funds.

The **Statistical Section** includes five and ten years of summary data in five categories – financial trends, revenue capacity, debt capacity, demographic and economic information, and operating information, as required by *Government Accounting Standards Board Statement No. 44*, which Metro is implementing with this fiscal year's report.

The **Audit Comments and Disclosures Section** includes additional reports of our independent certified public accountants required by Oregon Administrative Rules. These rules are incorporated in the Minimum Standards for Audits of Municipal Corporations, as prescribed by the Secretary of State.

Internal Controls. The CAFR consists of management's representations concerning the finances of Metro. Metro management is responsible for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, Metro's management has established a comprehensive internal control framework. This framework is designed to provide reasonable assurance that assets are

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safeguarded against loss from unauthorized use or disposition, and that accounting transactions are executed in accordance with management's authorization and properly recorded, so that the financial statements can be prepared in conformity with GAAP. The design and operation of internal controls also ensures that federal and state financial assistance funds are expended in compliance with applicable laws and regulations related to those programs. Because the cost of internal controls should not outweigh their benefits, Metro's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute 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.

Independent Audit. In accordance with Oregon law, Metro's financial statements have been audited by Pauly, Rogers and Co., PC. The objective of the audit was to provide reasonable assurance that the financial statements of Metro, for the fiscal year ended June 30, 2006, are free of material misstatement. The auditor issued an unqualified ("clean") opinion on Metro's financial statements for the year ended June 30, 2006 and their report on these financial statements is located in the Financial Section of the CAFR on pages 15 -16. The independent audit of the financial statements was part of a broader, federally mandated "Single Audit." The "Single Audit" standards require the independent auditor to express an opinion on whether the entity complied with laws, regulations, and with the provisions of contracts or grant agreements that could have a direct and material effect on each major program. These reports are available in Metro's separately issued *Schedule of Expenditures of Federal Awards and Reports of Independent Certified Public Accountants*.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview and analysis of the basic financial statements. This letter of transmittal is designed to complement MD&A and should be read in conjunction with it.

Profile of Metro

Metro covers approximately 460 square miles of the urban portions of Clackamas, Multnomah and Washington counties in northwestern Oregon. There are 25 cities in the Metro region; Portland, Gresham, Hillsboro, Beaverton, Tigard, Lake Oswego and Oregon City are the largest.

Metro, the nation's only directly elected regional government, is responsible for a broad range of public services. According to a home-rule charter first approved by voters in 1992, Metro has primary responsibility for regional land-use and transportation planning, and is further empowered to address any other issue of "metropolitan concern." This grant of authority underscores the Portland metropolitan region's commitment to maintain and enhance the livability of the region.

History. In 1979, voters approved the merger of a council of governments (Columbia Region Association of Governments) that had land-use and transportation planning responsibilities, with the Metropolitan Service District, which had been created to provide regional services that included the solid waste management plan and operation of a metropolitan zoo (now named the Oregon Zoo). The expanded Metropolitan Service District (the District) had the combined authority of the two predecessor agencies and other potential additional powers. The District was organized under a grant of authority by the Oregon Legislature and the Oregon Revised Statutes. The District's powers were limited to those expressly granted by the Legislature, and any extension of those powers had to first be approved by the Legislature.

In the early 1980's, the District was assigned the responsibility for regional solid waste disposal, took over operation of the one existing publicly owned regional landfill (since closed) and began construction of a transfer station. In November 1986, voters approved general obligation bond funding for the Oregon Convention Center, which was financed, built and is now operated by Metro. In January 1990, under terms of an intergovernmental agreement with the City of Portland, the District assumed management responsibility for the Portland Center for the Performing Arts.

Also in 1990, the Legislature referred a constitutional amendment to the voters to allow the creation of a home-rule regional government in the Portland metropolitan area. Voters approved the amendment and subsequently approved the Metro Charter in 1992. Metro thereby achieved the distinction of not only being the nation's only elected regional government, but also the only one organized under a home-rule charter approved by voters. In 1994, Metro assumed management responsibility for the Multnomah County parks system and Expo Center. Ownership of these facilities was transferred to Metro on July 1, 1996.

Metro has long had an important coordination role in regional transportation planning. Metro is the region's designated metropolitan planning organization, responsible for allocation of federal transportation funds to projects. The region's success in attracting federal funding for highway and transit projects is due, in large part, to Metro's role in building and maintaining regional consensus on projects to be funded and ensuring that funding is allocated to high-priority projects. In connection with this effort, Metro has developed a regional Data Resource Center to forecast transportation and land-use needs and to maintain geographic based data for decision-making.

State land-use planning laws require local governments to prepare comprehensive land-use plans. Metro is the agency responsible for establishing and maintaining an urban growth boundary (UGB) for the Portland region. Through the maintenance of the UGB pursuant to Oregon's land-use laws, the region has maintained its unique character and is now a national model for urban growth management planning.

Budget. The annual adopted budget serves as the foundation for Metro's financial planning and control. Metro prepares a budget for each fund in accordance with the legal requirements set forth in Oregon Local Budget Law. The Council adopts the original budget for all funds by ordinance prior to the beginning of Metro's fiscal year (July 1). The ordinance authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations. Appropriations that have not been expended at year-end lapse and subsequent actual expenditures are charged against ensuing year appropriations. Unexpected additional resources and budget revisions may be added to the budget by use of a supplemental budget or by an ordinance passed by the Council amending the budget. The original and any supplemental budget requires hearings before the public, publication in newspapers and approval by the Council. Management may amend the budget *within* the appropriated levels of control without Council approval.

Reporting Entity

For financial reporting purposes, Metro is a primary government under the provisions of *Governmental Accounting Standards Board Statement No. 14*. This report includes all organizations and activities for which the elected officials exercise financial control. Under this requirement, Metro includes as a component unit the Metropolitan Exposition-Recreation Commission (MERC). MERC is responsible for the operation of the Oregon Convention Center, Portland Center for the Performing Arts (PCPA) and Expo Center. In addition, in accordance with the provisions of *Governmental Accounting Standards Board Statement No. 39*, the Oregon Zoo Foundation (OZF) warrants inclusion in the report because of the nature and significance of its relationship with Metro, including its on-going financial support of Metro's Oregon Zoo. The OZF is a legally separate tax-exempt organization, organized to encourage and aid the development of the Oregon Zoo. The financial statements of MERC and OZF are included in this report as discretely presented component units.

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 Metro operates.

Local economy. Metro serves more than 1.3 million residents in the Portland metropolitan area. The area is the financial, trade, transportation and service center for Oregon, southwest Washington state and the Columbia River basin. Portland has, over the last several years, experienced strong economic growth although some signs of cooling are becoming apparent.

Oregon's employment jumped by 3,900 jobs during July 2006. The Oregon State Employment Department reported businesses as diverse as restaurants and wholesale trade increased hiring. According to the Oregonian newspaper, Portland's leisure and hospitality industry posted a strong showing, adding double the number of workers to payrolls than is expected for July. This year's good spring and summer weather have been good for Portland's construction industry, a market segment that has grown 9 percent since July of 2005. Nevertheless, July's gain in employment wasn't as much as expected, coming in 900 jobs short of the typical seasonal pattern. As a group, manufacturers have reported slower hiring. Manufacturers in Portland are a diverse group and include everything from semiconductor makers to heavy truck assemblers such as Freightliner.

Despite the overall increase in jobs, an up-and-down job count during the four months ending in July indicates a slowing in the state's economic upturn after three years of steady growth. Oregon State's Economist, Art Ayre, says, "What we're seeing is a slowdown, not an outright decline." The state expects to end 2006 with a healthy 3.1 percent annual growth rate, similar to the state's 2005 posting.

Recently, after a three-year trend of rising home values, the Portland-area housing market cooled. In July the median home price declined slightly to $274,700 from $280,000 in June, according to the Regional Multiple Listing Service. Coming during the seasonally strong summer housing market, July's decline marked the first time since 2002 that the June-to-July period recorded a median price decrease.

Outlook. The University of Oregon's Index of Economic indicators slipped in July 2006. Three indicators, the Oregon weight-distance tax, Oregon nonfarm payrolls and new manufacturing orders, improved. Two indicators, Oregon initial unemployment claims and Oregon residential building permits, deteriorated. The remaining indicators, U.S. consumer confidence, help-wanted advertising in The Oregonian newspaper, and the interest rate spread, were essentially unchanged.

The index indicates continued economic growth in Oregon in the near term (three to six months). Still, the fall in the index over the past six months, along with a decrease in the number of improving indicators, suggests that the pace of activity is slowing.

According to the Oregon Economic and Revenue Forecast dated June 2006, a major risk facing Portland is a possible collapse of the housing market. Any drop in home price appreciation coupled with a large drop in mortgage refinancing could slow consumer spending. Portland's housing market could be adversely affected by a major housing correction in California since the majority of people moving to Portland originate from that state. If the price of homes were to depreciate, gains in personal income would be needed to keep consumer spending from declining.

Long-term financial planning. Metro prepares a five-year Capital Budget with annual updates as part of its financial planning responsibilities. For purposes of the Capital Budget, capital projects are defined as any physical asset acquired or constructed by Metro with a total capital cost of $50,000 or more and a useful life of at least five years. This definition includes significant capital maintenance activities. The adopted Capital Budget for fiscal year 2007 through fiscal year 2011 includes 70 capital projects at an estimated total cost of $144.0 million. This amount is a 17.9% increase over the prior year Capital Budget and comes primarily from the addition of a Regional Parks $105 million project to purchase new Open Spaces properties.

In prior years, Metro's Capital Budget included capital projects of MERC. In fiscal year 2006, MERC expanded their separate operating procedures to include a capital budget policy independent of Metro. MERC's Capital Budget is presented to their Commission for approval and funds are then appropriated for those projects approved by MERC through Metro's budgetary process. Without their inclusion, there is an overall decline of 13 in the number of projects. The largest share of planned capital project expenditures among Metro departments in the current Capital Budget are in Regional Parks and Greenspaces at 84.35%, Solid Waste and Recycling at 9.06%, and the Oregon Zoo at 4.28%.

The financing sources for these capital projects vary by project and by department. The Solid Waste and Recycling Department generally relies on fund balance or capital reserve accounts and funding is included in the solid waste disposal rate-setting process. Zoo projects have typically been funded from fund balance, currently accounting for 18% of the resources, and donations. The Zoo has active fundraising support in OZF and is relying on their efforts for almost 77% of their capital project funding needs. Regional Parks and Greenspaces non-land expenditures are predominately funded by grants, excise tax and renewal and replacement funds set aside from a "dollar per ton" dedicated excise tax and developing new parks from an additional dedicated excise tax of $1.50 per ton on solid waste disposal. Metro placed a new Natural Areas general obligation bond measure on the ballot, which was approved by voters, in fall 2006 to fund additional natural area land acquisition projects.

The Capital Budget also contains a projection from each department of the net impact on operating costs (reflected in 2005 dollars) resulting from each capital project, for the first full year of operation after project completion. Metro, overall, will have an additional cost of $220,525 to $1,332,439 per year from these projects. The projects adding the most to operating costs are the Mt. Talbert Development Open Spaces Phase II, the Regional Parks Cooper Mountain Natural Area, the Graham Oaks Nature Area Development, and the California Condor Captive Breeding Facility. Only three projects are expected to produce positive cash flows, two in Regional Parks – the Blue Lake Park concessions building renovations and the Golf Course at Blue Lake Park – and one at the Oregon Zoo for fluorescent light fixture replacement.

Financial policies. Comprehensive financial policies were adopted by Metro on June 17, 2004 and provide the basic framework for the overall fiscal management of the agency. The policies are designed to operate independently of changing circumstances and conditions and help safeguard Metro's assets, promote effective and efficient operations, and support the achievement of Metro's strategic goals. The policies are reviewed annually by the Metro Council and are published in the adopted budget.

In addition to policies on accounting, auditing and financial reporting that mirror statements made earlier in this letter of transmittal, there are policies regarding budgeting and financial planning, capital asset management, cash management and investments, debt management and revenue policies.

In regards to budgeting, Oregon Local Budget Law requires that total resources shall equal total requirements in each fund. In addition to this legal requirement, Metro considers a budget to be balanced whenever budgeted revenues equal or exceed budgeted expenditures. Metro policy provides that it will maintain fund balance reserves that are appropriate to the needs of each fund and that targeted reserve levels shall be established and reviewed annually as part of the budget review process. The policy requires that a new program or service be evaluated before it is implemented to determine its affordability and that Metro will prepare annually a five-year forecast of revenues, expenditures, other financing sources and uses and staffing needs for each of its major funds, identifying major anticipated changes and trends, and highlighting significant items which require the attention of the Metro Council.

Metro established fund balance designations beginning in fiscal year 2004 to fund potential future increases in Public Employees Retirement System (PERS) costs. An amount equivalent to 6.65% of regular salaries has been set aside annually in this PERS reserve. The accumulated reserve as of June 30, 2006 totaled approximately $7.54 million.

Metro plans to carry forward $50.6 million of fund balance into fiscal year 2008. Primary among the planned funds to be carried forward are reserves for specific purposes (solid waste activities and debt reserves), which are generally required by law or formal operating agreement. In addition, planned ending fund balances include funds to provide cash flow for specific operations so that they can operate early in the following fiscal year as their primary revenues may not be received until later in the year.

Cash management policies provide that Metro maintain an investment policy in the Metro Code, which shall be subject to annual review and re-adoption. This policy must in turn conform to the requirements of Oregon Revised Statutes. The Council readopted the policy in April 2006.

Metro pools most funds for investment purposes to obtain maximum return on investments while minimizing the risk of loss of principal due to credit and market risk. The Investment Policy regulates Metro's investment objectives, diversification, limitations and reporting requirements. Metro uses an independent Investment Advisory Board to review and advise Metro on its investment plan and investment performance. Quarterly investment reports are presented to the Investment Advisory Board and forwarded to the Metro Council.

Cash not required for current operations was invested in the State of Oregon Local Government Investment Pool, U.S. Treasury securities, federal agency securities, commercial paper and bankers' acceptances. The average yield earned on Metro's pooled cash investments varied with the market in fiscal year 2006, from a low of 3.10% in July 2005 to a high of 4.97% in June 2006. The average yield for the fiscal year was 4.05% compared to 2.18% in the prior year. The pooled cash portfolio does not include bond related investments, which are restricted in terms of maturity and yield.

Debt management policies provide that Metro shall issue long-term debt only to finance capital improvements (including land acquisition) that cannot be readily financed from current revenues, or to reduce the cost of long-term financial obligations. Metro will not use short-term borrowing to finance operating needs unless specifically authorized by Council. Further, Metro will repay all debt issued within a period not to exceed the expected useful life of the improvements financed by the debt. Metro conformed to these policies during the fiscal year ended June 30, 2006. This is discussed further in MD&A later in this report.

Metro's revenue policies provide that the agency will strive to maintain a diversified and balanced revenue system to protect it from short-term fluctuations in any one revenue source. One-time revenues shall be used to support one-time expenditures or to increase fund balance.

A further detailed discussion of Metro's financial policies and plans for the future can be found in *Metro's 2006-07 Adopted Budget.*

Major initiatives. In the fiscal year 2006 Budget, Metro introduced changes in both process and presentation that will continue into the fiscal year 2007 budget. The changes are designed to achieve two objectives by fiscal year 2008:

- The Metro Council's strategic planning process, its subsequent statements of objectives, the programmatic character of budget information and the consolidation of budget funds all will serve to assist the Council in aligning its spending with its priorities.
- The budget will have greater transparency. Emphasizing departmental programs rather than fund types, relating programs directly to Council objectives, and providing measures of success for all programs will contribute to a deeper understanding of budget priorities and a reflection of Council policy.

The coming fiscal year will also include a comprehensive look at reserve requirements, the results of which will be folded into the Council's annual review and approval of Metro's financial and capital policies.

The Metro Council has directed staff to work with all residents of our region to keep nature in neighborhoods as the human population grows. In the words of Council President David Bragdon, "through education, collaboration, and innovative development practices, the program aims to restore our streams and uplands, protect water quality and natural areas, and ensure a healthy ecosystem and vibrant habitat for wildlife and people."

Awards

The Government Finance Officer's Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Metro for its comprehensive annual financial report for the fiscal year ended June 30, 2005. This was the fourteenth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

In addition, the government also received the GFOA's Distinguished Budget Presentation Award for its annual budget document for the fiscal year beginning July 1, 2005. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and as a communications device. This was the ninth consecutive year that Metro received this award.

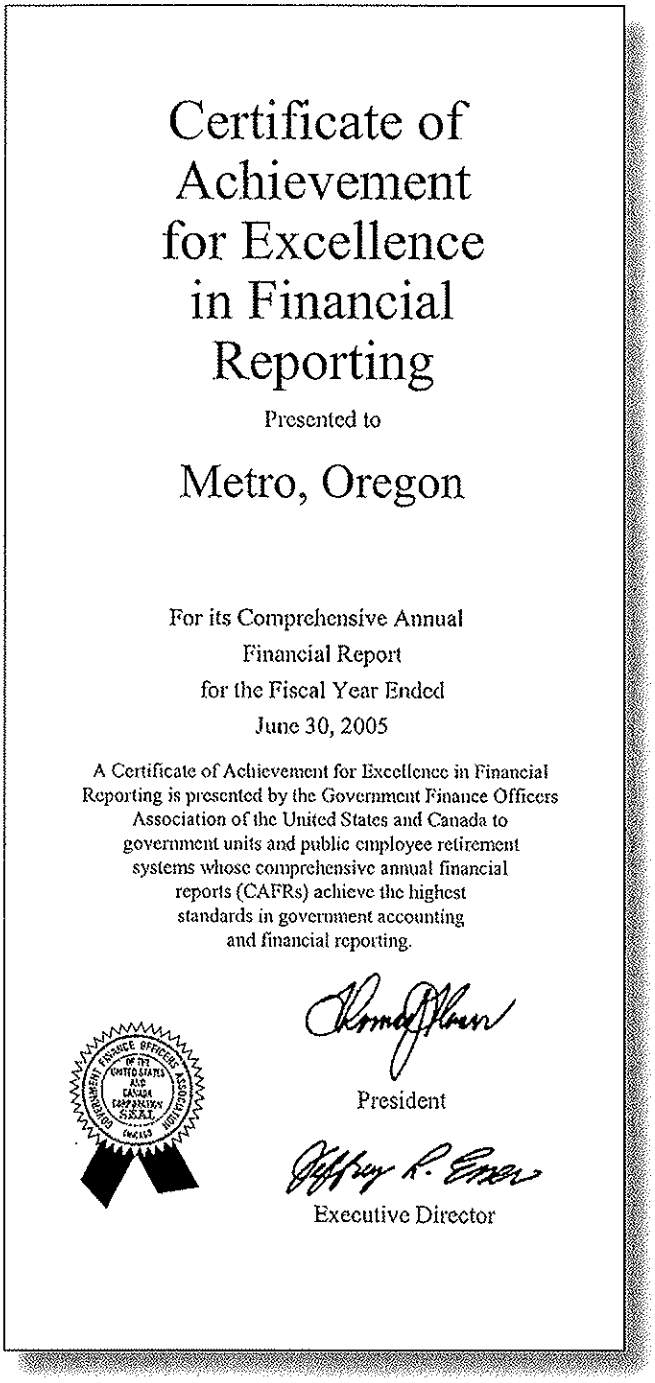
Acknowledgements

The preparation of this report would not have been possible without the dedicated efforts of the employees in the Accounting Services Division of the Finance and Administrative Services Department. We especially acknowledge Karla J. Lenox, CPA, Financial Reporting and Control Supervisor, and Donald R. Cox, Jr., CPA, CGFM, Accounting Compliance Officer for their efforts in the preparation of this report. We wish to acknowledge the professional and technical assistance of the audit staff of Pauly, Rogers and Co., PC. Finally, we acknowledge the cooperation received from other Metro staff in providing information required to fairly present Metro's financial information. Appreciation is also extended to the Metro Auditor and Metro Council for their support.

Respectfully submitted,

Michael Jordan
Chief Operating Officer

William Stringer
Chief Financial Officer


Certificate of Achievement for Excellence in Financial Reporting

Presented to

Metro, Oregon

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2005

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

GFOA award

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Elected Officials

Council President

David Bragdon
Term expires January 2007

Auditor

Alexis Dow, CPA
Term expires January 2007

Councilors

Rod Park
District 1
Term expires January 2007

Brian Newman
District 2
Term expires January 2007

Carl Hosticka
District 3
Term expires January 2009

Susan McLain
District 4
Term expires January 2007

Deputy Council President
Rex Burkholder
District 5
Term expires January 2009

Robert Liberty
District 6
Term expires January 2009

Appointed Officials

Michael Jordan
Chief Operating Officer

William Stringer
Chief Financial Officer

Daniel B. Cooper
Metro Attorney

Andrew Cotugno
Planning Department Director

Tony Vecchio
Oregon Zoo Director

Michael Hoglund
Solid Waste and Recycling
Department Director

James Desmond
Regional Parks and Greenspaces
Department Director

Jeff Miller
Metropolitan Exposition Recreation
Commission General Manager

Registered Agent

Christina Billington

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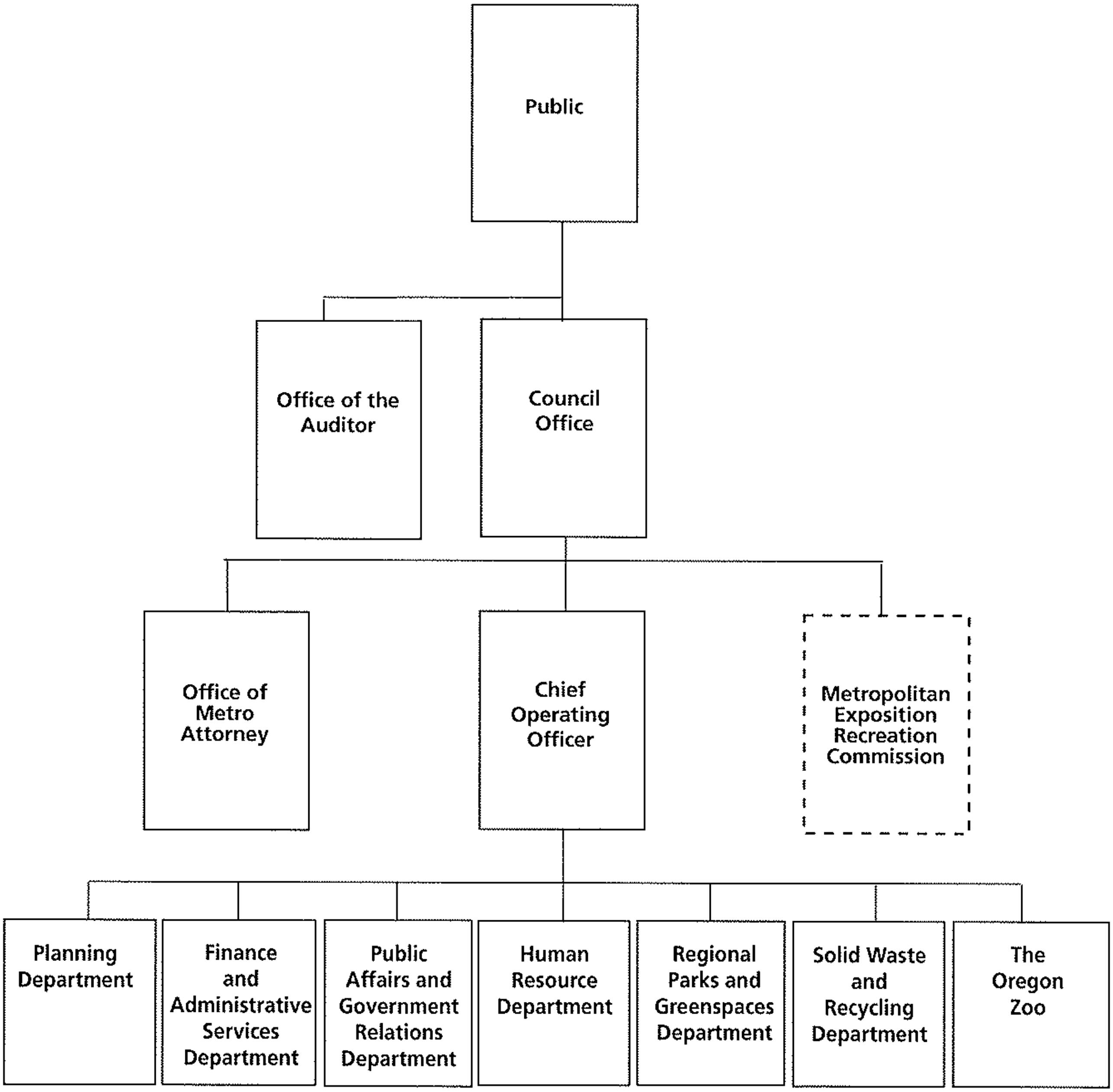
Portland, OR 97232-2736

Metro Organization Structure



Financial Section

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METRO

AUDITOR
ALEXIS DOW, CPA

December 8, 2006

To the Metro Council and Citizens of the Metro Region:

Oregon State law requires an annual audit of Metro's financial records and transactions by independent certified public accountants. In accordance with Metro Charter Section 18(3) and Metro Code Section 2.15.080, I have appointed Pauly, Rogers and Co., P.C., Certified Public Accountants, to conduct an independent audit of Metro's basic financial statements. My office coordinated and monitored this audit.

Presented at page 15 is the unqualified report of Pauly, Rogers and Co., P.C. on Metro's basic financial statements as of and for the year ended June 30, 2006.

In addition to the above report, Metro is required to have an audit of its expenditures of federal awards in accordance with the U.S. Office of Management and Budget Circular A-133, and the provisions of *Government Auditing Standards* issued by the Comptroller General of the United States. The necessary reports pertaining to Metro's internal control, compliance with applicable laws, regulations, grants and contracts, and the Schedule of Expenditures of Federal Awards for the year ended June 30, 2006, have been issued under separate cover.

Respectfully submitted,

Alexis Dow

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Metro Auditor

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PAULY, ROGERS AND CO., P.C.
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December 8, 2006

To the Council, Council President and Metro Auditor
Portland, Oregon

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund and the aggregate remaining fund information of Metro as of and for the year ended June 30, 2006, which collectively comprise Metro's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Metro's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Oregon Zoo Foundation, a discretely presented component unit, which represent $6,663,707 and $3,746,831 of total assets and total net assets, respectively, at June 30, 2006 and $5,730,729 and $662,225 of revenues and change in net assets, respectively, for the year then ended. Those statements were audited by other auditors, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Oregon Zoo Foundation, is based solely on the report of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Metro as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also separately issued our report dated December 8, 2006 on our consideration of Metro's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis presented directly after this report is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Metro's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis, and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit, and the report of the other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. Other supplementary information, other than management's discussion and analysis, such as the introductory section and the statistical section, have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Pauly, Rogers and Co., P.C.

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METRO

Management's Discussion and Analysis

The management of Metro provides readers of Metro's financial statements this narrative overview and analysis of the financial activities of Metro for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in our letter of transmittal, which can be found on pages 1 - 8 of this report. This information is based upon currently known facts, decisions or conditions.

FINANCIAL HIGHLIGHTS

- To provide greater flexibility in establishing Metro Council spending priorities and to permit greater management of reserves within the General Fund, Metro consolidated several funds into the General Fund at the start of fiscal year 2006. The former special revenue funds related to Planning and Parks, as well as the former Zoo enterprise fund and two former internal service funds were included in this consolidation. The result was a restatement in fund balance of the General Fund from $4,443,897 to $22,968,652 at July 1, 2005 (see page 48). In addition, capital projects related funds for regional parks and the Oregon Zoo were also consolidated into the Metro Capital fund, beginning with the restated fund balance of $6,523,902. These changes provided the Council with a broader array of spending options.

- The assets of Metro exceed its liabilities at June 30, 2006 by $191,760,544 (net assets). Of this amount, $60,768,080 is unrestricted with $25,367,865 attributable to Metro's business-type activities, and $35,400,215 to governmental activities.

- The total net assets for Metro increased $24,049,480 or 14.7% for the fiscal year (exclusive of a prior period adjustment). Governmental activities provided $19,904,159 of this increase, primarily from the recognition of assets held for resale of the TOD program and the net pension asset created by an advance payment made from pension obligation bonds. The remainder of the increase, $4,145,321, was from business-type activities of the solid waste operation, as revenues in these activities increased by 7.1%, and expenses increased 6.0% from the prior year.

- Combined fund balances of Metro's governmental funds totaled $58,654,216, up 85.6% from the prior year, primarily due to the General Fund consolidation noted above that brought the July 1, 2005 fund balance of the Zoo operations into the General Fund ($9,948,143) and the increase associated with the prior period adjustment for the TOD assets held for resale noted below.

- Program revenues, the share of revenues generated directly from Metro's operations (which includes charges for services), decreased to 65.0% of revenues, compared to 65.2% in the prior year. During the most recent fiscal year, 55.3% ($73,725,990) of Metro's revenues came from, or were based upon, its charges for services program revenues, compared to 56.4% ($68,676,881) in the prior year. Property taxes accounted for 20.9% of revenues, down from 21.7% in the prior year, and were either dedicated to repayment of general obligation bond debt ($18,418,391) or designated

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by Council for support of operations of the Oregon Zoo ($9,385,983), both increasing 5.0% over the prior year.

- Solid waste tonnage delivered to Metro transfer stations increased 2.9% over the prior year and the disposal fee rate per ton was increased from $45.55 to $46.80, a 2.7% increase. This combination of factors contributed to program revenues increasing $2,207,137, or 4.5%, from the prior year. Net revenue for the Solid Waste activity was $3,316,895 for the year, down $563,248 from the prior year. Metro's share of regional tonnage remained at 44% for the fiscal year.

- Metro expended a total of $1,267,380 in fiscal year 2006 from Open Spaces bond proceeds for property acquisitions and stabilization of those properties. Metro added 42 acres to its inventory of open spaces, bringing the total acreage to 8,173 under this program, exceeding by over 2000 acres the commitment made to voters of the region.

- The excise tax that is assessed on users of Metro's goods and services to fund primarily general government and planning functions, provided $14,243,252 in general revenue, up $665,361 or 5.0% from the prior year. The increase was a result of the increase in enterprise related revenues upon which the tax is assessed.

- Metro's total debt increased 5.7% ($10,055,982) during the year as a result of issuance of $24,290,000 in pension obligation bonds, offset by scheduled principal payments on outstanding debt and a refinancing in April 2006 of Oregon Economic Development Department Special Public Works Fund loans outstanding on MERC's Expo Hall D project. As a result of these activities, Metro generated future debt service savings of $901,199 and an economic gain of $758,683.

- Metro recorded a prior period adjustment in the General Fund in the amount of $4,613,707 to recognize the net realizable value of the assets, at July 1, 2005, of Transit-Oriented Development (TOD) program properties held for resale. These properties were purchased in prior years with the intent of selling them to other entities in conformance with TOD program objectives. The amount of TOD assets held for resale at June 30, 2006, which includes current year purchases and now totals seven properties, was $7,333,324.

- The Metropolitan Exposition-Recreation Commission (MERC) component unit experienced a decrease in charges for services of 3.6% or $972,025 from the prior year, primarily due to decreased food and beverage revenue, from reduced event attendance during the year. Total expenses for MERC were up $1,435,980, or 3.5%, due primarily to an increase in administrative expenses from the prior year, including $224,000 for MERC's share of payments for pension bond assessments and an 8.6% increase ($339,548) in facility operating expenses.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Metro's comprehensive annual financial report, which consists of the following parts: *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different financial views of Metro. *Government-wide financial statements* provide both long-term and short-term information about Metro's overall financial status. The remaining statements are *fund financial statements* that focus on individual parts of Metro and report Metro's operations in more detail, and on a different basis of accounting, than the government-wide statements.

The financial statements also include *notes to the financial statements* that provide more detailed information and explain the nature of many of the amounts contained in the financial statements. The notes are considered integral to the understanding of the financial statements. Following the notes is a section of *required supplementary information* that further supports the information contained in the financial statements.

In addition, there is a section with statements about the MERC component unit, which is also integrated into the basic financial statements.

The table provided below summarizes the major features of Metro's financial statements and what they contain. This summary is intended to be a tool for the reader in the analysis of the financial statements that follow this management discussion and analysis.

		Fund Financial Statements	
Statement Element	**Government-Wide Financial Statements**	**Governmental Funds**	**Proprietary Funds**
Scope	Entire Metro government	The activities of Metro that are not proprietary, such as regional planning, parks, zoo and policy development	Activities Metro operates similar to businesses - ▪ Solid Waste
Required financial statements	▪ Statement of net assets ▪ Statement of activities	▪ Balance sheet ▪ Statement of revenues, expenditures and changes in fund balances	▪ Statement of net assets ▪ Statement of revenues, expenses, changes in fund net assets ▪ Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities are included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during the fiscal year, regardless of when cash is received or paid	Revenues for which cash is received during, or generally within 60 days of year end; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the fiscal year, regardless of when cash is received or paid

Government-wide financial statements. Metro's government-wide financial statements report information about Metro as a whole using accounting methods similar to those used by private-sector companies. The *statement of net assets* includes all of Metro's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in Metro's net assets may serve as a useful indicator of whether the financial position of Metro is improving or deteriorating. This is only one measure, however, and the reader should consider other indicators such as general economic conditions in the region, changes in property taxes and assessed value, and the age and condition of capital assets used by Metro.

All of the current fiscal year's revenue and expenses are accounted for in the *statement of activities*. The statement presents information showing how Metro's net assets changed during the fiscal year. Such changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. Because it separates program revenue (revenue generated by specific programs through charges for services, grants, and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program), it shows to what extent each program has to rely on taxes for funding.

Both of the government-wide financial statements are divided into three categories:

Governmental activities - Activities supported principally by general revenue sources such as taxes and intergovernmental revenues that provide Metro's basic governmental services. These services include the general government functions of the Council/Public Affairs office, regional transportation and growth management planning, regional parks and open spaces, operation of the Oregon Zoo, rehabilitation and enhancement activities near Metro area solid waste facilities, and administrative functions.

Business-type activities – Metro charges fees to customers to help cover the costs of certain services. These activities, in fiscal year 2006, consisted of the operation of the solid waste system.

Component units – Metro includes MERC and the Oregon Zoo Foundation (OZF) as discretely presented component units. Although legally separate, Metro is financially accountable for MERC. MERC operates the Oregon Convention Center (OCC), Portland Center for the Performing Arts (PCPA), and the Portland Metropolitan Exposition Center (Expo). In addition, OZF is considered a component unit, as the sole purpose of this legally separate non-profit organization is to provide support and significant additional funding for Metro's Oregon Zoo.

Fund financial statements. The fund financial statements provide more detailed information about Metro's funds, not Metro as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Metro, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements – including bond covenants and Oregon local budget law requirements. All of the funds of Metro can be classified into two categories:

- ***Governmental funds*** are used to account for essentially the same functions as reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, these statements focus on how cash, and other financial assets that can be readily converted to cash, flow in and out and on the balances left at year-end that are available for spending. Thus, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance Metro's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader may better understand the long-term impact of Metro's near-term financing decisions. A reconciliation that follows the governmental funds statements explains the relationship (differences) between the two statements.

  Metro maintains seven individual governmental funds (the General, Smith and Bybee Lakes, Rehabilitation and Enhancement, General Obligation Bond Debt Service, Open Spaces, Metro Capital and Cemetery Perpetual Care). Each of these is considered to be a "major fund" in accordance with professional standards. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for each major fund, as required by GASB Statement No. 34.

  Metro maintains budgetary controls over its funds. The objective of budgetary controls is to ensure compliance with legal provisions contained in the annually appropriated budget. Budgetary comparison schedules for all appropriated funds are provided following the notes to the financial statements. Of special note, one budgetary fund (the General Revenue Bond Fund) is allocated to the General Fund (and the MERC component unit) and combined with those operating activities for reporting in conformance with generally accepted accounting principles, in the governmental fund financial statements.

  The governmental fund financial statements can be found on pages 46 - 52 of this report.

- ***Proprietary funds*** for Metro include two different types.

  Enterprise funds are used to report the same functions as *business-type activities* in the government-wide financial statements. Metro uses an enterprise fund to account for its Solid Waste operations.

  Internal service funds are an accounting device used to accumulate and allocate costs internally among Metro's various functions. Metro uses an internal service fund to account for its risk management operations. The revenues and expenses of the internal service fund that are duplicated in other funds through cost allocations are eliminated in the government-wide statements, with the remaining balances included in the governmental activities column.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail (such as cash flows). The proprietary fund financial statements provide separate information for the Solid Waste Fund and Risk Management Fund, which are considered major funds of Metro.

The proprietary fund financial statements can be found on pages 53 - 58 of this report.

Notes to the financial statements. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 59 - 92 of this report.

FINANCIAL ANALYSIS OF METRO AS A WHOLE

Net assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Metro's net assets total $191,760,544 at June 30, 2006, which reflects an increase of 17.6% ($28,663,185) over the prior year. The following table reflects the condensed Government-wide Statement of Net Assets.

Metro's Net Assets

		Governmental Activities		Business-Type Activities		Total - Primary Government	
		2006	2005	2006	2005	2006	2005
Current and other assets	$	106,932,544	55,253,742	45,096,821	57,340,128	152,029,365	112,593,870
Capital assets		223,406,695	164,092,976	33,113,290	91,352,323	256,519,985	255,445,299
Total assets		330,339,239	219,346,718	78,210,111	148,692,451	408,549,350	368,039,169
Long-term debt outstanding		177,934,753	162,467,403	7,461,729	12,873,097	185,396,482	175,340,500
Other liabilities		23,704,304	18,786,917	7,688,020	10,814,393	31,392,324	29,601,310
Total liabilities	$	201,639,057	181,254,320	15,149,749	23,687,490	216,788,806	204,941,810
Net assets							
Invested in capital assets, net of related debt		72,055,226	4,684,793	25,651,561	78,479,226	97,706,787	83,164,019
Restricted		21,244,741	16,795,028	12,040,936	11,266,839	33,285,677	28,061,867
Unrestricted		35,400,215	16,612,577	25,367,865	35,258,896	60,768,080	51,871,473
Total net assets	$	128,700,182	38,092,398	63,060,362	125,004,961	191,760,544	163,097,359

Most of the significant changes between business-type and governmental activities balances from the prior year relates to the aforementioned consolidation in fiscal year 2006 of several activities into the General Fund (primarily the move of Zoo operations to governmental activities.) Fiscal year 2005 amounts in the tables provided are not restated for these changes, but represent the amounts as reported in the prior year. With this change, Metro's governmental activities now account for the most significant portion of total net assets – totaling $128,700,182 (67.1%), whereas business-type activities account for $63,060,362 (32.9%). Of Metro's total net assets, 51.0% of the total reflects its investment in capital assets, net of related debt, the same percentage as in the prior year. Metro uses these capital assets to provide services to its citizens and therefore this amount is not available for future spending. Although Metro's investment in its capital assets is reported net of the related debt, it should be noted that the resources needed to repay this debt must come from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The amount invested in capital assets (net of related debt) for governmental activities, $72,055,226, includes the result of Metro financing capital assets for the component unit (OCC) through the issuance of general obligation bonds. The amount of long-term debt outstanding on these bonds is reflected as a liability of the governmental activities in which repayment of the bonds occurs, whereas the associated capital assets financed by this debt are reflected with the component unit as they use these assets to provide their services to citizens. In addition, Metro's investments in its headquarters offices, zoo exhibits, open spaces property and other significant assets is reflected here, with 79.7% of the $53,719,165 increase from the prior year to due the Zoo's inclusion in governmental activities. Overall, the increase in the amount invested in capital assets (net of related debt) reflects an increase in capital assets of $2,052,987, a decrease in related long-term debt outstanding of $8,990,159, and reduction of $945,996 in the amount of related unspent Open Spaces bond proceeds from the prior year.

In addition, 17.4% of net assets are restricted for specific purposes, including capital projects, capital asset renewal and replacement, landfill closure, debt service, cemetery perpetual care and other purposes. This represents an increase in restricted net assets of $5,223,810 (18.9%) from the amount at June 30, 2005. The increased amounts restricted for capital projects is due primarily to establishment of the new Metro Capital Fund within the governmental activities and resulted in $5,712,867 of the increase from the prior year. The remaining $60,768,080 is unrestricted, with 58.3% ($35,400,215) of this amount attributable to Metro's governmental activities. Net of the change due to the transfer of the Zoo to governmental activities, unrestricted net assets increased $6,416,883 (38.6%) in governmental activities and increased $1,562,296 (6.6%) in business-type activities. Unrestricted net assets may be used to meet Metro's ongoing obligations to citizens and creditors.

Current and other assets (composed of cash and investments, receivables, inventories, prepaid items and other assets) increased 35.0% ($39,435,495) on a government-wide basis. The increase is primarily attributed to the properties acquired by the TOD program being recognized as assets held for resale ($7,333,324) and the unamortized portion of the net pension asset created by Metro's payment to PERS in excess of the annual required contribution ($23,227,511), both reflected in governmental-activities. Unrestricted cash and investments increased $7,698,973 or 11.0%. As noted earlier, the Zoo's programs were consolidated into the government-wide activities from the business-type activities, accounting for a $15,070,460 change in current and other assets between them (including $13,521,597 in equity in internal cash and investment pool).

The change in current and other assets in business-type activities is composed of an overall increase in cash and investments of $5,857,672 from operations. This increase was offset by a decline of $557,990 in prepaid items resulting from the continued amortization of an advance contractual payment made in a prior year to the solid waste transport contractor.

Other liabilities (consisting of accounts payable, accrued compensation, accrued interest payable, and other current liabilities) of Metro's business-type activities (net of the Zoo change) decreased 5.3% ($426,668) from June 30, 2006. Other liabilities in the governmental activities increased $4,917,387 primarily due to the inclusion of the Zoo operations and an increase of $1,251,475 in unearned revenue in the TOD and grant programs noted earlier, with an additional increase in accounts payable of $672,358.

Long-term debt outstanding increased 5.7% ($10,055,982). After adjusting for the portion of long-term debt related to zoo programs that previously was reflected in business-type activities and is now included in governmental activities, governmental activity long-term debt increased $11,925,782 or 7.1%, and business-type activity long-term debt decreased $1,869,800 or 20.0% from June 30, 2005 as a result of scheduled debt payments and refinancing activities undertaken by Metro to take advantage of the favorable interest rate environment, as well as the issuance in September 2005 of $24,290,000 in pension obligation bonds now reflected in governmental activity. A further discussion of the financing activities undertaken during the year is presented later in this analysis.

Changes in net assets. As noted above, Metro's total net assets increased 17.6% over the prior year. Governmental activities' net assets increased by $19,904,159, while business-type activities' net assets increased $4,145,321. The components of this change in net assets are reflected in the condensed information from Metro's Statement of Activities below.

Program revenues generated directly from Metro's operations, which includes charges for services, increased $7,356,217 or 9.3% from the prior year, while the share of total revenues derived from these sources decreased slightly from the prior year, from 65.2% to 65.0%. A significant portion (55.3%) of Metro's revenues come from, or are based upon, its charges for services. This amount includes charges to customers for use of Metro facilities and services, such as solid waste fees and admission fees. After adjusting for the change of Zoo operations to governmental-activities, program revenues from business-type activities increased 4.5%, or $2,304,793. Governmental activities program revenue increased 27.9% ($3,484,354) in general government, regional planning and recreation programs and increased 10.2% ($1,567,070) in Zoo programs. Charges for services revenues increased 16.4% in governmental activities and grew 4.3% in business-type activities. Operating grants and contributions increased 20.8% ($2,069,207) over the prior year, with increases in zoo ($350,503) and planning ($3,394,017) programs offset by the decrease in recreation programs due primarily to the amount reflected in the prior year for contributions of improvements for fish passage and habitat improvements performed by Portland General Electric (PGE) on a Parks property, worth an estimated $1.2 million.

Changes in Metro's Net Assets

		Governmental Activities		Business-Type Activities		Total - Primary Government	
		2006	2005	2006	2005	2006	2005
Revenues:							
Program revenues							
Charges for services	$	19,911,033	3,917,653	53,814,957	64,759,228	73,725,990	68,676,881
Operating grants and contributions		12,015,598	8,552,429	67,103	1,396,306	12,082,701	9,948,735
Capital grants and contributions		959,676	-	-	786,534	959,676	786,534
General revenues							
Property taxes		27,804,374	17,545,652	-	8,941,517	27,804,374	26,487,169
Excise taxes		14,243,252	13,577,891	-	-	14,243,252	13,577,891
Local government shared revenues		547,512	540,690	-	-	547,512	540,690
Other		2,337,305	864,620	1,361,750	915,500	3,699,055	1,780,120
Total revenues	$	77,818,750	44,998,935	55,243,810	76,799,085	133,062,560	121,798,020
Expenses:							
General government operations		10,128,233	3,158,675	-	-	10,128,233	3,158,675
Regional planning and development		10,580,855	11,367,579	-	-	10,580,855	11,367,579
Culture and recreation		6,515,693	8,582,520	-	-	6,515,693	8,582,520
Zoo		23,159,685	-	-	24,158,065	23,159,685	24,158,065
Interest on long-term debt		8,421,370	7,679,504		-	8,421,370	7,679,504
Solid Waste		-	-	50,565,165	47,697,124	50,565,165	47,697,124
Total expenses	$	58,805,836	30,788,278	50,565,165	71,855,189	109,371,001	102,643,467
Increase in net assets before transfers and special items	$	19,012,914	14,210,657	4,678,645	4,943,896	23,691,559	19,154,553
Transfers		533,324	306,009	(533,324)	(306,009)	-	-
Special Item		357,921	-	-	-	357,921	-
Increase (decrease) in net assets	$	19,904,159	14,516,666	4,145,321	4,637,887	24,049,480	19,154,553

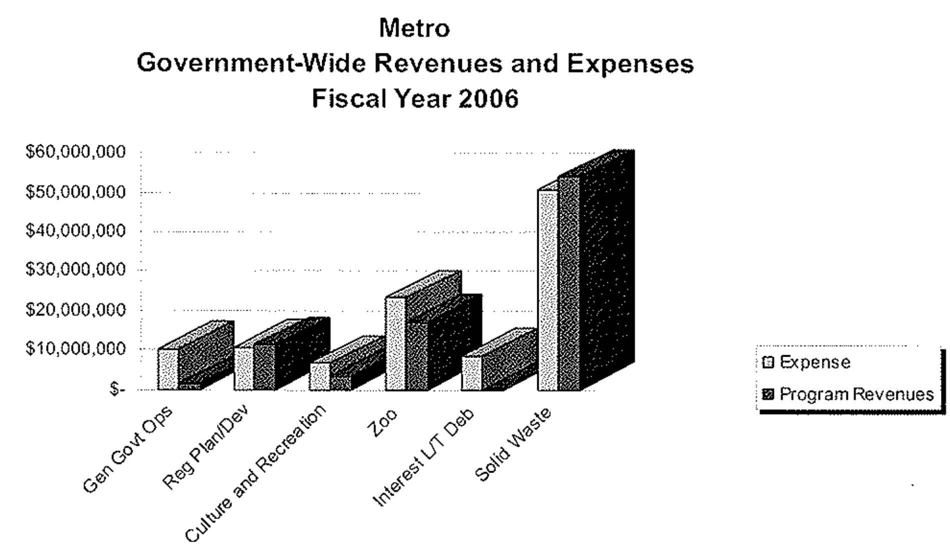
General revenues are used by Metro to fund expenses not covered by program revenues. The most significant general revenue, property taxes, accounts for 20.9% of all revenues, down from 21.7% in the prior fiscal year, and is dedicated to repayment of general obligation bond debt or designated by the Council for support for operations of the Oregon Zoo ($18,418,391 and $9,385,983, respectively). The bonds were originally issued to finance construction of the OCC, construction of the Great Northwest project at the Oregon Zoo, and for acquisition of open spaces in the region.

The excise tax – a tax Metro assessed on users of its goods and services at a flat rate per ton on solid waste activities ($8.39) and as a percentage (7.5%) of revenues on all other authorized revenues to fund primarily general government and planning functions - provided $14,243,252 in general revenue, up $665,361 or 4.9%. This increase is reflective of higher revenues upon which the tax is assessed. A portion of the excise tax on solid waste tonnage is allocated in support of the operations of the Regional Parks and Greenspaces Department ($2.55 per ton) and for the OCC ($0.51 per ton). The amount dedicated to Regional Parks is used for development and operations of four sites purchased under the Open Spaces bond measure, operations of existing sites, and renewal and replacement reserves for all Regional Parks facilities. The amount dedicated to the OCC is used to fund the Tourism Opportunity and Competitiveness Account designed to enhance the OCC's pursuit of conventions from outside the region, bringing new dollars into the region.

Most of the remaining revenue for Metro comes from federal, state and local grants or other contributions ($12,082,701 or 9.1%) that fund various programs such as regional transportation and growth management planning activities. These revenues were up 21.4% or $2,133,966 from the prior year.

The total cost of all programs and services increased 6.2% ($6,727,534) from the prior year to a total of $109,371,001. Business-type activities, now consisting solely of Solid Waste programs after the transfer of the zoo programs to governmental activities, represent 46.2% of this total, compared to 46.5% in the prior year. General government operations reflected 9.3% of total costs, compared to 3.1% in the prior year, the increase primarily results from the former internal service fund activities of support services and headquarters building operations being consolidated in the governmental activities. Regional planning and development, and culture and recreation, accounted for 9.7% and 6.0% of total costs, respectively. The remainder was primarily interest on long-term debt, which increased by $741,866 or 9.7% from the prior year and totaled $8,421,370 or 7.7% of total costs, up from 7.5% in the prior year.

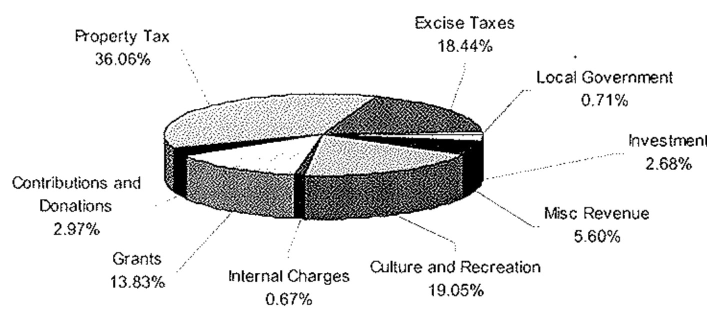
As reflected in the chart below, program revenues in each of the functional and program areas, other than Solid Waste operations and regional planning and development programs, did not cover costs during the fiscal year. General revenues are called upon to cover this difference to the extent possible. Each of these areas is described separately in the narrative that follows.



Governmental activities. Revenues for Metro's governmental activities increased $8,616,916 (12.4%) after adjustment for the effect of the Zoo program revenue now reflected here, to a total of $78,176,671 with 35.6% of this revenue ($27,804,374) coming from property taxes. Property taxes funded interest expense totaling $8,421,370 and the remainder was used to pay bond principal and reduce outstanding bond liabilities and support zoo operations, as noted earlier. Investment performance showed increased revenues due to a more favorable interest rate environment, up $1,476,560 or 180%.

Metro's general government operations accounted for 17.2% ($10,128,233) of Metro's total expenses for governmental activities, which was an increase of $6,969,558 over that reported in the prior year. Reported expenses increased primarily due to the consolidation of support services (Finance and Administrative Services, Office of Metro Attorney, Human Resources, and Metro Auditor functions) and building management activities into governmental activities (the General Fund), whereas they were internal service funds in the prior year and allocated to other programs in accordance with GASB Statement 34 requirements. General government operations rely significantly on general revenues, primarily excise taxes and transfers, to offset its net expense of $8,742,897.

Metro
Governmental Activities
Sources of Revenue, Fiscal Year 2006



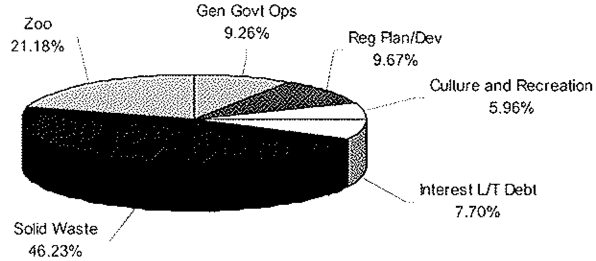
Metro's regional planning and development activities had total costs of $10,580,855 for the fiscal year ending June 30, 2006, down $786,724 (6.9%) from the prior year, as increases in expenses for new programs were offset by the reduction in expenses resulting from the formerly allocated internal service activities. Revenues that fund these activities are primarily from operating grants and contributions ($9,679,378), which increased 54.0% or $3,394,017 from the prior year. Overall, regional planning and development is project driven, relying heavily on grant awards; the level of grants received also affects the level of work and expenditures incurred. Metro received three new Federal Transit Administration (FTA) grants for specific projects in addition to a large contract passed through the state for a Regional Transit Options Mass Marketing Campaign. Charges for services on data and professional planning services provided to customers increased by $332,527 or 27.4% to a total of $1,547,604, primarily for contract services provided on the Portland Streetcar contract (up $189,924) and Aerial Photo

Consortium revenues, up $130,307 over the prior year. The net revenue of $646,127 (an increase of $4,513,268) is due not only to those changes noted above, but also reflects the treatment of TOD assets held for resale which are now reflected as assets whereas they were expensed in the prior year. The total amount of TOD assets purchased in the current fiscal year totaled $2,719,617.

Culture and recreation activities, which includes operation of Metro's regional parks and management of open spaces, accounted for total expenses of $6,515,693, down $2,066,827 or 24.1% from the prior year. This decrease is primarily attributable to the prior year's one-time-only restoration project on the Clackamas River (Parson's property) that approximated $1.2 million and the aforementioned affects of the General Fund consolidation. Program revenues from charges for services (e.g., admission fees, rentals, etc.) totaled $2,568,418, down 4.9% or $131,565 from the prior year, with additional support provided from operating grants and contributions in the amount of $583,700, a decrease of $1,683,368 or 74.3% from the prior year. The decrease in this later category was due to the prior year's Portland General Electric (PGE) contributions of nearly $1.2 million for fish passage and habitat improvements. The remaining net expense of this function, $3,173,575, was funded from general revenues, including local government shared revenues (e.g., marine fuel taxes from the State of Oregon), excise taxes and interest.

Operations of the Oregon Zoo reflected program revenues of $16,931,871 an increase of $1,567,070 or 10.2% from the prior year, with a $350,503 increase reflected in operating grants and contributions and a decrease of $16,858 in capital grants, a combined increase of $333,645 in these categories. Charges for services revenues (e.g., admission fees, food and retail sales) accounted for 85.2% of program revenues, which increased $1,233,425 or 9.4% due to the second highest attendance year in the zoo's history (up 2% over the prior year) and higher per capita spending by zoo visitors. Total expenses for Zoo operations totaled $23,159,685, a decrease of $998,380 or 4.1% from the prior year. While expenses were higher for costs associated with the higher sales activities and certain deferred maintenance projects were undertaken, these increases were offset by the reduction in the Zoo's share of allocated support costs resulting from the General Fund consolidation noted earlier. The resulting net expense of $6,227,814 (an improvement of $2,565,450 or 29.2% over the prior year) is to be financed from general revenues, such as property taxes and investment earnings.

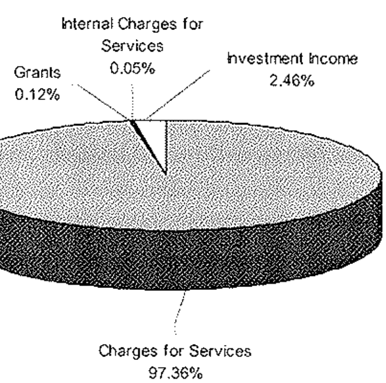
Metro
Function/Program Expenses
Fiscal Year 2006



Business-type activities. After adjusting for the prior year amounts attributable to the zoo activities now accounted for as governmental activities, revenues of Metro's business-type activity (Solid Waste operations) totaled $53,882,060, up 4.5% ($2,304,793). Total expenses decreased 6.0%, or $2,868,041, to a total of $50,565,165. As a result, operations of business-type activities reflected an increase in net assets of $4,145,321 for the fiscal year ended June 30, 2006.

Solid waste tonnage brought to Metro facilities was up slightly (2.9%). Coupled with the increase in rates charged (tonnage charge was $46.80 per ton, compared to $45.55 per ton in the prior year) and the growth of 3.3% in the number of transactions, disposal and transaction fee revenues were both higher than prior year (up $1,696,301 and $211,218, respectively). This increase was supported by an increase in revenue generated from the Regional System Fee, which rose $202,272 as regional disposal tons increased about 3.6% from the prior year, while the fee was lowered from $15.09 per ton to $14.54 per ton due to the fact that the increase in budgeted program expenses (that is, non-disposal costs that do not vary with tonnage) was less than the increase in tonnage from which revenue is derived to pay for those program expenses. Expenses were up $2,868,041, or 6.0%, due to higher costs of handling the increased waste tonnage at Metro transfer stations and higher transport and disposal fees. Net revenue for the Solid Waste activity was $3,316,895 for the fiscal year, down $563,248 from the prior year.

Metro
Business-Type Activities
Sources of Revenue, Fiscal Year 2006



MERC component unit. MERC operates the Metro-owned OCC and Expo Center. In addition, under terms of an intergovernmental agreement with the City of Portland, MERC operates the city-owned PCPA. Net assets for the component unit totaled $193,441,156, with 92.5% of this amount invested in capital assets, net of related debt. Net assets of $375,000 are restricted for completion of capital projects, leaving $14,180,823 unrestricted and available for use.

Net assets decreased $6,375,045 during the fiscal year, or 3.2%. Unrestricted net assets increased $841,403 from the prior year. Program revenue includes charges for services of $26,296,316 and operating grants and contributions of $917,181. Charges for services revenue rose $972,025 or 3.6% from the prior year. This revenue growth results primarily from a strong Broadway season at the PCPA, which included Lion King, resulting in higher admission fees and commissions from sales of show merchandise, up $422,265 and $125,445, respectively. Food and beverage sales were down $1,682,989 or 13.4%, due to reduced bookings and the mix of business. The prior year benefited from a one-time Nike Sales Conference held at OCC, which generated greater than average sales.

Total expenses for MERC were $42,799,786, up $1,435,980, or 3.5%. Facility operating expenses were up $339,548 or 8.6%. Concessions expenses decreased $698,618 or 7.8% on lower sales volume. Payroll and fringe benefit costs increased $523,576 or 4.0%, and contributions to other governments (primarily for capital improvements to PCPA which is owned by the City of Portland) rose $749,669 or 101.3%.

The resulting net expense of MERC operations was $15,586,289 for the fiscal year ended June 30, 2006, compared to $11,716,956 in the prior year, an improvement of $3,869,333 or 33.0%. General revenues used to support this net expense include local government shared revenues (transient lodging taxes) and investment income of $8,852,246 and $716,919, respectively.

FINANCIAL ANALYSIS OF METRO'S FUNDS

As noted earlier, Metro uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of Metro's governmental funds financial statements is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing Metro's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As noted throughout this discussion and analysis, Metro reorganized its fund structure during the fiscal year by consolidating several funds into the General Fund. As a result, the fund balance of the General Fund increased on July 1, 2005 from $4,443,897 to $22,968,652. The Parks and Planning Funds were closed (as well as the Support Services and Building Management internal service funds and Zoo enterprise fund) and the Regional Parks Capital Fund was consolidated into a Metro Capital Fund, which began the year with a fund balance of $6,523,902. Metro completed the fiscal year with its governmental funds reporting *combined* fund balances of $58,654,216.

The General Fund's Planning Department generated charges for services revenues as described earlier. The work of this department is primarily funded by federal grants. In fiscal year 2006 Metro received three new FTA grants for the Lake Oswego to Portland Alternatives Analysis study, the Eastside Streetcar, and the Regional Travel Options program. These three projects added $450,288 to the direct federal funding category over the prior year. Another grant-funded program, the Willamette Shoreline project, showed an increase of $200,283 over the prior year due to the timing of the work. A new contract for the Regional Travel Options Mass Marketing Campaign brought in $1,047,307 in revenue. Operating expenses of the Planning Department totaled $10,101,333. Contracted professional services expenditures increased over the prior year due to new programs such as the Regional Travel Options Mass Marketing program noted above, which added $1,038,639 in expenditures. Other programs that ended during the fiscal year (Transims, South Corridor, Highway 217 and Damascus) reflected offsetting declines in costs, bringing the net increase in contracted professional services to $671,308 over the prior year.

The General Fund's Regional Parks and Greenspaces Department incurred expenditures of $5,753,787 during the fiscal year ending June 30, 2006. This was $1,658,623 lower than the prior year, primarily due to the prior year's recording of the PGE funded expenditure for the fish passage and habitat improvements that totaled approximately $1.2 million. Expenditures included substantial completion of the Lovejoy Restoration Project on the Tualatin River.

The General Fund's Oregon Zoo Department had its second highest attendance in its 119-year history – with 1,365,459 people passing through the gates, up 2.2% from the prior year. This improvement in attendance, combined with a record high in per capita spending enabled the department to reflect positive growth in revenues as noted earlier. Facility operating expenditures totaled $20,813,765. Zoo administrative expenditures declined $146,540 from the prior year, to a total of $808,086 due primarily to position vacancies. Marketing expenditures declined significantly due to discontinuation of the use of an outside advertising agency and performing the work in-house, down $1,060,187 to a total of $829,930. Construction maintenance division expenditures were up $576,551 or 16.4%, to a total of $4,088,005 as the zoo addressed deferred maintenance projects. Guest services expenditures increased in correlation to the growth in revenues, up $1,918,255 or 26.2%, to a total of $9,229,161.

In summary, the General Fund generated an increase in fund balance from its operations of $5,381,367, to a total of $32,963,726 at June 30, 2006. Of this amount, $7,333,324 is reserved for assets held for resale in the TOD program. Unreserved fund balance of $25,630,402 represents 52.4% of the expenditures incurred during the fiscal year.

The Open Spaces Fund expended an additional $1,267,380 on acquisitions as it acquired approximately 42 acres from willing sellers in four different target areas and expended $490,792 to stabilize properties acquired. At June 30, 2006, $2,112,538 remains in fund balance, with management estimating that $1,050,000 of this amount to be maintained to pay for expenditures related to the cleanup of Willamette Cove, and for other unforeseen expenditures.

The Rehabilitation and Enhancement Fund received an additional $54,000 from natural gas revenues at the St. Johns Landfill and earned $74,201 in investment income. Solid Waste operations transferred an additional $388,463 to the fund. During the year, Metro provided funding to the City of Forest Grove ($84,222) and City of Oregon City ($138,623) in accordance with intergovernmental agreements for projects in their jurisdictions. Metro expended an additional $77,790 in North Portland and $122,135 in

Northwest Portland for projects approved by the local area's rehabilitation and enhancement committees, including signage, painting, community festival support, and various children's programs. Fund balance stood at $1,954,527 at June 30, 2006, up $64,508 from the prior year.

The General Obligation Bond Debt Service Fund accounts for the debt service requirements of Metro's general obligation bonds. During the fiscal year, property tax revenues used to pay debt service totaled $18,451,278, up $798,141 over the prior year. Required interest payments on the bonds totaled $6,686,324, which was $848,408 lower than the prior year reflecting the reduction in outstanding principal and savings from the prior year's refunding of the callable portion of the Oregon Zoo Project bonds. An additional $11,353,037 was expended on principal payments, leaving $10,680,405 in fund balance reserved for debt service at fiscal year end.

The Metro Capital Fund is made up of amounts formerly accounted for as capital accounts for the zoo, parks and general support functions. The fund received $494,521 in contributions and donations for zoo purposes as part of the total of $574,521 in total contributions and donations for the year. Of the $3,772,815 in total expenditures, $3,041,408 was expended for zoo capital projects and $731,407 for parks projects. The more significant projects are described in more detail in the Capital Assets and Debt Administration section later in this analysis. The Metro Capital Fund ended the fiscal year with an unreserved fund balance of $7,039,133.

Proprietary funds. Metro's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

Net assets in the Solid Waste Fund totaled $63,967,087 at year-end, up 6.9% or $4,134,618. Of this amount, $26,274,590 is unrestricted, up 10.4%, and represents 53.8% of annual operating expenses. Additional net assets are restricted for renewal and replacement ($7,114,192), landfill closure ($3,677,577) and debt service ($1,249,167). In addition to the information already provided in the narrative above on business-type activities, the following additional detailed analysis of solid waste expenses is provided:

Total operating expenses increased $2,662,963 or 5.8% from the prior year. Payroll and fringe benefits increased 1.9% ($159,063) due to higher fringe benefit costs and scheduled wage increases. Facility operating expenses for Metro's two solid waste transfer stations increased $1,300,140 or 17.4% and disposal fees paid for waste disposal at the Gilliam County landfill increased 5.3% ($634,844), with these increases attributable to the net effect of higher tonnage, cost of living increases and a new facility operating contract that was effective April 2005. Waste transport costs increased 4.4% ($323,906), with higher fuel costs accounting for approximately 34.0% of the increase and increased tonnage adding approximately 2.9%. Waste reduction grants, a non-operating expense, totaled $1,249,780 in the current fiscal year, up $14,186 or 1.1% from the prior year.

The Risk Management Fund, an internal service fund that is incorporated in governmental activities for government-wide reporting, had net assets of $342,551 at June 30, 2006. Total assets were $6,977,787, primarily in equity in Metro's internal cash and investment pool ($6,594,641). Significant liabilities included the actuarially determined accrued self-insurance claims ($943,760, down $43,775 from the prior year) and an environmental impairment liability ($5,225,000, which is unchanged from the prior year).

GENERAL FUND BUDGETARY HIGHLIGHTS

As noted earlier, Metro's General Fund is used to account for general government operations and, beginning in fiscal year 2006, the programs of planning, regional parks and greenspaces, and the Oregon Zoo.

Of the nine total budget amendments made during the fiscal year, six budget amendments were applicable to the General Fund, which resulted in an addition of $32,476,830 to appropriations between the original and amended budget. The most significant of these amendments was a supplemental budget amendment made with Ordinance 05-1096A in September 2005. This amendment recognized Metro's issuance of Pension Obligation Bonds to fund its unfunded actuarial liability with PERS and also provided the ability to make additional contributions to PERS from reserves if allowed by PERS and if the Council chose to do so. The net increase in appropriations for this amendment totaled $28,284,677.

The second significant amendment, Ordinance 06-1100, authorized $3,942,820 of additional expenditure authority, including 4.0 FTE, in the Planning department as a result of additional grants awarded to Metro. The amount included expenditure authority for $2,000,000 to purchase property from the City of Beaverton for the TOD & Centers program; an increase of $409,468 for the Columbia River Crossing project; $75,000 for grant work on the Freight Study program; $586,000 for enhancing the Regional Travel Options program as part of the Oregon Department of Transportation marketing agreement; additional work totaling $433,373 from Congestion Management Air Quality funds; and additional transportation planning work in the amount of $438,380 using PL grant funds.

A third amendment that increased overall appropriations was Ordinance No. 05-1095 which authorized a total of $249,333 of additional expenditures at the Oregon Zoo, with $72,883 for operating expenditures and $176,450 for capital outlay. These amounts were authorized due to the receipt of additional grants and donations for specific projects. Projects funded included Black Bear Ridge – Cascade Canyon Trail ($120,000), Primate Building Renewal and Replacement ($200,000), Vehicle Replacement ($100,000), Train Wheelchair Lift Replacement ($12,000), Mobile Animal Restraint ($10,200), Exhibit Renovation ($54,250) and personal services expenditures for a new Farm Animal Care Team ($72,883).

Other less significant amendments, transferred appropriations from previously budgeted contingency, included: additional expenditure authority for the Council Office of $155,914 for policy development and clerical support (transferring 1.0 FTE from Finance and Administrative Services); an additional $305,000 in capital outlay in the Finance and Administrative Services department, offset by a reduction of $82,964 in operating expenses, for necessary improvements to the Metro Kids Day Care as required by the state and contractual agreement (funded by reimbursements from the day care operator), costs of a printer consolidation project and electronic timekeeping system implementation performed by the Information Technology division and operating expenditures for painting the headquarters building tower, a project deferred from the prior year due to weather; and, finally, an additional $113,000 for operating expenditures in the Planning department for work on the New Look program funded by excise tax.

The General Fund is appropriated by the object categories of operating expenses and capital outlay in the following departmental categories: Council Office, Finance and Administrative Services, Human Resources, Metro Auditor, Office of Metro Attorney, Oregon Zoo, Planning, Public Affairs and Government Relations, Regional Parks and Greenspaces, and non-department expenses (which includes a debt service category of expenditure.) There were no expenditures in excess of appropriations in the General fund for the fiscal year ended June 30, 2006 and the majority of departments expended 90.0% or more of their appropriation.

The departments which spent under 90.0% of their appropriations included the Metro Auditor (86.2%), Regional Parks and Greenspaces (89.2%), and Planning (66.7%). Underspending in Regional Parks and Greenspaces was primarily attributed to lower contracted expenditures related to restoration projects at Smith & Bybee Wetlands Natural Area and cemetery operations. Planning had several large projects that either had a very late start in fiscal year 2006 or didn't begin until fiscal year 2007. These projects were the Regional Transportation Plan Update, Milwaukie, Willamette Shoreline, Portland Streetcar, and Next Corridor projects, which represented approximately $2.8 million of the budget not expended in fiscal year 2006.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Metro's investment in capital assets for its governmental and business type activities amounts to $256,519,985 (net of accumulated depreciation) as of June 30, 2006. This investment in capital assets includes land, buildings and exhibits, improvements, and various types of equipment. With the consolidation of certain functions within the General Fund, noted earlier, a significant portion of capital assets were transferred from business-type activities to governmental activities and accounts for the primary change in the data below. The total increase (including additions and deductions) in Metro's investment in capital assets for the current fiscal year grew $1,074,686 or 0.4%, net of accumulated depreciation. Net of the adjustment for the aforementioned transfers of capital assets from business-type to governmental activities, Metro reflects an increase of $2,052,987 or 0.9% in capital assets attributable to governmental activities and a decrease of $978,300 ($713,684 in additional capital assets, less a $1,691,984 increase in accumulated depreciation), or 2.9%, in business-type activity capital assets.

Metro's Capital Assets
(Net of accumulated depreciation)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Land	$ 143,979,130	140,155,879	4,049,844	6,623,293	148,028,974	146,779,172
Buildings and Exhibits	69,237,330	17,034,666	26,855,503	79,272,106	96,092,833	96,306,772
Improvements	7,864,949	5,530,298	1,220,540	3,310,000	9,085,489	8,840,298
Equipment	1,283,187	220,996	978,184	1,810,372	2,261,371	2,031,368
Office furniture/equip	795,559	1,151,137	1,585	24,516	797,144	1,175,653
Railroad equip/facilities	246,540	-	-	312,036	246,540	312,036
Leasehold Improvements	-	-	7,634	-	7,634	-
Total	$ 223,406,695	164,092,976	33,113,290	91,352,323	256,519,985	255,445,299

Major capital asset events during the current fiscal year included the following:

- Acquisition of approximately 42 acres of open spaces property from willing sellers in four different target areas, involving four separate land transactions during the fiscal year. This brought the total acquired acreage to 8,173 (including 62 miles of stream and river frontage) under the open spaces program funded by the Open Spaces Program general obligation bonds. The total capitalized cost for the property acquired in the current fiscal year was $1,267,380 and is reflected in governmental-activities capital assets.

- The Zoo's Introduction to the Forest component of the Great Northwest Exhibit ($2,244,072), phase two of the Condor Breeding Facility ($548,730) and the primate building renovation – ocelot ($146,110).

- Construction of the Blue Lake Park water play structure ($200,025), Blue Lake Park water system upgrade ($160,052), and capital expenditures for the Mt. Talbert, Graham Oaks and Cooper Mountain open spaces ($177,082).

- Upgrades on Solid Waste's compactor #3 feed conveyor at Metro Central Station ($340,259) and compactor #2 conveyor ($70,842). Various other projects completed or still in progress totaled a combined $342,760.

MERC component unit capital assets. The total investment in capital assets, net of accumulated depreciation, for MERC totaled $193,080,625 at June 30, 2006, which represented a 3.8% ($7,632,054) decrease in total capital assets, net.

MERC Component Unit Capital Assets
(net of accumulated depreciation)

	2006	2005
Land	$ 15,279,942	15,279,942
Buildings	173,301,568	180,887,390
Improvements	2,303,809	2,335,274
Equipment	1,346,269	1,385,538
Office furniture/equip.	849,037	824,535
Total	$ 193,080,625	200,712,679

Major capital asset events during the current year for the MERC component unit, included the following:

- MERC capitalized an additional $1,115,779 of facilities during the fiscal year ended June 30, 2006. Some of the more significant additions included $340,099 for an LEED 800 ton chiller unit for the OCC, $107,709 for OCC food and beverage improvements, and $94,445 for OCC audio visual equipment. MERC Administration capitalized additional costs of $33,229 (for a total of $242,048) for event business management software.

- The above increases to fixed assets were more than offset by the annual depreciation charge, which totaled $8,587,050 for fiscal year 2006 and items removed from capital assets due to MERC's new capitalization threshold of $10,000.

Additional information on Metro's capital assets can be found in Note 4 to the financial statements.

Long-term debt. At the end of the current fiscal year, Metro had total bonded debt outstanding of $184,889,331 (net of unamortized costs, discounts, deferred amounts on refunding and unamortized accretion). Of this amount, $133,778,271 comprises debt backed by the full faith and credit of Metro and the remainder ($51,111,060) represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

In addition, Metro had other long-term debt outstanding in the form of loans. The following table provides a summary of Metro's debt activity for the primary government (revenue bonds are reflected net of issuance costs, premiums, discounts, deferred amounts on refunding, and accretion as disclosed in the notes to the financial statements):

Metro's Outstanding Debt

	Governmental Activities		Business-type activities		Total - Primary Government	
	2006	2005	2006	2005	2006	2005
Gen. obligation bonds	$ 133,778,271	145,361,215	-	-	133,778,271	145,361,215
Revenue bonds	43,649,331	17,023,638	7,461,729	12,873,097	51,111,060	29,896,735
Loans	507,151	82,550	-	-	507,151	82,550
Total	$ 177,934,753	162,467,403	7,461,729	12,873,097	185,396,482	175,340,500

Metro's total debt increased $10,055,982 (5.7%) during the current fiscal year. The key factors in this increase were:

- On September 23, 2005, Metro (along with certain other Oregon cities, counties and special districts) sold $24,290,000 of Pension Obligation Bonds, Limited Tax Series 2005 to pay the unfunded actuarial liability to PERS (see notes 7 and 10 for additional information). The payment will result in Metro receiving a lower employer contribution rate from PERS.

- During the fiscal year, Metro's TOD program entered into a loan arrangement with a private party to acquire property assets held for resale. The $450,000 loan bears an interest rate of 6.5% and will be paid in full on October 7, 2007.

Metro maintains an "AA+" rating from Standard & Poor's and an "Aa1" rating from Moody's for general obligation debt. Metro's General Obligation Refunding Bonds, 2005 Series are rated "AAA" and "Aa1" by Standard & Poor's and Moody's, respectively. The Waste Disposal System Refunding Bonds, 2003 Series have been rated "AAA" as they are insured, with the underlying ratings of "A" by Standard & Poor's and "A2" by Moody's. The Metro Full Faith and Credit Refunding Bonds have been rated "AA+" and "Aa2" by Standard & Poor's and Moody's, respectively.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for Metro is $15,669,236,147, which is significantly in excess of Metro's outstanding general obligation debt.

MERC component unit long-term debt. On behalf of MERC, on April 20, 2006, Metro sold $14,700,000 of Full Faith and Credit Oregon Local Governments 2006 Series Bonds to refund the outstanding Oregon Economic and Community Development Department's Special Public Works Fund loan, which in fiscal year 2000 funded a new building (Hall D) for MERC's Expo Center. This refinancing resulted in future debt service savings of $901,199 and an economic gain of $758,683.. In addition, MERC participated in a prior year in the creation of a Local Improvement District (LID), by the City of Portland, for the construction of a pedestrian walkway across the Willamette River. The outstanding principal balance of this debt at fiscal year end was $164,470.

Additional information on Metro's long-term debt can be found in Notes 8 through 11 in the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Oregon's economic forecast for 2006 anticipates the job recovery to continue its strong upward movement. Prior to 2004, Oregon lost over 40,000 non-farm jobs in the preceding three years. According to the June 2006 forecast from the State of Oregon's Office of Economic Analysis (OEA), the general outlook for 2006 calls for total non-farm employment to rise 3.1 percent over the prior year. Unemployment rates across the state fell to their lowest levels since 2001. Signs of employment growth are emerging in manufacturing and business services.

Despite some indication that inflation pressure is easing, the Federal Reserve indicated it was not thinking of lowering short-term interest rates any time soon, according to the minutes of its most recent meeting. The Fed seems uncertain about the housing market, the rate of economic growth and inflation. Job growth is expected to be moderate in subsequent years as the effect of monetary and fiscal stimulus play themselves out. Residential home construction mirrored the growth of industrial and commercial construction in the region. Residential home construction may drop as interest rates rise, but faster regional economic growth should eventually offset the higher interest rates as more income is pumped back into the hands of future home buyers.

With the fiscal year 2007 budget, Metro continues changes that are designed to achieve two objectives by fiscal year 2008:

- The Council's strategic planning process, its subsequent statements of objectives, the programmatic character of budget information and the consolidation of budget funds all will serve to assist the Metro Council in aligning its spending with its priorities.

- The budget will have greater transparency. Emphasizing departmental programs rather than fund types, relating programs directly to Council objectives, and providing measures of success for all programs will contribute to deeper understanding of budget priorities not seen in the presentation of budget amounts. The budget becomes a reflection of Council policy.

The coming fiscal year will include a comprehensive look at reserve requirements, the results of which will be folded into the Council's annual review and approval of Metro's financial and capital policies. Reserves must address not only current cash flow needs and renewal and replacement requirements, but can also cushion a cyclical downturn.

The fiscal year 2007 budget includes an excise tax rate of 7.5% on all non-solid waste generated revenues and a flat fee of $8.35 on all solid waste tonnage, including the additional $3.00 per ton dedicated to Regional Parks and to the Tourism Opportunity and Competitiveness Account to provide assistance to MERC in marketing the OCC. The excise tax is projected to raise $14.6 million from all sources during fiscal year 2007. Metro expects to collect 94% of property taxes levied and approximately $282,000 in delinquent taxes, consistent with historical experience.

In March 2006 the Metro Council established a Construction Excise Tax (CET) to provide funding for regional and local planning that is required to make land ready for development after its inclusion in the Urban Growth Boundary. The tax will sunset when a total of $6.3 million has been collected. The CET is expected to generate about $2 million in fiscal year 2007.

The General Fund will include enterprise revenues such as admission fees, parking fees, food and beverage sales, and other sales and contracted services generated from income producing activities such as the Oregon Zoo and Regional Parks. No fee increases are anticipated for fiscal year 2007. Annual attendance and admission rates determine the per capita estimate used to budget admissions revenue. The fiscal year 2007 budget assumes attendance of 1.33 million visitors at the Oregon Zoo, slightly below that experienced in fiscal year 2006. Projections for food, beverage and catering sales revenue is based upon per capita spending of $2.44 multiplied by the anticipated attendance. Using these and other factors, Metro estimates enterprise revenues brought into the General Fund from zoo operations at $14,370,990 for fiscal year 2007, or 3.7% higher than budgeted in the prior year.

Personal services expenditures include salary, wage and fringe benefits for the 402.33 full-time equivalents (FTE) that reside in the various departments of the General Fund. Overall, the FTE will increase by 14.75 FTE, primarily in grant funded areas. Irrespective of staff level shifts, all departments will experience increases in fringe benefit costs particularly in the area of health and welfare and pension costs. Metro's per capita cap on health and welfare will increase 5% for fiscal year 2007, and its employer contribution to the Oregon Public Employees Retirement System (PERS) will be affected by actions taken by Metro noted earlier. Metro staff and management are actively working on proposals to contain future years' costs in these areas.

Metro's solid waste system is funded largely through three types of user fees: the regional system fee, the Metro tip fee, and a flat fee charged for each transaction at Metro transfer stations. The regional system fee is imposed on all waste generated in the Metro region and ultimately disposed of for a fee. The Metro tip fee is a user charge collected only at Metro transfer stations. The fiscal year 2007 budget includes a scheduled decrease in the rate of $0.60 per ton in the Metro tip fee and a $0.97 reduction in the regional system fee, both effective September 1, 2006. The transaction fee will become a split rate, with customers using the automated scales being charged $3.00 per transaction and customers using the staffed scalehouse being charged $8.50 per transaction. Total enterprise revenues are expected to grow 2.2% due to increased tonnage. Non-Metro tonnage is expected to grow faster than Metro tonnage.

PERS designations. As noted earlier, Metro issued limited tax pension obligation bonds and paid the proceeds to PERS. The payment resulted in a new employer contribution rate of 7.76%, which will decline to 5.17% for PERS payroll and 7.63% for Oregon Public Service Plan payroll, effective July 1, 2007. Metro has designated a portion of the fund balance amount within each fund for potential future pension cost liabilities which is equal to the difference between the PERS rate prior to the changes and the PERS rate after the changes – which approximated 6.65% of salaries and wages. The total set aside for all Metro funds at June 30, 2006 is $7,536,493. During fiscal year 2007, Metro will consider what amounts, if any, to pay to PERS from the accumulated designated reserves noted earlier to further lower this rate.

On November 7, 2006, the voters of the Metro Region approved a $227.4 million Natural Areas general obligation bond measure. The purpose of the financing is to purchase regionally and locally significant natural habitat lands for perpetual protection from high-impact development. The measure includes $168.4 million for natural resource protection; $44.0 million to cities, counties and local park providers for local share projects, and $15.0 million for a Nature in Neighborhoods Capital Grants program. A Spring 2007 bond sale is anticipated with bonds to be repaid over a twenty-year period.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Metro's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Metro, 600 NE Grand Avenue, Portland, Oregon, 97232-2736.

Basic Financial Statements

METRO

Statement of Net Assets

June 30, 2006

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	MERC	Oregon Zoo Foundation
Assets					
Equity in internal cash and investment pool	$ 55,548,233	22,029,566	77,577,799	19,310,019	1,175,850
Investments	10,158,598	-	10,158,598	-	3,250,427
Receivables (net of allowance for uncollectibles):					
Property taxes	1,100,030	-	1,100,030	-	-
Trade	620,535	4,835,630	5,456,165	756,370	372,010
Other	889,770	1,175,778	2,065,548	3,316,195	269,550
Interest	264,307	167,847	432,154	56,060	53,950
Grants	2,368,620	22,111	2,390,731	-	-
Due from component unit	3,613,017	-	3,613,017	-	-
Internal balances	906,725	(906,725)	-	-	-
Inventories	108,063	376,024	484,087	-	-
Assets held for resale	7,333,324	-	7,333,324	-	-
Prepaid items	322,094	1,709,778	2,031,872	21,572	-
Loan receivable (net of discount)	63,820	-	63,820	-	-
Net pension asset	23,227,511	-	23,227,511	-	-
Other assets	52,810	28,114	80,924	-	57,444
Restricted assets:					
Equity in internal cash and investment pool	353,293	14,412,019	14,765,312	-	-
Investments	1,794	1,246,679	1,248,473	-	1,454,323
Capital assets:					
Land and improvements	143,979,130	4,049,844	148,028,974	15,279,942	-
Other capital assets (net of accumulated depreciation)	79,427,565	29,063,446	108,491,011	177,800,683	30,153
Total assets	$ 330,339,239	78,210,111	408,549,350	216,540,841	6,663,707
Liabilities					
Accounts payable	$ 3,448,975	3,174,702	6,623,677	1,015,486	168,407
Salaries, withholdings and payroll taxes payable	1,851,478	365,907	2,217,385	557,113	-
Contracts payable	167,312	5,000	172,312	-	917,126
Accrued interest payable	3,060,771	56,981	3,117,752	70,641	-
Accrued self-insurance claims	943,760	-	943,760	-	-

(Continued)

METRO

Statement of Net Assets

June 30, 2006

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	MERC	Oregon Zoo Foundation
Liabilities, Continued					
Due to primary government	$ -	-	-	3,613,017	-
Unearned revenue	6,864,032	-	6,864,032	1,896,529	1,793,640
Deposits payable	226,006	-	226,006	779,001	8,991
Other liabilities	4,447	45	4,492	420,726	-
Payable from restricted assets:					
Contracts payable	-	100,000	100,000	-	-
Post-closure costs payable	-	3,517,762	3,517,762	-	-
Arbitrage payable	17,724	-	17,724	-	-
Non-current liabilities:					
Due within one year:					
Bonds payable	12,703,945	2,235,000	14,938,945	130,000	-
Loans payable	27,412	-	27,412	10,279	-
Compensated absences	1,395,455	421,906	1,817,361	431,040	28,712
Due in more than one year:					
Environmental impairment liability	5,225,000	-	5,225,000	-	-
Bonds payable (net of unamortized premium or discount and deferred amount on refunding)	164,723,657	5,226,729	169,950,386	13,900,822	-
Loans payable	479,739	-	479,739	154,191	-
Compensated absences	499,344	45,717	545,061	120,840	-
Total liabilities	$ 201,639,057	15,149,749	216,788,806	23,099,685	2,916,876
Net Assets					
Invested in capital assets, net of related debt	72,055,226	25,651,561	97,706,787	178,885,333	30,153
Restricted for:					
Renewal and replacement	-	7,114,192	7,114,192	-	-
Landfill closure	-	3,677,577	3,677,577	-	-
Capital projects	7,039,133	-	7,039,133	375,000	-
Debt service	8,347,194	1,249,167	9,596,361	-	-
Perpetual care	178,943	-	178,943	-	-
Parks programs	3,724,944	-	3,724,944	-	-
Rehabilitation and enhancement	1,954,527	-	1,954,527	-	-
Other purposes	-	-	-	-	542,011
Unrestricted	35,400,215	25,367,865	60,768,080	14,180,823	3,174,667
Total net assets	$ 128,700,182	63,060,362	191,760,544	193,441,156	3,746,831

The notes to the financial statements are an integral part of this statement.

METRO

Statement of Activities

For the year ended June 30, 2006

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary Government:				
Governmental activities:				
General government operations	$ 10,128,233	1,377,281	8,055	-
Regional planning and development	10,580,855	1,547,604	9,679,378	-
Culture and recreation	6,515,693	2,568,418	583,700	190,000
Zoo	23,159,685	14,417,730	1,744,465	769,676
Interest on long-term debt	8,421,370	-	-	-
Total governmental activities	58,805,836	19,911,033	12,015,598	959,676
Business-type activities:				
Solid Waste	50,565,165	53,814,957	67,103	-
Total primary government	$ 109,371,001	73,725,990	12,082,701	959,676
Component Units:				
MERC	$ 42,799,786	26,296,316	917,181	-
Oregon Zoo Foundation	5,300,001	3,345,916	2,384,813	-
Total component units	$ 48,099,787	29,642,232	3,301,994	-

General revenues:
Property taxes
Excise taxes
Cemetery revenue surcharge
Local government shared revenues
Unrestricted investment earnings
Special items (see Note 16)
Transfers
Total general revenues, special items and transfers
Change in net assets

Net assets-July 1, 2005, as previously stated
Prior period adjustment
Net assets-July 1, 2005, as restated

Net assets-June 30, 2006

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	MERC	Oregon Zoo Foundation
(8,742,897)	-	(8,742,897)	-	-
646,127	-	646,127	-	-
(3,173,575)	-	(3,173,575)	-	-
(6,227,814)	-	(6,227,814)	-	-
(8,421,370)	-	(8,421,370)	-	-
(25,919,529)	-	(25,919,529)	-	-
-	3,316,895	3,316,895	-	-
(25,919,529)	3,316,895	(22,602,634)	-	-
			(15,586,289)	-
			-	430,728
			(15,586,289)	430,728
$ 27,804,374	-	27,804,374	-	-
14,243,252	-	14,243,252	-	-
21,395	-	21,395	-	-
547,512	-	547,512	8,852,246	-
2,315,910	1,361,750	3,677,660	716,919	231,497
357,921	-	357,921	(357,921)	-
533,324	(533,324)	-	-	-
45,823,688	828,426	46,652,114	9,211,244	231,497
19,904,159	4,145,321	24,049,480	(6,375,045)	662,225
104,182,316	58,915,041	163,097,357	199,816,201	3,084,606
4,613,707	-	4,613,707	-	-
108,796,023	58,915,041	167,711,064	199,816,201	3,084,606
$ 128,700,182	63,060,362	191,760,544	193,441,156	3,746,831

Fund Financial Statements

Major Governmental Funds

General Fund

The *General Fund* accounts for all activities not required to be accounted for in another fund. This fund accounts for Metro's primary governmental programs and support services including Council Office, Finance and Administrative Services, Human Resources, Metro Auditor, Office of Metro Attorney, Oregon Zoo, Planning (land use, urban growth management, and environmental and transportation planning), Public Affairs and Government Relations, Regional Parks and Greenspaces (parks, marine facilities, pioneer cemeteries, and a golf course) and non-departmental special appropriations. The principal resources of the fund are charges for services, grants, property taxes, investment income and excise taxes on Metro's facilities and services levied in accordance with the Metro Code.

The budgetary General Fund is combined with another budgetary fund, the General Revenue Bond Fund - General, to become one fund in accordance with accounting principles generally accepted in the United States of America.

Special Revenue Funds

Smith and Bybee Lakes Fund

This fund accounts for development and management of the Smith and Bybee Lakes Natural Resource Management plan, which calls for Smith and Bybee Lakes to be managed as environmental and recreational resources for the region. The principal sources of revenue are investment income and capital contributions and donations.

Rehabilitation and Enhancement Fund

This fund accounts for special fees collected on solid waste disposal. The funds are used for community enhancement projects in the areas around various solid waste disposal facilities and for administration of the enhancement program.

Debt Service Fund

The *General Obligation Bond Debt Service Fund* accounts for payments of general obligation bond principal and interest to bondholders. The principal resource is investment income.

(Continued)

Major Governmental Funds, continued

Capital Projects Funds

Open Spaces Fund

This fund accounts for the activities to acquire and protect regional open spaces, parks, trails, and streams. The principal resource is investment income.

Metro Capital Fund

This fund accounts for all major capital development projects and renewal and replacement reserves of Metro. The principal sources of revenue are investment income and capital contributions and donations.

Permanent Fund

The *Cemetery Perpetual Care Fund* accounts for amounts provided to build a permanent investment of principal from which the earnings will be used to provide long-term maintenance of pioneer cemeteries under Metro's management. The principal resource is a cemetery revenue surcharge on grave sales.

METRO

Balance Sheet
Governmental Funds

June 30, 2006

	General	Special Revenue: Smith and Bybee Lakes	Special Revenue: Rehabilitation and Enhancement
Assets			
Equity in internal cash and investment pool	$ 32,702,060	3,707,628	2,052,202
Investments	-	-	-
Receivables:			
Property taxes	368,654	-	-
Trade	603,325	28	-
Other	889,770	-	-
Interest	158,395	17,288	9,427
Grants	2,368,620	-	-
Inventories	108,063	-	-
Assets held for resale	7,333,324	-	-
Prepaid items	318,147	-	-
Other assets	52,810	-	-
Restricted assets:			
Equity in internal cash and investment pool	93	-	-
Investments	1,794	-	-
Total assets	$ 44,905,055	3,724,944	2,061,629
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	$ 2,481,747	-	107,102
Salaries, withholdings and payroll taxes payable	1,522,352	-	-
Contracts payable	76,703	-	-
Deferred revenue	316,042	-	-
Unearned revenue	6,864,032	-	-
Deposits payable	226,006	-	-
Loans payable	450,000	-	-
Other liabilities	4,447	-	-
Total liabilities	11,941,329	-	107,102
Fund balances:			
Reserved for:			
Assets held for resale	7,333,324		
Debt service	-	-	-
Unreserved	25,630,402	3,724,944	1,954,527
Total fund balances	32,963,726	3,724,944	1,954,527
Total liabilities and fund balances	$ 44,905,055	3,724,944	2,061,629

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Other long-term assets (primarily the net pension asset) are not available to pay for current-period expenditures and therefore are deferred in the funds.

An internal service fund is used by management to charge the costs of insurance and risk management to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Net assets of governmental activities

The notes to the financial statements are an integral part of this statement.

	Capital Projects		Permanent	
Debt Service	Open Spaces	Metro Capital	Cemetery Perpetual Care	Total Governmental Funds
1,339,903	1,297,602	7,676,229	177,968	48,953,592
9,228,116	930,482	-	-	10,158,598
731,376	-	-	-	1,100,030
-	17,032	-	150	620,535
-	-	-	-	889,770
8,662	3,693	36,071	825	234,361
-	-	-	-	2,368,620
-	-	-	-	108,063
-	-	-	-	7,333,324
-	-	3,947	-	322,094
-	-	-	-	52,810
-	-	-	-	93
-	-	-	-	1,794
11,308,057	2,248,809	7,716,247	178,943	72,143,684
-	132,295	583,038	-	3,304,182
-	3,976	3,467	-	1,529,795
-	-	90,609	-	167,312
627,652	-	-	-	943,694
-	-	-	-	6,864,032
-	-	-	-	226,006
-	-	-	-	450,000
-	-	-	-	4,447
627,652	136,271	677,114	-	13,489,468
				7,333,324
10,680,405	-	-	-	10,680,405
	2,112,538	7,039,133	178,943	40,640,487
10,680,405	2,112,538	7,039,133	178,943	58,654,216
11,308,057	2,248,809	7,716,247	178,943	
				223,406,695
				24,235,025
				4,862,293
				(182,458,047)
				$ 128,700,182

METRO

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

For the year ended June 30, 2006

		Special Revenue	
	General	Smith and Bybee Lakes	Rehabilitation and Enhancement
Revenues:			
Property taxes	$ 9,399,548	-	-
Excise taxes	14,243,252	-	-
Cemetery revenue surcharge	-	-	-
Local government shared revenues	547,512	-	-
Investment income	1,157,466	138,291	74,201
Government fees	490,892	-	-
Culture and recreation fees	14,675,797	-	-
Other fees	3,157,503	1,593	54,000
Internal charges for services	489,885	-	-
Licenses and permits	402,300	-	-
Miscellaneous revenue	472,912	-	-
Grants	10,675,649	-	-
Contributions and donations	1,332,949	-	-
Capital contributions and donations	195,155	190,000	-
Total revenues	57,240,820	329,884	128,201
Expenditures:			
Current:			
General government operations	8,604,697	-	-
Regional planning and development	10,101,333	-	452,156
Culture and recreation	5,753,787	21,700	-
Zoo	20,813,765	-	-
Debt service:			
Principal	1,125,000	-	-
Interest	1,617,785	-	-
Capital outlay	897,190	190,000	-
Total expenditures	48,913,557	211,700	452,156
Revenues over (under) expenditures	8,327,263	118,184	(323,955)
Other financing sources (uses):			
Bonds issued	24,290,000	-	-
Premium on bonds issued	23,286	-	-
Transfers in	331,579	-	388,463
Transfers out	(3,568,392)	-	-
Total other financing sources (uses)	21,076,473	-	388,463
Special item:			
Payment to Oregon PERS for reduction of actuarial deficiency	(24,022,369)	-	-
Net change in fund balances	5,381,367	118,184	64,508
Fund balances - July 1, 2005, as previously stated	22,968,652	3,606,760	1,890,019
Prior period adjustment	4,613,707	-	-
Fund balances - July 1, 2005, as restated	27,582,359	3,606,760	1,890,019
Fund balances - June 30, 2006	$ 32,963,726	3,724,944	1,954,527

The notes to the financial statements are an integral part of this statement.

	Capital Projects		Permanent	Total
Debt Service	Open Spaces	Metro Capital	Cemetery Perpetual Care	Governmental Funds
18,451,278	-	-	-	27,850,826
-	-	-	-	14,243,252
-	-	-	21,395	21,395
-	-	-	-	547,512
264,045	131,768	296,295	6,260	2,068,326
-	-	-	-	490,892
-	37,058	-	-	14,712,855
-	24,810	-	-	3,237,906
-	-	25,000	-	514,885
-	-	-	-	402,300
-	100,195	-	-	573,107
-	-	7,000	-	10,682,649
-	-	-	-	1,332,949
-	-	574,521	-	959,676
18,715,323	293,831	902,816	27,655	77,638,530
-	-	249,079	-	8,853,776
-	-	-	-	10,553,489
-	573,858	-	-	6,349,345
-	-	94,412	-	20,908,177
11,353,037	-	-	-	12,478,037
6,686,324	-	-	-	8,304,109
-	693,522	3,429,324	-	5,210,036
18,039,361	1,267,380	3,772,815	-	72,656,969
675,962	(973,549)	(2,869,999)	27,655	4,981,561
-	-	-	-	24,290,000
-	-	-	-	23,286
-	-	3,568,392	-	4,288,434
-	(960)	(183,162)	-	(3,752,514)
-	(960)	3,385,230	-	24,849,206
-	-	-	-	(24,022,369)
675,962	(974,509)	515,231	27,655	5,808,398
10,004,443	3,087,047	6,523,902	151,288	48,232,111
-	-	-	-	4,613,707
10,004,443	3,087,047	6,523,902	151,288	52,845,818
10,680,405	2,112,538	7,039,133	178,943	58,654,216

METRO

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds To the Statement of Activities

For the year ended June 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances-total governmental funds		$ 5,808,398
Governmental funds report capital outlays as expenditures, while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which capital outlays exceeded depreciation in the current period.		
Expenditures for capital assets	$ 6,090,807	
Less current year depreciation	(4,037,820)	2,052,987
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Change in deferred property taxes	(46,452)	
Amortization of discount on loan receivable	10,933	
Special item (see Note 16)	357,921	322,402
An internal service fund is used by management to charge the costs of insurance and risk management to individual funds. The net revenue of certain activities of the internal service fund is included in governmental activities in the statement of activities.		206,587
The issuance of long-term debt provides current financial resources to governmental funds, but issuance of debt increases long-term liabilities in the statement of net assets. The repayment of principal on long-term debt uses current financial resources of governmental funds, but repayment of debt reduces long-term liabilities in the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These are the effects of these differences in the treatment of long-term debt and related items.		
Bond proceeds and premium	(24,290,000)	
Principal payments on bonds	12,478,037	
Deferred amount on refunding-premium and costs	265,889	
Principal payments on loans	25,399	(11,520,675)
The issuance of loans and the payment to Oregon PERS for reduction of actuarial deficiency uses current financial resources of governmental funds, but creates long-term assets in the statement of net assets.		
Issuance of loan (net of discount)	52,887	
Payment to Oregon PERS	24,022,369	24,075,256
Expenses in the statement of activities that do not require the use of current financial resources are not reported as expenditures in the funds.		
Compensated absences	(133,460)	
Amortization of deferred amounts on refunding	44,893	
Amortization of net pension asset	(794,858)	
Accrued interest on long-term debt	(157,371)	(1,040,796)
Change in net assets of governmental activities		$ 19,904,159

The notes to the financial statements are an integral part of this statement.

Fund Financial Statements

Proprietary Funds

Enterprise Fund

Solid Waste Fund

This fund accounts for revenues, primarily from charges for services for the disposal of solid waste, and expenses for the implementation, administration and enforcement of Metro's Solid Waste Management Plan. This fund also accounts for Metro South Station and Metro Central Station solid waste transfer and recycling facilities, and the closed St. Johns Landfill.

Internal Service Fund

Risk Management Fund

This fund accounts for risk management and self-insurance programs performed for other organizational units within Metro. Primary revenues are charges for services to user funds and investment income. Primary expenses are insurance premiums, claims costs, and studies related to insurance issues.

METRO

Statement of Net Assets
Proprietary Funds

June 30, 2006

		Business-type Activities- Enterprise Fund	Governmental Activities- Internal Service Fund
Assets		Solid Waste	Risk Management
Current assets:			
Equity in internal cash and investment pool	$	22,029,566	6,594,641
Receivables:			
Trade		4,835,630	-
Other		1,175,778	-
Interest		167,847	29,946
Grants		22,111	-
Inventories		376,024	-
Prepaid items		1,709,778	-
Other assets		28,114	-
Total current assets		30,344,848	6,624,587
Noncurrent assets:			
Restricted equity in internal cash and investment pool		14,412,019	353,200
Restricted investments		1,246,679	-
Capital assets, net		33,113,290	-
Total noncurrent assets		48,771,988	353,200
Total assets		79,116,836	6,977,787
Liabilities			
Current liabilities:			
Accounts payable		3,174,702	144,793
Salaries, withholdings and payroll taxes payable		365,907	321,683
Contracts payable		5,000	-
Accrued interest payable		56,981	-
Accrued self-insurance claims		-	943,760
Bonds payable-current		2,235,000	-
Compensated absences-current		421,906	-
Other liabilities		45	-
Total current liabilities		6,259,541	1,410,236

(Continued)

METRO

Statement of Net Assets, Continued
Proprietary Funds

June 30, 2006

		Business-type Activities- Enterprise Fund	Governmental Activities- Internal Service Fund
Liabilities, continued		Solid Waste	Risk Management
Noncurrent liabilities:			
Payable from restricted assets:			
Contracts payable	$	100,000	-
Post-closure costs payable		3,517,762	-
Environmental impairment liability		-	5,225,000
Bonds payable (net of unamortized discount and deferred amount on refunding)		5,226,729	-
Compensated absences		45,717	-
Total non-current liabilities		8,890,208	5,225,000
Total liabilities		15,149,749	6,635,236
Net Assets			
Invested in capital assets, net of related debt		25,651,561	-
Restricted for:			
Renewal and replacement		7,114,192	-
Landfill closure		3,677,577	-
Debt service		1,249,167	-
Unrestricted		26,274,590	342,551
Total net assets	$	63,967,087	342,551
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds		(906,725)	
Net assets of business-type activities	$	63,060,362	

The notes to the financial statements are an integral part of this statement.

METRO

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds

For the year ended June 30, 2006

	Business-type Activities- Enterprise Fund	Governmental Activities- Internal Service Fund
	Solid Waste	Risk Management
Operating revenues:		
Charges for services	$ 53,785,856	19,526
Internal charges for services	29,101	7,105,422
Total operating revenues	53,814,957	7,124,948
Operating expenses:		
Payroll and fringe benefits	8,570,903	150,480
Depreciation and amortization	1,691,984	-
Administrative expenses	3,142,846	-
Facility operating expenses	8,774,168	-
Disposal fees	12,519,645	-
Waste transport costs	7,640,830	-
Special waste disposal fees	786,324	-
Recycling credits	559,999	-
Consulting services	2,223,956	-
Charges for services	359,466	-
Payments to other governments	543,033	-
Insurance expense	-	5,902,354
Claims expense	-	1,094,304
Actuarial claims expense	-	(43,775)
Other materials and services	2,038,772	96,632
Total operating expenses	48,851,926	7,199,995
Operating income (loss)	4,963,031	(75,047)
Non-operating revenues (expenses):		
Grants	67,103	46,872
Investment income	1,361,750	236,651
Waste reduction grants	(1,249,780)	-
Interest expense	(474,162)	-
Total non-operating revenues (expenses)	(295,089)	283,523
Income before transfers	4,667,942	208,476
Transfers out	(533,324)	(2,596)
Change in net assets	4,134,618	205,880
Total net assets - July 1, 2005	59,832,469	136,671
Total net assets - June 30, 2006	$ 63,967,087	342,551
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	10,703	
Change in net assets of business-type activities	$ 4,145,321	

The notes to the financial statements are an integral part of this statement.

METRO

Statement of Cash Flows
Proprietary Funds

For the year ended June 30, 2006

	Business-type Activities-Enterprise Fund	Governmental Activities-Internal Service Fund
	Solid Waste	Risk Management
Cash flows from operating activities:		
Receipts from customers	$ 52,749,594	5,777,422
Receipts from interfund services provided	-	1,328,000
Other operating receipts	49,431	29,768
Payments to suppliers for goods and services	(34,578,279)	(5,694,203)
Payments for claims	-	(1,094,304)
Payments to other governments	(543,033)	-
Payments to employees for services	(8,677,195)	(152,289)
Payments for interfund services used	(3,142,846)	-
Net cash provided by operating activities	5,857,672	194,394
Cash flows from noncapital financing activities:		
Grants received	44,992	46,872
Grants to others	(1,249,780)	-
Transfers to other funds	(533,324)	(2,596)
Net cash provided by (used in) noncapital financing activities	(1,738,112)	44,276
Cash flows from capital and related financing activities:		
Principal payment on revenue bonds	(2,230,000)	-
Interest payments	(114,863)	-
Acquisition and construction of capital assets	(713,684)	-
Net cash used in capital and related financing activities	(3,058,547)	-
Cash flows from investing activities:		
Investment income	1,268,464	220,451
Proceeds from sale of investments	10,519,002	351,966
Purchase of investments	(10,532,415)	(353,200)
Net cash provided by investing activities	1,255,051	219,217
Net increase in cash including restricted amounts	2,316,064	457,887
Cash at beginning of year including restricted amounts	34,125,521	6,136,754
Cash at end of year including restricted amounts	$ 36,441,585	6,594,641

(Continued)

METRO

Statement of Cash Flows, Continued
Proprietary Funds

For the year ended June 30, 2006

	Business-type Activities- Enterprise Fund	Governmental Activities- Internal Service Fund
	Solid Waste	Risk Management
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ 4,963,031	(75,047)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,691,984	-
Change in assets and liabilities:		
Trade/other accounts receivable	(1,015,933)	10,242
Inventory	89,481	-
Other assets	554,876	-
Accounts payable	(103,230)	(11,621)
Salaries, withholdings and payroll taxes payable/compensated absences	(106,292)	314,595
Accrued self-insurance claims	-	(43,775)
Other liabilities	(198)	-
Post-closure costs payable	(216,047)	-
Total adjustments	894,641	269,441
Net cash provided by operating activities	$ 5,857,672	194,394
Noncash investing, capital, and financing activities:		
Investment income relating to the change in the fair value of investments	$ 81,456	13,872

The notes to the financial statements are an integral part of this statement.

HISTORICAL INTRODUCTION

Metro, the nation's only directly elected regional government, was organized under the provisions of Oregon Revised Statutes (ORS) Chapter 268 to make available, in the Portland, Oregon metropolitan area, public services not adequately available through previously authorized governmental agencies. Under the 1992 Metro Charter, Metro's primary function is regional planning services. Metro is also authorized to exercise the following functions and is permitted by Charter to assume additional functions if approved by ordinance:

- Acquisition, development, maintenance and operation of:
  - a metropolitan zoo,
  - public cultural, trade, convention, exhibition, sports, entertainment, and spectator facilities,
  - facilities for disposal of solid and liquid wastes, and
  - a system of parks, open spaces and recreational facilities of metropolitan concern
- Metropolitan aspects of natural disaster planning and response coordination
- Development and marketing of data
- Performance of any other function required by state law or assigned to Metro by voters.

The Metro Council is the governing body and consists of six part-time councilors; each elected on a nonpartisan basis from a single district within the Metro area. The Council President, who both administers the agency and presides over the policy-making of the Council, is elected from the Metro area at large. A Chief Operating Officer, appointed by the Council President and confirmed by the Council, is responsible for day-to-day administration of Metro, under the guidance of the Council President and the full Council. The Metro Auditor is elected at large, and that office performs financial and performance audits and makes reports to the Council and Chief Operating Officer.

The Metropolitan Exposition-Recreation Commission (MERC) was established by Metro ordinance to operate, maintain and renovate metropolitan convention, trade and spectator facilities pursuant to appropriate state statutes. The Commission consists of seven members appointed by the Council President and confirmed by the Council.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Metro have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The following summary of Metro's significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies, as presented, should be viewed as an integral part of the accompanying financial statements.

1. THE REPORTING ENTITY

Metro is a municipal corporation governed as described in the previous section. As required by GAAP, these financial statements present Metro (the primary government) and its component units - MERC, an entity for which Metro is considered to be financially accountable, and the Oregon Zoo Foundation (OZF), a legally separate non-profit organization whose sole purpose is to provide support and significant additional funding for Metro's Oregon Zoo. These discretely presented component units are reported in separate columns in the government-wide financial statements (see description below) to emphasize that they are legally separate from Metro. Disclosures accompanying Metro's financial statements have generally been limited to those regarding MERC and not OZF due to the significance of MERC as a component unit compared with OZF.

Discretely Presented Component Units

MERC - Unless noted otherwise in this report, the accounting policies of this component unit are consistent with those described for Metro. Metro is responsible for the operation and management of MERC and appoints each of the seven members of the MERC Commission. Metro is financially accountable for the operations of MERC and is able to impose its will in MERC's operations through review of resolutions, budget approval and fiscal management. MERC is presented as an enterprise fund type. MERC does not prepare a separate comprehensive annual financial report.

MERC operates the Metro-owned Oregon Convention Center (OCC) and Portland Metropolitan Exposition Center (Expo). In addition, under the provisions of an intergovernmental agreement with the City of Portland, MERC is responsible for operation and management of the City-owned Portland Center for the Performing Arts (PCPA). Because the City retains title to this facility and all capital assets purchased, and because the City remains obligated to pay certain bonded debt remaining on this facility, the capital assets, bonded debt and related interest and depreciation expenses are not included in the accompanying financial statements.

OZF - The OZF exists exclusively for the support and benefit of the Zoo. It is a public benefit corporation organized and operated under Section 501(c)(3) of the Internal Revenue Code. The OZF conducts fundraising efforts on behalf of the Zoo, receiving donations from both individuals and corporations that are provided as financial support to the Zoo. The OZF is included in Metro's report under provisions of GASB Statement No. 39. Complete financial statements for OZF can be obtained from the Finance Manager at 4001 SW Canyon Road, Portland, OR 97221-2799.

2. BASIC FINANCIAL STATEMENTS

Government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the activities of the primary government and its component units. For the most part, the effect of interfund activity has been eliminated 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. The primary government is reported separately from its legally separate component units.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment and 3) capital grants and contributions. Taxes and other items not properly included among program revenues are reported instead as *general revenues*, as are internally dedicated resources.

Fund financial statements are presented for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported in separate columns in the fund financial statements.

3. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using *an economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. All transactions affecting increases (revenues) and decreases (expenses) in total net assets during the period are reported. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants are recognized as revenue when all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using *a current financial resources measurement focus* and the *modified accrual basis of accounting*. Only current assets and current liabilities are generally reported on the balance sheet. Governmental funds' operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) of net current assets during a period. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are both "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Metro considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured principal and interest on long-term debt that is recorded when due and certain compensated absences which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes, excise taxes, cemetery revenue surcharges, grants, local government shared revenues, government contributions, charges for services, and investment income are susceptible to accrual. Contributions and donations and other receipts become measurable and available when cash is received by Metro and are recognized as revenue at that time.

The accounts of Metro are organized on the basis of funds, each of which is a separate accounting entity with self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. The segregation by fund is for the purpose of carrying on specific activities or attaining certain objectives in accordance with ordinances, special regulations, restrictions or limitations. The various funds are grouped by fund type and classified into two broad fund categories: governmental and proprietary.

To provide greater flexibility in establishing Metro Council spending priorities and to permit greater efficacy of reserves within the General Fund, fiscal year 2006 began with the consolidation of a number of funds into the General Fund. The former special revenue funds related to Planning and Parks, as well as the former Zoo enterprise fund and two former internal service funds were part of this consolidation. In addition, capital projects related funds for regional parks and the Oregon Zoo were consolidated into the Metro Capital fund.

Metro reports the following major governmental funds:

> **General Fund** – This fund accounts for all activities not required to be accounted for in another fund: Metro's primary governmental programs and support services including Council Office, Finance and Administrative Services, Human Resources, Metro Auditor, Office of Metro Attorney, Oregon Zoo, Planning (land use, urban growth management, and environmental and transportation planning), Public Affairs and Government Relations, Regional Parks and Greenspaces (parks, marine facilities, pioneer cemeteries, and a golf course) and non-departmental special appropriations. The budgetary General Fund is combined with another budgetary fund, the General Revenue Bond Fund – General, to

become one fund in accordance with accounting principles generally accepted in the United States of America.

Special Revenue Funds – Special revenue funds account for revenues (other than fiduciary resources or major capital projects) that are legally restricted to expenditures for specific purposes. Metro's special revenue funds include:

Smith and Bybee Lakes Fund - This fund accounts for development and management of the Smith and Bybee Lakes Natural Resource Management Plan, which calls for Smith and Bybee Lakes to be managed as environmental and recreational resources for the region.

Rehabilitation and Enhancement Fund - This fund accounts for special fees collected on solid waste disposal. The funds are used for community enhancement projects in the areas around various solid waste disposal facilities and for administration of the enhancement program.

Debt Service Fund – The *General Obligation Bond Debt Service Fund* accounts for payments of general obligation bond principal and interest to bondholders.

Capital Projects Funds - This fund type is used to account for resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds). Metro's capital projects funds are:

Open Spaces Fund – This fund accounts for the activities to acquire and protect regional open spaces, parks, trails, and streams.

Metro Capital Fund – This fund accounts for all major capital development projects and renewal and replacement reserves of Metro.

Permanent Fund - This fund type is used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs. Metro's permanent fund is:

Cemetery Perpetual Care Fund – This fund accounts for amounts provided to build a permanent investment of principal from which the earnings will be used to provide care for Pioneer Cemeteries under Metro's management.

Metro reports the following major proprietary funds:

Enterprise Fund - These funds account for the financing of predominantly self-supporting activities that are funded through service charges and user fees to customers. Metro's enterprise fund is:

Solid Waste Fund - This fund accounts for revenues, primarily from charges for services for the disposal of solid waste, and expenses for the implementation, administration and enforcement of Metro's Solid Waste Management Plan. This fund also accounts for Metro South Station and Metro Central Station solid waste transfer and recycling facilities, and the closed St. Johns Landfill.

Internal Service Fund - Internal service funds are used to account for activities or services furnished by designated departments to other organizational units. Charges are made to the various user departments to support these activities. Metro's internal service fund is:

Risk Management Fund - This fund accounts for risk management and self-insurance programs performed for other organizational units within Metro.

The financial statements have incorporated all applicable GASB pronouncements. All applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989 have been applied to the government-wide financial statements and enterprise fund financial statements, unless those pronouncements conflict with or contradict GASB pronouncements.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions are direct charges for services between various funds that represent services provided and used. Elimination of these charges would distort the measurement of the cost of individual functional activities. Certain indirect costs for central administration and support have been included as part of program expenses reported for the various functions in the government-wide financial statements.

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 Solid Waste Fund, and of the internal service fund are charges to customers for sales and services. Operating expenses for enterprise funds and the internal service fund 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.

It is Metro's policy to use restricted resources first, then unrestricted resources as needed when both restricted and unrestricted resources are available for use.

4. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Cash and Investments

Cash and investments consist of each fund's portion of pooled cash balances, time certificates of deposit, money market investments, U.S. Government securities, banker's acceptances, commercial paper and investments in the State Treasurer's investment pool. Cash is considered to be cash on hand, demand deposits, cash in restricted accounts and equity in the internal cash and investment pool. Interest earned on pooled investments is allocated monthly based upon each fund's average monthly cash balance. Investments are carried at fair value. The fair value of investments is determined annually and is based on current market prices. The fair value of Metro's position in the State Treasurer's investment pool is materially the same as the value of the pool shares.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at fiscal year-end are referred to as "due to/from other funds." The residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Uncollected property taxes receivable collected and remitted to Metro by county treasurers within approximately 60 days of fiscal year-end are recognized as revenue. The remaining balance is recorded as deferred revenue because it is not deemed available to finance operations of the current period. Under state law, county governments are responsible for extending authorized property tax levies, computing tax rates, billing and collecting all property taxes, and making periodic remittances of collections to entities levying taxes. Property taxes are assessed and become a lien against the property as of July 1 each year. Since property taxes may be collected by foreclosure, no allowance for doubtful accounts is deemed necessary. Property taxes are levied on November 15 and are payable in three installments that are due on November 15, February 15 and May 15. Taxes unpaid and outstanding after May 16 are considered delinquent.

Receivables are stated net of an allowance for uncollectibles when required.

Metro allocates indirect costs, primarily of an administrative nature, to grants in compliance with cost allocation plans that are subject to the approval of Metro's oversight agency. The plan in effect for fiscal year 2006 allocated indirect costs to grants at a rate of approximately 30% of the related direct personnel costs.

Inventories and Prepaid Items

Inventories, consisting of consumable food and items held for resale, are valued at cost (first-in, first-out method), and are charged as expenses upon sale. Payments to vendors for services that will benefit future periods are recorded as prepaid items.

Animal Collections

In accordance with industry practice, animal collections of the Zoo are recorded at the nominal amount of $1, as there is no objective basis for establishing value. Differences in attributes such as species, age, sex, endangered status, and breeding potential make it impracticable to assign value. Acquisitions are recorded as expenses of the operating activity.

Restricted Assets and Liabilities

Resources for future payment of revenue bonds and certain long-term liabilities have been classified as restricted assets (a portion of the equity in the internal cash and investment pool and a portion of investments) on the statement of net assets because their use is limited by applicable bond covenants or other agreements. Such restrictions include amounts for renewal and replacement, debt service, and the payment of the post-closure liability in the Solid Waste Enterprise Fund.

Transit-Oriented Development (TOD) Program Easements

Metro purchases easements on various TOD projects from developers. These easements contain property use conditions for periods up to 30 years to accomplish the goals of the TOD program. Metro does not consider the substance of such easements as assets, but rather project funding and amounts paid are reflected as a period cost. This policy is based on the concept that assets are resources that Metro controls and that have a present capacity to provide services, directly or indirectly. TOD easements, while a contractual or property right controlled by Metro, are entered into for the purposes of developing properties that increase transit ridership. The transit system is a service function of a wholly separate government entity. In the broadest sense, success of the program through TOD easements can enable the region and its individual government entities to maximize future resources. As such, there is no increase in Metro's present capacity to provide service and TOD easements are effectively contributions to the programs and service capacity of other governments.

Capital Assets

Capital assets, which include land, buildings and exhibits, improvements, equipment, and office furniture and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by Metro as assets with an initial cost of $5,000 or more ($10,000 or more for MERC) and an estimated useful life in excess of one year. Capital assets are recorded at cost, and donated capital assets are stated at estimated fair market value when received. Normal maintenance and repairs are charged to operations as incurred. For Metro, replacements exceeding $5,000 that improve or extend the lives of property are capitalized; for MERC the amount is $10,000.

Capital assets are recorded as capital outlay expenditures in the governmental funds statements when purchased. Capital assets in the enterprise and internal service funds are capitalized when purchased. Interest expense (net of interest earned on the invested proceeds over the period of construction) incurred during construction of capital assets of business-type activities is capitalized as part of the cost of the constructed asset.

Depreciation is computed using the straight-line method over the following estimated useful lives:

Asset	Years
Buildings and improvements	15-40
Equipment	5-10
Office furniture	5-7

Pursuant to an intergovernmental agreement with the City of Portland, Metro (through MERC) operates and manages activities for the PCPA, but capital assets purchased from funds derived from these operations become property of the City. As such, these expenses are reflected as contributions to other governments and are not capitalized.

Long-term Obligations

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 in the government-wide financial statements or proprietary fund types fund financial statements. Bond premiums, discounts, issuance costs and deferred amounts are amortized over the life of the bonds using straight-line or the effective interest method. Bonds payable are reported on the statement of net assets net of the unamortized portion of those costs.

For governmental fund types in the fund financial statements, bond premiums, discounts and issuance costs are recognized in the period incurred. The face amount of debt issued plus any premium received on issuance is reported as other financing sources. Discounts on issuance are reported as other financing uses. Issuance costs are reported as materials and services expenditures.

Liability for Compensated Absences

Accumulated unpaid vacation benefits are accrued as earned in government-wide and proprietary fund financial statements. Accumulated unpaid vacation benefits are recorded as liabilities in the governmental fund types only if they have matured as the result of employee resignations or retirements. Calculated amounts of vacation leave payable include salary-related payments associated with the leave, such as Metro's share of Social Security and Medicare taxes. Accumulated sick leave does not vest and is, therefore, recorded in all funds when leave is taken.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets. Elements of that reconciliation explain that "capital assets used in governmental activities are not financial resources and therefore are not reported in the funds," and that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of these differences are as follows:

	Capital assets	Long-term liabilities
Capital assets	$266,998,344	-
Accumulated depreciation	(43,591,649)	-
Accrued interest payable	-	(3,060,771)
Arbitrage payable	-	(17,724)
Loans payable	-	(57,151)
Bonds payable (net of unamortized premium and deferred amount on refunding)	-	(177,427,602)
Compensated absences	-	(1,894,799)
Net adjustment to fund balance-total governmental funds to arrive at net assets-governmental activities	$223,406,695	(182,458,047)

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

PRIOR PERIOD ADJUSTMENT

At June 30, 2005, Metro did not record properties that were purchased for resale in prior years in its statement of net assets, as required by professional standards. Accordingly, a prior period adjustment to correct the error in the amount of $4,613,707 was made to increase net assets at July 1, 2005 as shown on the statement of activities. For the fund financial statements, professional standards offer a choice to either expense or capitalize purchases of property to be resold, and Metro previously determined to follow its own conservative budgetary practices and expense such purchases. However, the fund balance of the General Fund has been increased at July 1, 2005 to reflect management's intent to treat the fund financial statements similarly to the government-wide financial statements in situations where there is a choice of practices. The effect of these adjustments on the operations of Metro for the year ended June 30, 2005 has not been calculated.

DETAILED NOTES ON ALL FUNDS

1. CASH AND INVESTMENTS

Collateral on Deposits

Oregon statutes require each depository, throughout the period of its possession of public funds, to maintain on deposit securities having a value of not less than 25% of the certificates of participation issued by its pool manager, less any applicable federal insurance.

Investments

Policies adopted by Metro's Investment Advisory Board and the Metro Council authorize Metro to invest in obligations of U.S. government agencies, U.S. Government Sponsored Enterprises (USGSE), the U.S. Treasury, time certificates of deposit, repurchase agreements, money market investments, bankers' acceptances, commercial paper, State of Oregon and local government securities, and the State Treasurer's investment pool. The State Treasurer's investment policies are governed by Oregon Revised Statutes and the Oregon Short Term Fund Board (OSTFB).

There were no known violations of legal or contractual provisions for deposits and investments during the fiscal year.

As of June 30, 2006, Metro had the following investments and maturities. Except for $1,917,682 of Bankers' Acceptances and $9,489,389 of USGSE held by individual funds, all investments are in an internal investment pool.

		Investment Maturities (in months)		
Investment Type	Fair Value	Less than 3	3-17	18-59
Bankers' Acceptances	$ 17,810,103	14,442,655	3,367,448	-
U.S. Government securities - USGSE	69,347,449	22,661,369	46,686,080	-
Commercial paper	9,937,725	9,937,725	-	-
State Treasurer's investment pool	7,201,101	7,201,101	-	-
Total	$104,296,378	54,242,850	50,053,528	-

Equity in internal cash and investment pool on the Statement of Net Assets includes pooled investments of $92,889,307 reported above. The MERC component unit participates in the internal investment pool of Metro; the OZF component unit does not.

Interest Rate Risk - As a means of limiting its exposure to fair value losses resulting from rising interest rates, Metro's investment policy allows only the purchase of investments that can be held to maturity. Investments cannot be made predicated upon selling the security prior to maturity. Metro avoids purchasing callable investments unless liquidity needs can be met without relying on the call being exercised.

Oregon Revised Statutes require investments to not exceed a maturity of 18 months, except when the local government has adopted an investment policy that was submitted to and reviewed by the OSTFB. Metro's investment policy has been reviewed by the OSTFB. Metro limits investment maturities as follows:

Maturity	Minimum to mature
Under 3 months	25% minimum
Under 18 months	75% minimum
Under 60 months	100% minimum

Credit Risk - Neither Oregon Revised Statutes nor Metro investment policy limits investments as to credit rating for securities purchased from U.S. Government Agencies or from USGSE. Metro's Investments in USGSE were rated AAA by Standard & Poor's and Aaa by Moody's Investors Service. The State Investment Pool is unrated.

Oregon Revised Statutes require bankers' acceptances to be guaranteed by and carried on the books of, a qualified financial institution, eligible for discount by Federal Reserve System, and issued by a qualified financial institution whose short-term letter of credit rating is rated in the highest category by one or more nationally recognized statistical rating organizations.

Concentration of Credit Risk - To avoid incurring unreasonable risks inherent in over-investing in specific instruments or in individual financial institutions, Metro's investment policy sets maximum limits on the percentage of the portfolio that can be invested in any one type of security. At June 30, 2006 Metro was in compliance with all percentage restrictions.

Oregon Revised Statutes require no more than 25 percent of the moneys of a local government to be invested in bankers' acceptances of any qualified financial institution.

More than 5 percent of Metro's total investments are in securities by the following issuers:

Issuer	Percentage of Total Investments (Total Entity Concentration)	Policy Allowed Maximum	Fund Concentrations Exceeding Total Entity Concentration: Debt Service Fund	Fund Concentrations Exceeding Total Entity Concentration: Open Spaces Fund
Federal Home Loan Bank (FHLB)	21.0%	40.0%	-	-
Federal Home Loan Mortgage Corporation (FHLMC)	12.8%	40.0%	-	-
Federal Farm Credit Bank (FFCB)	14.0%	40.0%	-	-
Federal National Mortgage Association (FNMA)	12.5%	40.0%	78.6%	-
Commercial paper	8.8%	35.0%	-	-
Bankers' Acceptances	15.7%	100.0%	-	41.8%

2. ASSETS HELD FOR RESALE

Acquisition and improvements to real property that is purchased with the intent to sell to private-sector purchasers meeting certain criteria under Metro's TOD program are reported in governmental activities in the statement of net assets as Assets Held for Resale. Such assets are reported at the lower of cost or net realizable value. The carrying value of the properties at June 30 is as follows:

Property Name	Address	Amount
Westgate	3950 SW Cedar Hills Boulevard, Beaverton, OR	$2,000,000
Hillsboro	350 East Main Street, Hillsboro, OR	584,774
Main Street Village, Phase II	10700 SE McLoughlin Boulevard, Milwaukie, OR	719,617
Gresham Civic SE	Section 4, Township 1, South Range 3 East (Parcel 2), Gresham, OR	350,000
Civic Drive NW	Adjusted Parcel, Gresham Station North, Gresham, OR	2,228,979
Gresham Civic SW	Parcel II, South of Light Rail, Gresham, OR	1,444,104
The Crossings	TriMet right of way, Gresham, OR	5,850
		$7,333,324

3. LOANS RECEIVABLE

Loans receivable are loans to developers who agree to develop projects in accordance with TOD program criteria. The loans are secured by the underlying property, which is subject to TOD use restrictions for a period of 30 years. Metro's security interest in the property is subordinate to other security interests on the property. Net loans receivable at June 30 are as follows:

Maximum Term	Interest Rate	Gross Loan Receivable	Discounted at 6.78%	Net Loan Receivable
50 years	0 to 1%	$400,000	$336,180	$63,820

The above loan agreement calls for an additional advance by Metro to the developer of $155,000 upon completion of the project's building shell. Annual payments become due beginning March 15, 2028 and continue through March 15, 2056.

4. CAPITAL ASSETS

Primary Government

Capital asset balances and activity for fiscal year 2006 were as follows:

	Balance July 1, 2005	Increases	Decreases	Transfers	Balance June 30, 2006
Governmental activities:					
Capital assets, non-depreciable:					
Land	$ 142,729,328	1,249,802	-	-	143,979,130
Total non-depreciable	142,729,328	1,249,802	-	-	143,979,130
Capital assets, depreciable:					
Buildings and exhibits	97,571,231	3,328,389	-	-	100,899,620
Improvements	10,607,320	917,830	-	-	11,525,150
Equipment	3,510,547	583,586	-	-	4,094,133
Office furniture/equipment	4,162,691	-	-	-	4,162,691
Railroad equipment/facilities	2,326,420	11,200	-	-	2,337,620
Total depreciable	118,178,209	4,841,005	-	-	123,019,214
Accumulated depreciation:					
Buildings and exhibits	(28,915,878)	(2,746,411)	-	-	(31,662,289)
Improvements	(3,036,499)	(623,702)	-	-	(3,660,201)
Equipment	(2,597,411)	(213,535)	-	-	(2,810,946)
Office furniture/equipment	(2,989,656)	(377,476)	-	-	(3,367,132)
Railroad equipment/facilities	(2,014,385)	(76,696)	-	-	(2,091,081)
Total accumulated depreciation	(39,553,829)	(4,037,820)	-	-	(43,591,649)
Total capital assets, depreciable, net	78,624,380	803,185	-	-	79,427,565
Governmental activities capital assets, net	$ 221,353,708	2,052,987	-	-	223,406,695

	Balance July 1, 2005	Increases	Decreases	Transfers	Balance June 30, 2006
Business-type activities:					
Capital assets, non-depreciable:					
Land	$ 4,049,844	-	-	-	4,049,844
Total non-depreciable	4,049,844	-	-	-	4,049,844
Capital assets, depreciable:					
Buildings	41,396,899	579,516	-	-	41,976,415
Improvements	3,182,606	-	-	-	3,182,606
Equipment	2,848,643	125,946	-	-	2,974,589
Office furniture/equipment	114,232	-	-	-	114,232
Leasehold improvements	9,078,569	8,222	-	-	9,086,791
Total depreciable	56,620,949	713,684	-	-	57,334,633
Accumulated depreciation:					
Buildings	(13,745,479)	(1,375,433)	-	-	(15,120,912)
Improvements	(1,913,130)	(48,936)	-	-	(1,962,066)
Equipment	(1,730,411)	(265,994)	-	-	(1,996,405)
Office furniture/equipment	(111,614)	(1,033)	-	-	(112,647)
Leasehold improvements	(9,078,569)	(588)	-	-	(9,079,157)
Total accumulated depreciation	(26,579,203)	(1,691,984)	-	-	(28,271,187)
Total capital assets, depreciable, net	30,041,746	(978,300)	-	-	29,063,446
Business-type activities capital assets, net	$ 34,091,590	(978,300)	-	-	33,113,290

Due to the fund consolidation previously described, $57,260,733 of capital assets (net) of the Zoo that were included in business-type activities in fiscal year 2005 became net assets of governmental activities at July 1, 2005.

An agreement between the City of Portland and Metro regarding the real property at the Zoo provides that the property must be used for zoo or zoo-related purposes and, if such property ceases to be used for such purposes or is used for other purposes, title reverts to the City. Metro was in compliance with this agreement for the year ended June 30, 2006.

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

Governmental Activities:	
General government operations	$ 973,242
Regional planning and development	50,011
Culture and recreation	715,784
Zoo	2,298,783
Total depreciation expense - governmental activities	$ 4,037,820
Business-type activities:	
Solid Waste	$ 1,691,984

Discretely Presented Component Unit - MERC

Capital asset balances and activity for the MERC component unit for fiscal year 2006 were as follows:

	Balance July 1, 2005	Increases	Decreases	Transfers	Balance June 30, 2006
Capital assets, non-depreciable:					
Land	$ 15,279,942	-	-	-	15,279,942
Total non-depreciable	15,279,942	-	-	-	15,279,942
Capital assets, depreciable:					
Buildings	234,075,215	564,354	(92,939)	-	234,546,630
Improvements	2,815,958	88,520	(8,017)	-	2,896,461
Equipment	3,462,038	253,871	(293,970)	-	3,421,939
Office furniture/equipment	4,970,149	209,034	(41,503)	-	5,137,680
Total depreciable	245,323,360	1,115,779	(436,429)	-	246,002,710
Accumulated depreciation:					
Buildings	(53,187,825)	(8,102,080)	44,843	-	(61,245,062)
Improvements	(480,684)	(112,635)	667	-	(592,652)
Equipment	(2,076,500)	(194,622)	195,452	-	(2,075,670)
Office furniture/equipment	(4,145,614)	(177,713)	34,684	-	(4,288,643)
Total accumulated depreciation	(59,890,623)	(8,587,050)	275,646	-	(68,202,027)
Total capital assets, depreciable, net	185,432,737	(7,471,271)	(160,783)	-	177,800,683
MERC capital assets, net	$ 200,712,679	(7,471,271)	(160,783)	-	193,080,625

Capital assets for the MERC component unit are those of Metro owned facilities. Capital assets used in operating the PCPA are not included in the statement of net assets of Metro or MERC as title to the assets remains with the City in accordance with an intergovernmental consolidation agreement. These capital assets will be included in the Comprehensive Annual Financial Report of the City of Portland. The decrease in capital assets reported above is the result of MERC increasing their capitalization limit during fiscal year 2006. Previously capitialized assets that no longer met the threshold were removed from the asset inventory at an aggregate nominal loss.

5. DEFERRED AND UNEARNED REVENUE

Deferred revenue is reported in governmental funds for taxes receivable not collected within 60 days after year-end and other receivables not susceptible to accrual under the modified accrual basis of accounting. Governmental funds also defer revenue recognition for resources that have been received, but not yet earned. The details of these amounts at June 30, 2006 were:

	Deferred	Unearned
Delinquent property taxes-General Fund	$316,042	-
Delinquent property taxes-Debt Service Fund	627,652	-
Grant and contract drawdowns prior to meeting all eligibility requirements-General Fund	-	6,638,114
Advance ticket sales/misc.-General Fund	-	225,918
	$943,694	6,864,032

6. DEFERRED COMPENSATION PLAN

Metro offers its employees a 401(k) deferred compensation plan in accordance with Internal Revenue Code provisions. The plan is available to all Metro employees and permits employees to contribute a portion of their salary to the plan to obtain favorable tax treatment for amounts contributed. Moneys accumulated under the plan are deposited with a trustee for the exclusive benefit of the participants and are invested in mutual funds that are self-directed by participants. The deferred compensation is not available to participants until termination, retirement, death, or certain hardship conditions. In accordance with authoritative guidance, the plan is not included in Metro's financial statements.

7. PENSION PLAN

Defined Benefit Plan Description

Substantially all full-time employees, and other employees who meet certain eligibility requirements, are participants in the Oregon Public Employees Retirement System (PERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for political subdivisions in the State of Oregon. Benefits vest after five years of continuous service. 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. PERS also provides death and disability benefits. These benefit provisions and other requirements are established by state statutes.

In the 2003 legislative session, the Oregon Legislative Assembly created a successor plan for PERS. The Oregon Public Service Retirement Plan (OPSRP) is effective for all employees hired on or after August 29, 2003, and also applies to any inactive PERS members who return to employment following a six-month or greater break in service. The new plan consists of a defined benefit program and a defined contribution portion (the Individual Account Program or IAP). Beginning January 1, 2004, all PERS member contributions go into the IAP portion of OPSRP. PERS members retain their existing PERS accounts, but any future member contributions are deposited into the member's IAP, not the member's PERS account. Those employees who had established a PERS membership prior to creation of the OPSRP will be members of both the PERS and OPSRP system as long as they remain in covered employment.

PERS and OPSRP are administered by the Oregon Public Employees Retirement Board (OPERB), which issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing to Oregon Public Employees Retirement System, P.O. Box 23700, Portland, Oregon 97281-3700, by calling 1-888-320-7377, or by accessing the PERS web site at http://oregon.gov/PERS/.

Funding Policy

Employer contributions are required by state statute and are made at actuarially determined rates as adopted by the OPERB. Actuarial valuations are performed at least every two years. Under the provisions of state statutes, all covered employees, except elected officials, are required to contribute 6% of their gross earnings to PERS. The required employee contribution is paid by Metro for most employees in conformance with its personnel policies; however, some Metro and MERC union employees are required to pay the 6% contribution in accordance with the collective bargaining agreements covering those employees. Effective July 1, 2005, Metro's required employer contribution rate, based on the 2003 valuation, was 11.8% of covered employees' salaries. Metro subsequently issued limited tax pension bonds and on September 30, 2005 paid the proceeds to PERS to finance Metro's unfunded actuarial accrued liability (UAAL) on a fair value basis as of that date. As a result, OPERB decreased Metro's required contribution rate to 7.76% as of October 1, 2005. This rate is composed of the normal cost rate of 11.39% applied to PERS subject salary and a rate of -3.63% for the amortization of the negative unfunded actuarial liability applied to both the PERS and, effective March 1, 2006, OPSRP subject salary. Metro also contributes 8.04% of OPSRP subject salary. The next contribution rate change takes effect July 1, 2007 and will be 5.17% for PERS payroll and 7.63% for OPSRP payroll. It is Metro's policy to recognize pension expenditures or expenses as currently funded.

Annual Pension Cost

For fiscal year 2006, Metro's annual pension cost was $4,110,699. This amount consisted of Metro's annual required contribution of $3,315,841, as well as $794,858 in amortization of pension assets. Metro's contributions were in excess of the required contribution as a result of the payment to PERS of the $24,022,369 in pension bond proceeds noted above. The payment was based on the best estimate available from PERS. In addition, Metro paid $1,912,765 for the 6% employee contribution as described above. Metro's annual pension cost and resulting pension assets for the year ended June 30, 2006, were as follows:

Annual required contribution	$ 3,315,841
Interest on pension assets	-
Adjustment to the annual required contribution	794,858
Annual pension cost	4,110,699
Contributions made	27,338,210
Increase in pension assets	23,227,511
Pension assets, beginning of the year	-
Pension assets, end of the year	$23,227,511

Metro's required employer contribution was determined as part of an actuarial valuation at December 31, 2003, the most recent valuation available, using the actuarial entry age cost method. Significant actuarial assumptions used in the valuation include:

- Consumer price inflation of 3.0% per year,
- A rate of return on the investment of present and future assets of 8.0% per year and 8.5% on variable programs,
- Projected salary increases of 4.0% per year attributable to general wage adjustments, with additional increases for promotion and longevity that may vary by age and service,
- Health cost inflation graded from 8.0% in 2005 to 5.0% in 2011, and
- Retirement allowances are assumed to increase 2% per year for present retirees, and after retirement, for currently active members and their beneficiaries.

The unfunded actuarial liability (UAL) created by this method is amortized as an increasing dollar amount over a period of twenty-four years. This methodology is different from that used in 2002 and prior years, which amortized the liability as a level percentage of covered payroll.

The OPERB utilizes a technique called asset smoothing to determine the actuarial value of assets. The actuarial value of assets are reported at fair market value, less a reserve equal to a pro-rata portion of the gains (losses) over the four-year period ending on the valuation date. The actuarial value of assets is limited to a 10.0% corridor above and below the fair market value.

Metro does not maintain a separate PERS account for MERC employees. Accordingly, trend information for employees of MERC is not separable from Metro's statistics.

Three-year historical trend information:

Fiscal year ended June 30:	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
2004	$2,605,657	100%	0
2005	$2,764,971	100%	0
2006	$4,110,699	665%	$23,227,511

Schedule of funding progress:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded (overfunded) AAL (UAAL)	Funded Percent	Covered Payroll	UAAL (overfunded) as a Percentage of Covered Payroll
12/31/99	$ 67,001,296	$ 61,083,893	$ (5,917,403)	110%	$32,447,840	(18)%
12/31/01	210,706,140	184,602,570	(26,103,570)	114	34,576,920	(75)
12/31/03	212,975,816	231,052,379	18,076,563	92	36,057,250	50

The actuarial value of assets and actuarial accrued liability in the above trend information, the latest available from PERS, includes the employer's, employees' and retirees' information. Beginning January 1, 2000, Metro elected to participate with other Oregon state and local governments in a PERS state and local government rate pool as created by the Legislature.

There is current litigation involving PERS benefits, and there will likely be litigation over PERS benefits in the future. On March 8, 2005, the Oregon Supreme Court issued its decision in the Strunk case restoring the annual earnings guarantee for Tier 1 member regular accounts and eliminating the temporary COLA freeze for certain retirees. Later in 2005, the Oregon Supreme Court dismissed an appeal as moot, letting the settlement stand. The settlement reduced interest crediting for 1999 from 20.0% to 11.33% with the difference in earnings being credited to certain reserves. PERS has not been able to make the necessary adjustments to reflect these two court decisions. The combined effect of these court decisions is estimated to increase projected employer rates by approximately 0.9% of payroll for the system as a whole.

8. COMMITMENTS

Columbia Ridge Landfill

Metro has a waste disposal services contract expiring December 31, 2014 with the owner and operator of the Columbia Ridge Landfill in Arlington, Oregon for disposal of solid waste from the Metro region. The contract requires a per ton unit price of $24.36 for the first 550,000 tons and a declining incremental price scale for each ton of waste in excess of 550,000 tons. The per ton rate is adjusted annually on July 1 to reflect changes in the Consumer Price Index (CPI).

Waste Transport

Solid waste transport from Metro facilities to the Columbia Ridge Landfill and other disposal sites is privately contracted through December 31, 2009. The contract specifies a per load unit price that equates to an approximate per ton rate of $13. The unit price is adjusted annually on January 1 in an amount equivalent to 75% of the CPI. In fiscal year 1999, Metro prepaid future fixed costs under the contract in the amount of approximately $6.6 million. $1,709,778 of this payment is unamortized at June 30, 2006 and is recorded on the statement of net assets as a prepaid item.

Metro South Station and Metro Central Station

Operations of the Metro South Station, a solid waste transfer facility, and Metro Central Station, a solid waste materials recovery and transfer station that emphasizes recovery of waste materials, are privately contracted through March 31, 2010. The agreement sets an annual payment for a fixed number of tons and a per ton price above the fixed tonnage for each facility. For Metro South, the fixed amount is $1,815,600 per year based on 17,000 tons of waste received each month and a price of $8.46 per ton in excess of 17,000 tons per month. For Metro Central these figures are $2,030,400 per year for 18,000 tons per month and $8.93 per ton. The contractor also receives incentives for materials recovered from the waste stream and not sent to the Columbia Ridge Landfill. The unit price is adjusted annually on July 1 in accordance with the CPI.

The following table presents approximate annual commitments based on forecasted refuse tons and a 4.0% annual inflation factor for all of the previously described contracts:

Fiscal year ending June 30:	Columbia Ridge Landfill Variable payment based on tons	Waste Transport Variable payment based on loads	Metro South Variable payment based on tons	Metro Central Variable payment based on tons
2007	$10,516,604	7,415,409	3,348,579	4,169,302
2008	10,092,168	7,199,627	3,285,095	3,871,968
2009	10,335,704	7,510,820	3,466,351	3,996,703
2010	10,679,395	3,948,283	2,695,675	3,123,992
2011	11,172,720	-	-	-
Thereafter	43,483,704	-	-	-
Total	$96,280,295	26,074,139	12,795,700	15,161,965

Construction Projects

Metro is committed under a number of contracts for construction services. The amount of uncompleted contracts totals $1,993,626 in the primary government at June 30, 2006.

9. LEASE OBLIGATIONS

Operating Lease

The Portland Center for the Performing Arts Theater Complex leases the grounds for the Complex under an operating lease expiring in 2083. The term of the original agreement may be extended in ten-year increments for a total of 50 additional years. Rent adjustments may be negotiated every five years commencing on November 1, 1994. The scheduled lease payments are $11,184 per month.

The future minimum lease payments are as follows:

Fiscal year ending June 30:		Fiscal year ending June 30:		Fiscal year ending June 30:	
2007	$134,214	2022-26	$671,070	2057-61	$ 671,070
2008	134,214	2027-31	671,070	2062-66	671,070
2009	134,214	2032-36	671,070	2067-71	671,070
2010	134,214	2037-41	671,070	2072-76	671,070
2011	134,214	2042-46	671,070	2077-81	671,070
2012-16	671,070	2047-51	671,070	2082-84	313,166
2017-21	671,070	2052-56	671,070		
				Total	$10,379,216

10. BONDS PAYABLE

Governmental Activities

Open Spaces Program 1995 Series B General Obligation Bonds

In prior years, Metro issued Open Spaces Program General Obligation Bonds, of which the Series A and C bonds have been refunded. The 1995 Series B (Capital Appreciation) bonds, originally issued in the amount $5,219,923, remain on their original redemption schedule. The Open Spaces Bonds were issued by Metro under authority granted by voters for $135.6 million in general obligation bonds to finance land acquisition and capital improvements pursuant to

Metro's Open Spaces Program. The program establishes a cooperative regional system of parks, natural areas, open spaces, trails and greenways for wildlife and people.

The bonds are to be repaid with proceeds of Metro's *ad valorem* property tax levied each year. Interest rates on the remaining Series B bonds range from 5.1% to 5.5%.

Bond principal and interest outstanding at June 30 and the corresponding maturities are:

Fiscal year ending June 30:	Principal	Interest
2007	$ 288,945	211,055
2008	271,585	228,415
2009	254,775	245,225
2010	238,540	261,460
2011	223,356	277,644
	$1,277,201	1,223,799

2002 Series General Obligation Refunding Bonds

In prior years, Metro issued $92,045,000 of General Obligation Refunding Bonds, 2002 Series to refund all callable outstanding maturities of Open Spaces Program 1995 Series A and C General Obligation Bonds. The defeased bonds have been called and paid and the escrow account for the defeasance is closed.

The 2002 bonds are to be repaid with proceeds of Metro's *ad valorem* property tax levied each year. The bonds have interest rates ranging from 5.0% to 5.25%.

Bond principal and interest outstanding at June 30 and the corresponding maturities on the 2002 Series are as follows:

Fiscal year ending June 30:	Principal	Interest
2007	$ 6,040,000	3,890,313
2008	6,350,000	3,580,562
2009	6,685,000	3,254,688
2010	7,030,000	2,911,812
2011	7,395,000	2,551,188
2012-16	45,880,000	6,226,631
	79,380,000	22,415,194
Unamortized costs/premium	5,909,326	
Deferred amount on refunding	(3,959,141)	
Per statement of net assets	$81,330,185	

2001 Series A General Obligation Refunding Bonds

In prior years, Metro issued $47,095,000 of General Obligation Refunding Bonds, 2001 Series A to refund all outstanding Convention Center 1992 Series A General Obligation Refunding Bonds.

The 2001 bonds are to be repaid with proceeds of Metro's *ad valorem* property tax levied each year. The bonds have interest rates ranging from 4.0% to 5.0%.

Bond principal and interest outstanding at June 30 and the corresponding maturities on 2001 Series A are as follows:

Fiscal year ending June 30:	Principal	Interest
2007	$ 3,870,000	1,473,863
2008	4,065,000	1,309,389
2009	4,270,000	1,131,545
2010	4,525,000	918,045
2011	4,785,000	691,795
2012-13	10,325,000	750,540
	$31,840,000	6,275,177

Metro Washington Park Zoo Oregon Project 1996 Series A General Obligation Bonds and 2005 Series General Obligation Refunding Bonds

In prior years, Metro issued $28,800,000 in general obligation bonds to finance capital improvements at the Oregon Zoo (formerly the Metro Washington Park Zoo) including new exhibits, a new entry, and other improvements.

Also in prior years, Metro issued $18,085,000 of General Obligation Refunding Bonds, 2005 Series to refund all callable outstanding Metro Washington Park Zoo Oregon Project 1996 Series A General Obligation Bonds. The net proceeds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent until the bonds' optional redemption date of January 15, 2007. At June 30, 2006, $18,265,000 of the refunded bonds were outstanding.

As a result of these actions, the callable portion of 1996 Series A bonds are considered defeased and the liability for those bonds has been removed from the government-wide statement of net assets.

The 1996 Series A and 2005 Series Refunding bonds are to be repaid with proceeds of Metro's *ad valorem* property tax levied each year. Both the remaining portion of the 1996 Series A bonds which were not defeased and the 2005 Series Refunding bonds mature serially each

January 15 (through 2007 and 2017 respectively). Interest is payable semiannually on January 15 and July 15. The interest rate on the remaining maturities of the 1996 Series A bonds is 6.0% and interest rates range from 3.0% to 5.0% on the 2005 Series Refunding bonds.

Bond principal and interest outstanding at June 30 and the corresponding maturities are as follows:

	1996 Series A		2005 Series Refunding	
Fiscal year ending June 30:	Principal	Interest	Principal	Interest
2007	$1,345,000	80,700	20,000	815,725
2008	-	-	1,435,000	815,125
2009	-	-	1,480,000	772,075
2010	-	-	1,555,000	698,075
2011	-	-	1,620,000	643,650
2012-16	-	-	9,485,000	1,913,250
2017	-	-	2,210,000	88,400
	$1,345,000	80,700	17,805,000	5,746,300
Unamortized costs/premium	-		946,301	
Deferred amount on refunding	-		(765,416)	
Per statement of net assets	$1,345,000		17,985,885	

Full Faith and Credit Refunding Bonds 2003 Series

In prior years, Metro issued $24,435,000 of Full Faith and Credit Refunding Bonds, 2003 Series to refund all outstanding maturities of Metro Regional Center Project 1993 Series A General Revenue Refunding Bonds and to prepay the callable portions of the outstanding 1995 and 1996 Oregon Economic and Community Development Department's (OECDD) Special Public Works Fund loans.

The bonds are payable from all legally available taxes and other revenues of Metro. Interest rates on the bonds range from 2.0% to 4.4%.

Bond principal and interest outstanding at June 30 and the corresponding maturities are as follows:

Fiscal year ending June 30:	Principal	Interest
2007	$ 1,140,000	769,228
2008	1,170,000	742,472
2009	1,195,000	711,431
2010	1,225,000	679,668
2011	1,265,000	644,615
2012-16	6,950,000	2,564,197
2017-21	6,455,000	1,297,381
2022-23	2,895,000	127,880
	22,295,000	7,536,872
Unamortized costs/discount	(155,209)	
Deferred amount on refunding	(2,523,368)	
Per statement of net assets	$19,616,423	

Pension Obligation Bonds Metro Limited Tax Series 2005

On September 23, 2005, Metro, along with certain other Oregon cities, counties and special districts issued Limited Tax Pension Bonds Series 2005. The proceeds of Metro's bonds were paid to PERS on September 30, 2005 to finance Metro's PERS UAAL (discussed in Note 7).

The supplemental payment made by Metro was equal to the estimated UAAL as of September 30, 2005 on a fair value basis. The payment resulted in a new employer contribution rate of 7.76% for Metro beginning October 1, 2005.

The bonds are to be repaid through assessments on Metro departments in exchange for a lower pension cost. The bonds have interest rates ranging from 4.328% to 5.5%.

Bond principal and interest outstanding at June 30 and the corresponding maturities are as follows:

Fiscal year ending June 30:	Principal	Interest
2007	$ -	1,198,898
2008	160,000	1,198,898
2009	220,000	1,191,973
2010	290,000	1,182,339
2011	360,000	1,169,472
2012-16	3,105,000	5,505,837
2017-21	5,975,000	4,496,110
2022-26	10,115,000	2,633,605
2027-28	4,065,000	273,719
	24,290,000	18,850,851
Unamortized costs/premium	(257,092)	
Per statement of net assets	$24,032,908	

Business-type Activities

Solid Waste Disposal System Revenue and Refunding Revenue Bonds

These bonds are subject to covenants which specify the order of application of gross revenues to requirements and which require Metro to: maintain its existing solid waste disposal system; establish rates to produce net revenues each year which at least equal 110% of annual debt service; maintain and enforce regulations governing the disposal of solid waste in the service area; and comply with the Internal Revenue Code to maintain the tax exempt status of the bonds. Other covenants also apply. Metro is in compliance with all covenants as of and for the year ended June 30, 2006.

Metro Central Transfer Station Project and Waste Disposal System Refunding Revenue Bonds

Certain maturities of outstanding Waste Disposal System Revenue Bonds 1990 Series A were advance refunded in prior years by Waste Disposal System Refunding Revenue Bonds 1993 Series A. Also in prior years, Metro used a combination of available funds and the issuance of $4,990,000 of Waste Disposal System Refunding Revenue Bonds, 2003 Series to defease certain additional maturities of the 1990 and 1993 bonds and to refund all callable maturities of the 1993 bonds. The defeased bonds have been called and paid and the escrow account for the defeasance is closed.

Both the remaining maturities of the Waste Disposal System Revenue Bonds 1990 Series A (zero-coupon bonds) which were not defeased and the 2003 Series Refunding Revenue Bonds mature serially each January 1 and July 1 (through 2008 and 2010 respectively). Interest is payable semiannually on July 1 and January 1. Interest rates are 7.1% on the remaining 1990 Series A bonds and range from 2.0% to 2.5% on the 2003 Series Refunding Revenue bonds.

Bond principal and interest outstanding at June 30 and the corresponding maturities are:

	1990 Series A		2003 Series Refunding	
Fiscal year ending June 30:	Principal	Interest	Principal	Interest
2007	$2,140,000	-	95,000	113,013
2008	1,070,000	-	155,000	110,512
2009	-	-	2,265,000	83,481
2010	-	-	2,320,000	29,000
	3,210,000	-	4,835,000	336,006
Unamortized costs/discount			(88,301)	
Deferred amount on refunding			(414,058)	
Unamortized accretion	(80,912)		-	
Per statement of net assets	$3,129,088		4,332,641	

Component Unit - MERC

Full Faith and Credit Oregon Local Governments 2006 Series

On April 20, 2006, Metro sold $14,700,000 of Full Faith and Credit Oregon Local Governments 2006 Series Bonds to refund the outstanding Oregon Economic and Community Development Department's (OECDD) Special Public Works Fund loan that in fiscal year 2000 funded the construction of a new building to replace the existing Hall D at the Expo Center. The net proceeds of the issue were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to pay in full the amounts due on the refunded loan. At June 30, 2006, $14,024,766 of the refunded loan was outstanding.

As a result of these actions, the 2000 loan is considered defeased and the liability for the loan has been removed from the government-wide statement of net assets. The refunding resulted in future debt service savings of $901,199 and an economic gain of $758,683.

The bonds are payable from all legally available taxes and other revenues of Metro. Interest rates on the bonds range from 4.0% to 5.0%.

Bond principal and interest outstanding at June 30 and the corresponding maturities are as follows:

Fiscal year ending June 30:	Principal	Interest
2007	$ 130,000	722,799
2008	555,000	634,931
2009	580,000	612,231
2010	600,000	588,631
2011	625,000	564,131
2012-16	3,530,000	2,408,637
2017-21	4,370,000	1,521,454
2022-25	4,310,000	396,657
	14,700,000	7,449,471
Unamortized costs/discount	123,533	
Deferred amount on refunding	(792,711)	
Per statement of net assets	$14,030,822	

11. OTHER LONG-TERM DEBT

Energy Loan

The Building Management Fund entered into an energy services agreement with Pacific Power and Light Company in fiscal year 1993 in which $293,672 was provided to Metro to finance various conservation measures in the new headquarters building. The loan agreement calls for monthly payments of $2,515 at 6.23% interest for 15 years. The outstanding balance at June 30, 2006 was $57,151.

TOD Property Loan

In fiscal year 2006, Metro entered into a loan arrangement with a private party to purchase a TOD property (asset held for resale). The loan bears an interest rate of 6.5% and will be repaid in full on October 7, 2007. The outstanding balance at June 30, 2006 was $450,000.

Oregon Economic and Community Development Department Loan

In prior years, Metro obtained a loan for MERC from the OECDD to pay for the construction of a new building to replace the existing Hall D at the Expo Center. This loan was refunded during fiscal year 2006 when Metro issued Full Faith and Credit Oregon Local Governments 2006 Series Bonds as previously described.

Local Improvement District Assessment Loan

In prior years, the City of Portland made a Local Improvement District (LID) assessment on MERC facilities for the construction of a pedestrian walkway across the Willamette River. The installment loan bears an interest rate of 5.32% and will be repaid by MERC in semi-annual installments through January 13, 2022. The outstanding balance at June 30, 2006 was $164,470.

Debt service requirements to maturity for other long-term debt are as follows:

	Primary Government				MERC Component Unit	
	Governmental Activities					
Fiscal year ending June 30:	Energy Loan Payable		TOD Property Loan Payable		LID Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	$27,412	2,771	-	29,250	10,279	8,619
2008	29,739	1,015	450,000	29,250	10,279	8,072
2009	-	-	-	-	10,279	7,525
2010	-	-	-	-	10,279	6,979
2011	-	-	-	-	10,279	6,432
2012-16	-	-	-	-	51,398	23,955
2017-21	-	-	-	-	51,398	10,284
2022	-	-	-	-	10,279	416
	$57,151	3,786	450,000	58,500	164,470	72,282

12. CHANGES IN LONG-TERM LIABILITIES

Primary Government

The following changes occurred during fiscal year 2006 in long-term liabilities:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	$ 143,000,238	-	(11,353,037)	131,647,201	11,563,945
Full faith and credit bonds	23,420,000	-	(1,125,000)	22,295,000	1,140,000
Pension obligation bonds	-	24,290,000	-	24,290,000	-
Less deferred amounts:					
For issuance costs and premium or discount	7,424,148	(265,889)	(714,933)	6,443,326	-
On refunding	(7,917,965)	-	670,040	(7,247,925)	-
Total bonds payable	165,926,421	24,024,111	(12,522,930)	177,427,602	12,703,945
Environmental impairment liability	5,225,000	-	-	5,225,000	-
Loans payable	82,550	450,000	(25,399)	507,151	27,412
Compensated absences	1,761,339	1,894,799	(1,761,339)	1,894,799	1,395,455
Governmental activity Long-term liabilities	$ 172,995,310	26,368,910	(14,309,668)	185,054,552	14,126,812
Business-type activities:					
Bonds payable:					
Revenue bonds	$ 10,275,000	-	(2,230,000)	8,045,000	2,235,000
Less deferred amounts:					
For accretion	(273,659)	-	192,747	(80,912)	-
For issuance costs and premium or discount	(117,734)	-	29,433	(88,301)	-
On refunding	(552,078)	-	138,020	(414,058)	-
Total bonds payable	9,331,529	-	(1,869,800)	7,461,729	2,235,000
Post-closure costs payable	3,733,809	-	(216,047)	3,517,762	-
Compensated absences	464,680	467,623	(464,680)	467,623	421,906
Business-type activity Long-term liabilities	$ 13,530,018	467,623	(2,550,527)	11,447,114	2,656,906

The internal service fund predominantly serves the governmental funds. Accordingly, long-term liabilities for it are included as part of the above totals for governmental activities. For governmental activities, compensated absences are generally liquidated by the specific fund to which the wages of the employee earning the leave are charged.

Discretely Presented Component Unit - MERC

The following changes occurred during fiscal year 2006 in long-term liabilities:

		Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Due Within One Year
Bonds payable:	$					
Full faith and credit bonds		-	14,700,000	-	14,700,000	130,000
Less deferred amounts:						
For issuance costs and premium		-	124,651	(1,118)	123,533	-
On refunding		-	(799,885)	7,174	(792,711)	-
Total bonds payable		-	14,024,766	6,056	14,030,822	130,000
Loans payable		14,620,186	-	(14,455,716)	164,470	10,279
Compensated absences		516,216	551,880	(516,216)	551,880	431,040
Component unit activity Long-term liabilities	$	15,136,402	14,576,646	(14,965,876)	14,747,172	571,319

13. ARBITRAGE PAYABLE

Under certain conditions, the Tax Reform Act of 1986 requires governmental units to remit excess earnings arising from invested bond proceeds, called arbitrage, to the Internal Revenue Service. At June 30, 2006, Metro recorded a liability of $17,724 in the financial statements for such estimated excess arbitrage earnings.

14. POST-CLOSURE COST PAYABLE

The St. Johns Landfill was closed for operations in a prior year. Closure and post-closure care costs were recognized while the St. Johns Landfill was still in operation based on the then current estimate of total costs to complete such efforts, regardless of when cash disbursements were to be made. Such costs include methane gas and leachate collection systems, final cover, seeding, roads, drainage, ground water monitoring wells, liner systems, storm water management and operations and maintenance costs.

The post-closure cost of the St. Johns Landfill as of June 30, 2006 is estimated to be $41,393,901 under current Federal and state regulations. Actual cost may vary due to inflation or deflation, changes in technology, or changes in regulations. During the fiscal year, Metro paid $216,047 in closure costs as the closure process continued ($37,876,139 cumulative to date), reducing the remaining estimated liability to $3,517,762 at June 30, 2006. Metro has accumulated $7,195,339 in restricted cash for future payment of post-closure liabilities and will establish disposal charges at other Metro facilities to accumulate additional resources if necessary. This closure plan is in compliance with the plan filed with the Oregon Department of Environmental Quality.

15. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund balances at June 30, 2006 consisted of:

Due to/from primary government and component units:

Receivable Entity	Payable Entity	Amount
Primary Government-governmental activities	MERC Component Unit	$3,613,017

Interfund transfers for the fiscal year were:

	Transfers in			
Transfers out	General Fund	Rehabilitation/ Enhancement Fund	Metro Capital Fund	Total
General Fund	$ -	-	3,568,392	3,568,392
Open Spaces Fund	960	-	-	960
Metro Capital Fund	183,162	-	-	183,162
Solid Waste Fund	144,861	388,463	-	533,324
Risk Management Fund	2,596	-	-	2,596
Total	$331,579	388,463	3,568,392	4,288,434

The transfers detailed above are transfers of resources from one fund to another that are not based upon a cost allocation plan or any expectation of a payment for services provided, but rather to provide resources for other uses.

16. SPECIAL ITEMS

As part of the fund consolidation previously described, two former internal service funds were combined into the General Fund on July 1, 2005. As a result of this change, the cumulative amount for the consolidation of internal service fund activities was recalculated to reflect the discontinuation of those funds as internal service funds. This recalculation resulted in a change of $357,921 between governmental activities and MERC component unit activities, reflected in the government-wide statement of activities as a special item.

17. INSURED RISKS

Metro is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Metro has established a Risk Management Fund (an internal service fund) to account for risk management activities, including payment of insurance policy premiums, payment of claims, and to finance its uninsured risks of loss. Under this program, the Risk Management Fund provides risk of loss coverage for the primary government and the MERC component unit as follows:

- General liability, bodily injury to or property damage of third parties resulting from the negligence of Metro or its employees and errors and omissions risks: these risks are fully covered by the Risk Management Fund. Metro is protected by ORS Chapter 30, the Oregon Tort Claims Act, which limits public entities' liability to $100,000 per person and $500,000 per occurrence for the acts of Metro, its employees and agents. Possible liability outside the Oregon Tort Claims Act is covered by an excess liability policy with a $1,000,000 deductible.

- Property damage to Metro-owned facilities: this risk is covered with a commercial primary, all risk property insurance policy. The property coverage is in the amount of $471,570,631 with a $500,000 deductible.

- Workers' compensation, bodily injury or illness to an employee while in the course of employment: this risk is covered through a retrospectively rated program from SAIF Corporation, a commercial carrier, in amounts that meet statutory requirements.

Metro has not experienced settlements in excess of insurance coverage in any of the last three fiscal years. An independent actuary prepared an actuarial valuation and estimates of liabilities for unpaid claims in September 2006. Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. Metro also monitors risk activity to ensure that proper reserves are maintained. All operating funds of Metro participate in the program and make payments to the Risk Management Fund based upon actuarial estimates of the amounts needed to pay prior and current year claims and to establish sufficient reserves.

The estimated claims liability of $943,760 reported as accrued self-insurance claims in the Risk Management Fund at June 30, 2006 was established in accordance with the requirements of GASB Statement No. 30, *Risk Financing Omnibus,* which requires that a liability for total estimated claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. A portion of the loss reserves have been discounted, using a discount factor of .933 for liability, .977 for property and .948 for workers' compensation and an assumed investment rate of 4.0% in preparing the estimates. Metro does not purchase annuity contracts from commercial insurers to pay any aggregate amount of outstanding claims liabilities.

Changes in Risk Management Fund claims liability for the previous fiscal year and current fiscal year were:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Fiscal Year Liability
2004-2005	$990,481	968,319	971,265	987,535
2005-2006	$987,535	1,050,529	1,094,304	943,760

18. CONTINGENT LIABILITIES

Reviews by Grantor Agencies

Grant costs are subject to review by the grantor agencies. Any costs disallowed as the result of the review would be borne by Metro and may require the return of such amount to the grantor agency. Should costs be disallowed on a grant for which Metro acts in a pass-through capacity, Metro should be able to require repayment of amounts disallowed from the subgrantees.

Legal Matters

Metro is involved as a defendant in several claims and disputes that are normal to Metro's activities. Management intends to vigorously contest these matters and does not believe their ultimate resolution will have a material effect upon its financial position or operations.

19. SUBSEQUENT EVENTS

On November 7, 2006, the voters of the Metro Region approved a $227.4 million Natural Areas general obligation bond measure. The purpose of the Natural Areas Bond Measure is to purchase regionally and locally significant natural habitat lands for perpetual protection from high-impact development, with the possibility of minimal development toward opening the lands for public use. The program will be modeled after the highly successful 1995 Open Spaces program, in which $135.6 million in bonds was issued to purchase over 8,000 acres of natural area lands from willing sellers. The 2006 Natural Areas Bond Measure includes $168.4 million for natural resource protection; $44.0 million to cities, counties and local park providers for local share projects; and $15.0 million for a Nature in Neighborhoods Capital Grants Program. Metro anticipates a Spring 2007 bond sale with bonds to be repaid over a twenty-year period.

Supplementary Information

Required Supplementary Information

General Fund and Major Special Revenue Funds

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual

General Fund

Special Revenue Funds

Smith and Bybee Lakes Fund

Rehabilitation and Enhancement Fund

METRO

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances-
Budget and Actual (Non-GAAP Basis of Budgeting)

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance with final budget positive
	Original	Final	Amounts	(negative)
Revenues:				
Program revenues:				
Charges for services:				
Government fees	$ 51,775	51,775	490,892	439,117
Culture and recreation fees	14,230,973	14,230,973	14,675,797	444,824
Other fees	2,873,726	2,873,726	3,157,503	283,777
Internal charges for services	43,100	43,100	7,515	(35,585)
Licenses and permits	400,000	400,000	402,300	2,300
Pension debt service assessment	-	825,907	898,684	72,777
Miscellaneous revenue	105,212	105,212	248,912	143,700
Operating grants and contributions:				
Grants	13,784,714	17,800,417	10,675,649	(7,124,768)
Government contributions	81,500	81,500	-	(81,500)
Contributions and donations	974,845	1,151,295	1,332,949	181,654
Capital grants and contributions:				
Capital contributions and donations	-	-	195,155	195,155
General revenues:				
Taxes:				
Real property taxes	9,294,893	9,294,893	9,399,548	104,655
Excise taxes	12,805,010	12,805,010	14,243,252	1,438,242
Local government shared revenue	496,487	496,487	547,512	51,025
Investment income	329,419	329,419	1,143,162	813,743
Total revenues	55,471,654	60,489,714	57,418,830	(3,070,884)
Expenditures:				
Council Office:				
Operating expenses	1,438,397	1,594,311	1,491,092	103,219
Finance and administrative services:				
Operating expenses	6,688,798	6,605,834	6,343,194	262,640
Capital outlay	271,000	576,000	445,280	130,720
Total finance and administrative services	6,959,798	7,181,834	6,788,474	393,360

METRO

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances-
Budget and Actual (Non-GAAP Basis of Budgeting), Continued

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance with final budget positive
	Original	Final	Amounts	(negative)
Expenditures, continued:				
Human resources:				
Operating expenses	1,136,818	1,136,818	1,118,118	18,700
Metro auditor:				
Operating expenses	631,742	631,742	544,747	86,995
Office of Metro attorney:				
Operating expenses	1,390,347	1,390,347	1,249,497	140,850
Oregon Zoo:				
Operating expenses	21,339,357	21,412,240	20,632,754	779,486
Capital outlay	285,700	462,150	432,910	29,240
Total Oregon Zoo	21,625,057	21,874,390	21,065,664	808,726
Planning:				
Operating expenses	14,552,926	18,608,746	12,425,667	6,183,079
Capital outlay	32,000	32,000	-	32,000
Total planning	14,584,926	18,640,746	12,425,667	6,215,079
Public affairs and government relations:				
Operating expenses	1,228,768	1,228,768	1,175,170	53,598
Regional parks and greenspaces:				
Operating expenses	6,314,599	6,314,599	5,677,819	636,780
Capital outlay	75,000	75,000	19,000	56,000
Total regional parks and greenspaces	6,389,599	6,389,599	5,696,819	692,780
Non-departmental:				
Operating expenses	2,511,645	34,375,694	25,399,776	8,975,918
Debt service	-	825,907	825,907	-
Total non-departmental	2,511,645	35,201,601	26,225,683	8,975,918
Contingency	13,571,915	7,475,686	-	7,475,686

METRO

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances-
Budget and Actual (Non-GAAP Basis of Budgeting), Continued

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance with final budget positive
	Original	Final	Amounts	(negative)
Expenditures, continued:				
Total expenditures	71,469,012	102,745,842	77,780,931	24,964,911
Revenues under expenditures	(15,997,358)	(42,256,128)	(20,362,101)	21,894,027
Other financing sources (uses):				
Bonds issued	-	24,313,286	24,290,000	(23,286)
Premium on bonds issued	-	-	23,286	23,286
Transfers in	5,921,593	9,248,077	5,479,857	(3,768,220)
Sale of capital assets	2,000	2,000	-	(2,000)
Repayment of interfund loan	-	(1,200,000)	-	1,200,000
Transfers out	(6,423,242)	(6,423,242)	(5,859,118)	564,124
Total other financing sources (uses)	(499,649)	25,940,121	23,934,025	(2,006,096)
Revenues and other sources over (under) expenditures and other uses	(16,497,007)	(16,316,007)	3,571,924	19,887,931
Beginning fund balance available for appropriation - July 1, 2005, as previously stated	18,449,436	18,449,436	22,310,264	3,860,828
Prior period adjustment	-	-	4,613,707	4,613,707
Beginning fund balance available for appropriation - July 1, 2005, as restated	18,449,436	18,449,436	26,923,971	8,474,535
Unappropriated ending fund balance - June 30, 2006	$ 1,952,429	2,133,429	30,495,895	28,362,466

Reconciliation to GAAP basis:

General Revenue Bond Fund-General budgetary fund balance from page 117	198,214
Purchase of assets held for resale is not expenditure for governmental funds	2,307,491
Loss on assets held for resale is expense for governmental funds	(37,874)
General Fund fund balance as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds	$ 32,963,726

METRO

Smith and Bybee Lakes Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances-
Budget and Actual (Non-GAAP Basis of Budgeting)

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance with final budget positive
	Original	Final	Amounts	(negative)
Revenues:				
Program revenues:				
Charges for services:				
Culture and recreation fees	$ 1,700	1,700	-	(1,700)
Other fees	-	-	1,593	1,593
Capital grants and contributions:				
Capital contributions and donations	-	190,000	190,000	-
General revenues:				
Investment income	90,250	90,250	138,291	48,041
Total revenues	91,950	281,950	329,884	47,934
Expenditures:				
Capital outlay	-	190,000	190,000	-
Total expenditures	-	190,000	190,000	-
Revenues over expenditures	91,950	91,950	139,884	47,934
Other financing uses:				
Transfers out	(21,700)	(21,700)	(21,700)	-
Total other financing uses	(21,700)	(21,700)	(21,700)	-
Revenues over expenditures and other uses	70,250	70,250	118,184	47,934
Beginning fund balance available for appropriation - July 1, 2005	3,610,000	3,610,000	3,606,760	(3,240)
Unappropriated ending fund balance - June 30, 2006	$ 3,680,250	3,680,250	3,724,944	44,694

METRO

Rehabilitation and Enhancement Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances-
Budget and Actual (Non-GAAP Basis of Budgeting)

For the year ended June 30, 2006

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with final budget positive (negative)
Revenues:				
Program revenues:				
Charges for services:				
Other fees	$ 54,000	54,000	54,000	-
General revenues:				
Investment income	46,885	46,885	74,201	27,316
Total revenues	100,885	100,885	128,201	27,316
Expenditures:				
Operating expenses	594,136	594,136	423,055	171,081
Contingency	300,000	300,000	-	300,000
Total expenditures	894,136	894,136	423,055	471,081
Revenues under expenditures	(793,251)	(793,251)	(294,854)	498,397
Other financing sources (uses):				
Transfers in	405,922	405,922	388,463	(17,459)
Transfers out	(29,101)	(29,101)	(29,101)	-
Total other financing sources (uses)	376,821	376,821	359,362	(17,459)
Revenues and other sources over (under) expenditures and other uses	(416,430)	(416,430)	64,508	480,938
Beginning fund balance available for appropriation - July 1, 2005	1,875,400	1,875,400	1,890,019	14,619
Unappropriated ending fund balance - June 30, 2006	$ 1,458,970	1,458,970	1,954,527	495,557

METRO

Notes to Required Supplementary Information

For the Year Ended June 30, 2006

BUDGETARY INFORMATION

1. BUDGETS

A budget is prepared for each fund in accordance with the modified accrual basis of accounting and legal requirements set forth in the Oregon Local Budget Law. This basis differs from GAAP. The Council adopts the original budget for all funds including those for the MERC component unit by ordinance prior to the beginning of Metro's fiscal year. The ordinance authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations. The functional categories of operating expenses (personal services and materials and services combined), capital outlay, debt service, interfund transfers and contingency are the established legal level of control in these funds:

Primary Government	MERC Component Unit
Smith and Bybee Lakes Fund	MERC Operating Fund
Rehabilitation and Enhancement Fund	MERC Pooled Capital Fund
General Obligation Bond Debt Service Fund	
Open Spaces Fund	
Metro Capital Fund	
Cemetery Perpetual Care Fund	
Risk Management Fund	

The legal level of control is set by department in the categories named above for these funds:

Primary Government
General Fund
Solid Waste Revenue Fund
General Revenue Bond Fund

The General Revenue Bond Fund is a budgetary fund comprised of two components that are separated and combined with other budgetary funds for reporting under GAAP.

The detail budget document is required to contain more specific, detailed information about the aforementioned expenditure categories. Appropriations that have not been expended at year end lapse and subsequent actual expenditures are charged against ensuing year appropriations. Encumbrances are recorded in Metro's internal accounting records for management reporting and control. Encumbrances are closed at June 30 and re-established in the ensuing fiscal year against appropriations for that year.

Unexpected additional resources and budget revisions may be added to the budget through the use of a supplemental budget or by an ordinance passed by the Council amending the budget. A supplemental budget requires hearings before the public, publication in newspapers and approval by the Council. Original, amended and supplemental budgets may be modified by the use of appropriation transfers between the levels of control, with approval of the Council. Management may amend the budget within the appropriated levels of control without Council approval.

Metro adopted nine budget amendments including one supplemental budget during the year ended June 30, 2006. Two of the amendments were significant. In September 2005 Metro issued Pension Obligation Bonds to fund its unfunded actuarial liability with PERS. The amendment also provided the ability to make an additional contribution to PERS from reserves if allowed and the Council choose to do so. The total supplemental budget added approximately $29.5 million to the adopted budget. The second significant amendment recognized $3.94 million in additional Planning grants and added 4.0 FTE to the department.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2006, expenditures exceeded appropriations in the General Revenue Bond Fund due to the refunding of the OECDD loan for the MERC Component Unit. Oregon Local Budget Law (ORS 294.483) provides an exemption for overexpenditures in this situation.

3. RECONCILIATION OF BASIS OF BUDGETING TO GAAP BASIS

Oregon Local Budget Law, as adopted by Metro, requires accounting for certain transactions to be on a basis other than GAAP. The Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Basis of Budgeting) for each fund as presented in supplementary information is presented on the basis of budgeting and is adjusted to the GAAP basis for presentation in the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds. The accounting for the reclassification of interfund transfers as operating transactions cause no difference between the excess of revenues and other sources over expenditures and other uses on the basis of budgeting and such amounts on a GAAP basis. Other reconciliations as necessary are presented on the face of the budgetary schedules.

Other Supplementary Information

Budgetary Comparison Schedules

Oregon Administrative Rules 162-10-050 through 162-10-320 incorporated in the Minimum Standards for Audits of Oregon Municipal Corporations, as prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy, requires an individual schedule of revenues, expenditures, and changes in fund balance, budget and actual be presented for each fund for which a legally adopted budget is required.

In accordance with GASB Statement No. 34, Metro's General Fund and all major special revenue funds are presented as required supplemetary information. Budgetary comparisons for all other funds are displayed in the following pages.

Other Major Governmental Funds

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual

Debt Service Fund

General Obligation Bond Debt Service Fund.

Capital Projects Funds

Open Spaces Fund

Metro Capital Fund

Permanent Fund

Cemetery Perpetual Care Fund

METRO

General Obligation Bond Debt Service Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances-
Budget and Actual (Non-GAAP Basis of Budgeting)

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance with final budget positive
	Original	Final	Amounts	(negative)
Revenues:				
General revenues:				
Taxes:				
Property taxes	$ 18,215,411	18,215,411	18,451,278	235,867
Investment income	50,000	50,000	264,045	214,045
Total revenues	18,265,411	18,265,411	18,715,323	449,912
Expenditures:				
Debt service:				
Principal	11,353,038	11,353,038	11,353,037	1
Interest	6,686,325	6,686,325	6,686,324	1
Total expenditures	18,039,363	18,039,363	18,039,361	2
Revenues over expenditures	226,048	226,048	675,962	449,914
Beginning fund balance available for appropriation - July 1, 2005	9,519,754	9,519,754	10,004,443	484,689
Unappropriated ending fund balance - June 30, 2006	$ 9,745,802	9,745,802	10,680,405	934,603

METRO

Open Spaces Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances-
Budget and Actual (Non-GAAP Basis of Budgeting)

For the year ended June 30, 2006

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with final budget positive (negative)
Revenues:				
Program revenues:				
Charges for services:				
Culture and recreation fees	$ -	-	37,058	37,058
Other fees	55,000	55,000	24,810	(30,190)
Miscellaneous revenue (sale of easements)	-	-	100,195	100,195
Operating grants and contributions:				
Grants	200,000	200,000	-	(200,000)
General revenues:				
Investment income	88,000	88,000	131,768	43,768
Total revenues	343,000	343,000	293,831	(49,169)
Expenditures:				
Operating expenses	1,705,458	1,705,458	574,818	1,130,640
Capital outlay	1,206,000	1,206,000	365,811	840,189
Contingency	468,494	410,009	-	410,009
Total expenditures	3,379,952	3,321,467	940,629	2,380,838
Revenues under expenditures	(3,036,952)	(2,978,467)	(646,798)	2,331,669
Other financing uses:				
Transfers out	(368,077)	(426,562)	(327,711)	98,851
Revenues under expenditures and other uses	(3,405,029)	(3,405,029)	(974,509)	2,430,520
Beginning fund balance available for appropriation - July 1, 2005	3,521,281	3,521,281	3,087,047	(434,234)
Unappropriated ending fund balance - June 30, 2006	$ 116,252	116,252	2,112,538	1,996,286

METRO

Metro Capital Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances-
Budget and Actual (Non-GAAP Basis of Budgeting)

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance with final budget positive
	Original	Final	Amounts	(negative)
Revenues:				
Program revenues:				
Operating grants and contributions:				
Grants	$ 60,000	60,000	7,000	(53,000)
Capital grants and contributions:				
Capital contributions and donations	-	320,000	574,521	254,521
General revenues:				
Investment income	139,059	139,059	296,295	157,236
Total revenues	199,059	519,059	877,816	358,757
Expenditures:				
Operating expenses	576,279	598,279	345,038	253,241
Capital outlay	4,077,500	4,725,500	3,429,324	1,296,176
Contingency	1,217,152	676,518	-	676,518
Total expenditures	5,870,931	6,000,297	3,774,362	2,225,935
Revenues under expenditures	(5,671,872)	(5,481,238)	(2,896,546)	2,584,692
Other financing sources (uses):				
Transfers in	3,651,830	3,651,830	3,593,392	(58,438)
Transfers out	(500)	(191,134)	(181,615)	9,519
Total other financing sources (uses)	3,651,330	3,460,696	3,411,777	(48,919)
Revenues and other sources over (under) expenditures and other uses	(2,020,542)	(2,020,542)	515,231	2,535,773
Beginning fund balance available for appropriation - July 1, 2005	6,190,380	6,190,380	6,523,902	333,522
Unappropriated ending fund balance - June 30, 2006	$ 4,169,838	4,169,838	7,039,133	2,869,295

METRO

Cemetery Perpetual Care Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances-
Budget and Actual (Non-GAAP Basis of Budgeting)

For the year ended June 30, 2006

		Budgeted Amounts		Actual	Variance with final budget positive
		Original	Final	Amounts	(negative)
Revenues:					
General revenues:					
Taxes:					
Cemetery revenue surcharge	$	19,000	19,000	21,395	2,395
Investment income		3,300	3,300	6,260	2,960
Total revenues		22,300	22,300	27,655	5,355
Beginning fund balance available for appropriation - July 1, 2005		133,173	133,173	151,288	18,115
Unappropriated ending fund balance - June 30, 2006	$	155,473	155,473	178,943	23,470

Proprietary Funds

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual

Enterprise Fund

Solid Waste Revenue Fund

Reconciliation of Enterprise Fund Revenues and Expenditures (Basis of Budgeting) to Statement of Revenues, Expenses and Changes in Fund Net Assets-Proprietary Fund (GAAP Basis)

Internal Service Fund

Risk Management Fund

METRO

Solid Waste Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances-
Budget and Actual (Non-GAAP Basis of Budgeting)

For the year ended June 30, 2006

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with final budget positive (negative)
Revenues:				
Program revenues:				
Charges for services:				
Government fees	$ 790,950	790,950	692,463	(98,487)
Culture and recreation fees	3,800	3,800	41,945	38,145
Solid waste fees	51,600,014	51,600,014	52,997,594	1,397,580
Other fees	88,000	88,000	126,127	38,127
Miscellaneous revenue	15,000	15,000	49,431	34,431
Operating grants and contributions:				
Grants	-	-	67,103	67,103
General revenues:				
Investment income	780,683	780,683	1,361,750	581,067
Total revenues	53,278,447	53,278,447	55,336,413	2,057,966
Expenditures:				
Operating Account:				
Operating expenses	45,752,929	45,752,929	44,447,164	1,305,765
Landfill Closure Account:				
Operating expenses	321,400	321,400	175,870	145,530
Capital outlay	384,000	384,000	40,177	343,823
Total Landfill Closure Account	705,400	705,400	216,047	489,353
Recycling Business Assistance Account:				
Operating expenses	250,000	250,000	44,175	205,825
Renewal and Replacement Account:				
Capital outlay	1,896,000	1,896,000	424,992	1,471,008
General Account:				
Capital outlay	949,000	949,000	288,692	660,308

(Continued)

METRO

Solid Waste Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances-
Budget and Actual (Non-GAAP Basis of Budgeting), Continued

For the year ended June 30, 2006

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with final budget positive (negative)
Expenditures, continued:				
Debt Service Account:				
Debt service	$ 2,344,863	2,344,863	2,344,863	-
Contingency	13,744,685	13,739,136	-	13,739,136
Total expenditures	65,642,877	65,637,328	47,765,933	17,871,395
Revenues over (under) expenditures	(12,364,430)	(12,358,881)	7,570,480	19,929,361
Other financing sources (uses):				
Transfers in	29,101	29,101	29,101	-
Interfund loan	-	1,200,000	-	(1,200,000)
Transfers out	(4,385,934)	(5,591,483)	(3,890,775)	1,700,708
Total other financing sources (uses)	(4,356,833)	(4,362,382)	(3,861,674)	500,708
Revenues and other sources over (under) expenditures and other uses	(16,721,263)	(16,721,263)	3,708,806	20,430,069
Beginning fund balance available for appropriation - July 1, 2005	32,177,307	32,177,307	36,783,682	4,606,375
Unappropriated ending fund balance - June 30, 2006	$ 15,456,044	15,456,044	40,492,488	25,036,444

METRO

Reconciliation of Enterprise Fund Revenues
and Expenditures (Basis of Budgeting) to
Statement of Revenues, Expenses and Changes
in Fund Net Assets-Proprietary Funds (GAAP Basis)

For the year ended June 30, 2006

		Solid Waste
Excess of revenues and other financing sources over expenditures and other financing uses on the basis of budgeting:		
Solid Waste Revenue Fund	$	3,708,806
Budget resources not qualifying as revenues under GAAP:		
Collection of long-term receivable		(121,703)
Budget requirements not qualifying as expenses under GAAP:		
Payment of post-closure liability		216,047
Capital assets additions		713,684
Principal and interest payments on bonds		2,287,881
Additional expenses required by GAAP:		
Depreciation and amortization		(1,691,984)
Amortization of bond accretion, discount and costs		(360,200)
Amortization of prepaid item		(557,990)
Vacation benefits		(2,942)
Accrued interest on bonds		(56,981)
Change in net assets presented in the statement of revenues, expenses and changes in fund net assets for proprietary funds	$	4,134,618

METRO

Risk Management Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances-
Budget and Actual (Non-GAAP Basis of Budgeting)

For the year ended June 30, 2006

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with final budget positive (negative)
Revenues:				
Program revenues:				
Charges for services:				
Internal charges for services	$ 6,198,175	6,198,175	5,777,422	(420,753)
Miscellaneous revenue	-	-	19,526	19,526
Operating grants and contributions:				
Grants	10,000	10,000	46,872	36,872
General revenues:				
Investment income	162,595	162,595	236,651	74,056
Total revenues	6,370,770	6,370,770	6,080,471	(290,299)
Expenditures:				
Operating expenses	7,952,642	7,952,642	7,202,591	750,051
Contingency	32,579	195	-	195
Total expenditures	7,985,221	7,952,837	7,202,591	750,246
Revenues under expenditures	(1,614,451)	(1,582,067)	(1,122,120)	459,947
Other financing sources (uses):				
Transfers in	1,328,000	1,328,000	1,328,000	-
Transfers out	-	(32,384)	-	32,384
Total other financing sources (uses)	1,328,000	1,295,616	1,328,000	32,384
Revenues and other sources over (under) expenditures and other uses	(286,451)	(286,451)	205,880	492,331
Beginning fund balance available for appropriation - July 1, 2005	286,451	286,451	136,671	(149,780)
Unappropriated ending fund balance - June 30, 2006	$ -	-	342,551	342,551

Other Budgetary Funds

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual

General Revenue Bond Fund

This fund is a budgetary fund comprised of two components that are separated and combined with other budgetary funds for reporting under GAAP.

METRO

General Revenue Bond Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances-
Budget and Actual (Non-GAAP Basis of Budgeting)

For the year ended June 30, 2006

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with final budget positive (negative)
Revenues:				
General revenues:				
Investment income	$ 4,500	4,500	14,304	9,804
Total revenues	4,500	4,500	14,304	9,804
Expenditures:				
Debt service account:				
Materials and services	-	-	192,318	(192,318)
Debt service-Metro Regional Center	1,513,814	1,513,814	1,513,814	-
Debt service-Washington Park Parking Lot	403,064	403,064	403,064	-
Debt service-Expo Center Hall D	1,215,134	1,215,134	1,215,134	-
Project account:				
Capital outlay-Washington Park Parking Lot	183,066	183,066	-	183,066
Total expenditures	3,315,078	3,315,078	3,324,330	(9,252)
Revenues under expenditures	(3,310,578)	(3,310,578)	(3,310,026)	552
Other financing sources (uses):				
Refunding bonds issued	-	-	14,700,000	14,700,000
Premium on refunding bonds issued	-	-	316,969	316,969
Transfers in	3,132,012	3,132,012	3,132,012	-
Payment to refunded bond escrow agent	-	-	(14,824,651)	(14,824,651)
Transfers out	(585,000)	(585,000)	(474,478)	110,522
Total other financing sources (uses)	2,547,012	2,547,012	2,849,852	302,840
Revenues and other sources under expenditures and other uses	(763,566)	(763,566)	(460,174)	303,392
Beginning fund balance available for appropriation - July 1, 2005	767,989	767,989	658,388	(109,601)
Unappropriated ending fund balance - June 30, 2006	$ 4,423	4,423	198,214	193,791

Note: This schedule demonstrates compliance with budget at the legal level of control.

METRO

General Revenue Bond Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances-
(Non-GAAP Basis of Budgeting)

For the year ended June 30, 2006

	Allocated to: General	Expo	Total
Revenues:			
General revenues:			
Investment income	$ 14,304	-	14,304
Total revenues	14,304	-	14,304
Expenditures:			
Debt service account:			
Materials and services	-	192,318	192,318
Debt service-Metro Regional Center	1,513,814	-	1,513,814
Debt service-Washington Park Parking Lot	403,064	-	403,064
Debt service-Expo Center Hall D	-	1,215,134	1,215,134
Total expenditures	1,916,878	1,407,452	3,324,330
Revenues under expenditures	(1,902,574)	(1,407,452)	(3,310,026)
Other financing sources:			
Refunding bonds issued	-	14,700,000	14,700,000
Premium on refunding bonds issued	-	316,969	316,969
Transfers in	1,916,878	1,215,134	3,132,012
Payment to refunded bond escrow agent	-	(14,824,651)	(14,824,651)
Transfers out	(474,478)	-	(474,478)
Total other financing sources (uses)	1,442,400	1,407,452	2,849,852
Revenues and other sources under expenditures and other uses	(460,174)	-	(460,174)
Beginning fund balance available for appropriation - July 1, 2005	658,388	-	658,388
Unappropriated ending fund balance - June 30, 2006	$ 198,214	-	198,214

Note: This schedule presents the activity of the two components of the fund.

Capital Assets Used in the Operation of Governmental Funds

METRO

Capital Assets Used in the Operation of Governmental Funds
Schedule by Source (1)

June 30, 2006

Governmental funds capital assets:	
Land	$ 143,979,130
Buildings	100,899,620
Improvements	11,525,150
Equipment	4,094,133
Office furniture/equipment	4,162,691
Railroad equipment/facilities	2,337,620
Total governmental funds capital assets	$ 266,998,344

Investments in governmental funds capital assets by source:	
General Fund	$ 71,285,076
Special Revenue Fund:	
Smith and Bybee Lakes Fund	2,085,394
Capital Projects Funds:	
Open Spaces Fund	137,450,596
Metro Capital Fund	56,177,278
Total governmental funds capital assets	$ 266,998,344

(1) This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

METRO

Capital Assets Used in the Operation of Governmental Funds
Schedule by Function and Activity (1)

June 30, 2006

Function and Activity		Land	Buildings	Improvements	Equipment	Office furniture/ equipment	Railroad equipment/ facilities	Total
General governmental operations	$	588,716	20,654,241	-	755,224	3,603,223	-	25,601,404
Regional planning and development		-	-	-	708,208	450,969	-	1,159,177
Culture and recreation		140,816,965	4,847,155	8,236,741	162,599	-	-	154,063,460
Zoo		2,573,449	75,398,224	3,288,409	2,468,102	108,499	2,337,620	86,174,303
Total	$	143,979,130	100,899,620	11,525,150	4,094,133	4,162,691	2,337,620	266,998,344

(1) This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

METRO

Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes by Function and Activity (1)

For the year ended June 30, 2006

Function and Activity		Governmental Funds Capital Assets July 1, 2005	Additions	Deductions	Governmental Funds Capital Assets June 30, 2006
General governmental operations	$	25,156,124	445,280	-	25,601,404
Regional planning and development		1,159,177	-	-	1,159,177
Culture and recreation		151,892,251	2,171,209	-	154,063,460
Zoo		82,699,985	3,474,318	-	86,174,303
Total additions	$	260,907,537	6,090,807	-	266,998,344

(1) This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

MERC
Component Unit
Financial Schedules

Enterprise Fund

MERC Fund

This fund accounts for revenues and expenses related to the management and operation of facilities managed by MERC, including the OCC, Expo Center, and PCPA. The principal sources of revenue are local government shared revenue and charges for services. Expenses consist primarily of management, marketing and operation costs. This fund consists of three budgetary funds (MERC Operating Fund, MERC Pooled Capital Fund, and General Revenue Bond Fund-Expo) that are combined as one Enterprise Fund to be in accordance with accounting principles generally accepted in the United States of America.

METRO

Statement of Revenues, Expenses and Changes in Fund Net Assets
MERC Component Unit

For the year ended June 30, 2006

Operating revenues:	
Charges for services	$ 26,296,316
Government contributions	917,181
Total operating revenues	27,213,497
Operating expenses:	
Payroll and fringe benefits	13,736,052
Depreciation and amortization	8,587,050
Administrative expenses	2,105,786
Facility operating expenses	4,308,555
Marketing expense	3,676,068
Concessions expense	8,242,238
Charges for services	69,408
Total operating expenses	40,725,157
Operating loss	(13,511,660)
Non-operating revenues (expenses):	
Local government shared revenues	8,852,246
Investment income	716,919
Loss on disposal of capital assets	(160,783)
Contributions to other governments	(1,489,808)
Interest expense	(412,628)
Total non-operating revenues (expenses)	7,505,946
Loss before special item	(6,005,714)
Special item (see Note 16)	(357,921)
Change in net assets	(6,363,635)
Adjustment to reflect the consolidation of internal service fund activities related to the MERC component unit	(11,410)
Change in net assets of the MERC component unit	$ (6,375,045)

METRO

Statement of Cash Flows
MERC Component Unit

For the year ended June 30, 2006

Cash flows from operating activities:	
Receipts from customers	$ 27,856,731
Receipts from other governments	917,181
Other operating receipts	155,589
Payments to suppliers for goods and services	(16,436,975)
Payments to employees for services	(13,831,919)
Payments to primary government for services used	(2,175,194)
Net cash used in operating activities	(3,514,587)
Cash flows from noncapital financing activities:	
Local government shared revenues	8,852,246
Net cash provided by noncapital financing activities	8,852,246
Cash flows from capital and related financing activities:	
Refunding bonds issued with premium	15,016,969
Payment to refunded bond escrow agent	(14,824,651)
Refunding costs	(192,318)
Interest payments	(803,630)
Acquisition and construction of capital assets	(2,605,587)
Principal payments on loans	(430,949)
Net cash used in capital and related financing activities	(3,840,166)
Cash flows from investing activities:	
Investment income	688,554
Proceeds from sale of investments	50,000
Net cash provided by investing activities	738,554
Net increase in cash including restricted amounts	2,236,047
Cash at beginning of year including restricted amounts	17,073,972
Cash at end of year including restricted amounts	$ 19,310,019

(Continued)

Statement of Cash Flows, Continued
MERC Component Unit

For the year ended June 30, 2006

Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (13,511,660)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	8,587,050
Change in assets and liabilities:	
Trade/other accounts receivable	5,015,443
Other assets	48
Accounts payable	(121,686)
Salaries, withholdings and payroll taxes payable/compensated absences	(95,868)
Unearned revenue	(3,239,571)
Deposits payable	(59,868)
Other liabilities	(88,475)
Total adjustments	9,997,073
Net cash used in operating activities	$ (3,514,587)
Noncash investing, capital, and financing activities:	
Investment income relating to the change in the fair value of investments	$ 28,795

Acquisiton and construction of capital assets includes $1,489,808 that became capital assets of the City of Portland under terms of an intergovernmental agreement.

METRO

MERC Operating Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances- Budget and Actual (Non-GAAP Basis of Budgeting)

For the year ended June 30, 2006

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with final budget positive (negative)
Revenues:				
Program revenues:				
Charges for services:				
Culture and recreation fees	$23,178,726	23,178,726	23,622,530	443,804
Other fees	2,525,351	2,525,351	2,518,197	(7,154)
Internal charges for services	-	-	20,702	20,702
Miscellaneous revenue	238,955	238,955	134,239	(104,716)
Operating grants and contributions:				
Government contributions	337,750	337,750	583,590	245,840
General revenues:				
Local government shared revenue	7,558,724	7,558,724	8,769,877	1,211,153
Investment income	167,168	167,168	551,982	384,814
Total revenues	34,006,674	34,006,674	36,201,117	2,194,443
Expenditures:				
Operating expenses	30,555,278	31,165,669	30,151,250	1,014,419
Debt service	22,768	22,768	19,445	3,323
Contingency	3,048,401	148,630	-	148,630
Total expenditures	33,626,447	31,337,067	30,170,695	1,166,372
Revenues over expenditures	380,227	2,669,607	6,030,422	3,360,815
Other financing sources (uses):				
Transfers in	192,943	192,943	192,943	-
Transfers out	(3,581,693)	(5,871,073)	(3,954,678)	1,916,395
Total other financing sources (uses)	(3,388,750)	(5,678,130)	(3,761,735)	1,916,395
Revenues and other sources over (under) expenditures and other uses	(3,008,523)	(3,008,523)	2,268,687	5,277,210
Beginning fund balance available for appropriation - July 1, 2005	10,552,328	10,552,328	12,851,387	2,299,059
Unappropriated ending fund balance - June 30, 2006	$ 7,543,805	7,543,805	15,120,074	7,576,269

METRO

MERC Pooled Capital Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances-
Budget and Actual (Non-GAAP Basis of Budgeting)

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance with final budget positive
	Original	Final	Amounts	(negative)
Revenues:				
Program revenues:				
Charges for services:				
Miscellaneous revenue	$ 150,000	150,000	648	(149,352)
Operating grants and contributions:				
Government contributions	337,750	337,750	333,591	(4,159)
Contributions and donations	575,000	575,000	-	(575,000)
General revenues:				
Local government shared revenue	-	-	82,369	82,369
Investment income	31,102	31,102	164,937	133,835
Total revenues	1,093,852	1,093,852	581,545	(512,307)
Expenditures:				
Operating expenses	568,474	712,224	609,781	102,443
Capital outlay	3,758,072	3,683,072	1,995,806	1,687,266
Contingency	751,236	621,326	-	621,326
Total expenditures	5,077,782	5,016,622	2,605,587	2,411,035
Revenues under expenditures	(3,983,930)	(3,922,770)	(2,024,042)	1,898,728
Other financing sources (uses):				
Transfers in	733,845	1,244,953	595,408	(649,545)
Transfers out	-	(61,160)	-	61,160
Total other financing sources (uses)	733,845	1,183,793	595,408	(588,385)
Revenues and other sources under expenditures and other uses	(3,250,085)	(2,738,977)	(1,428,634)	1,310,343
Beginning fund balance available for appropriation - July 1, 2005	4,491,841	4,491,841	5,099,920	608,079
Unappropriated ending fund balance - June 30, 2006	$ 1,241,756	1,752,864	3,671,286	1,918,422

Reconciliation of MERC Enterprise Fund Revenues and Expenditures (Basis of Budgeting) to Statement of Revenues, Expenses and Changes in Fund Net Assets-MERC Component Unit (GAAP Basis)

For the year ended June 30, 2006

Excess of revenues and other financing sources over (under) expenditures and other financing uses on the basis of budgeting:	
MERC Operating Fund	$ 2,268,687
MERC Pooled Capital Fund	(1,428,634)
General Revenue Bond Fund-Expo	-
Budget resources not qualifying as revenues under GAAP:	
Refunding bonds issued	(14,700,000)
Premium on refunding bonds issued	(316,969)
Budget requirements not qualifying as expenses under GAAP:	
Capital assets additions	1,115,779
Principal and interest payments on loans	898,647
Payment to refunded bond escrow agent	14,824,651
Refunding costs	192,318
Additional revenues (expenses) required by GAAP:	
Special item (see Note 16)	(357,921)
Depreciation and amortization	(8,587,050)
Loss on disposal of capital assets	(160,783)
Amortization of bond premium, costs and deferred loss on refunding	(6,056)
Vacation benefits	(35,663)
Accrued interest on bonds	(70,641)
Change in net assets presented in the statement of revenues, expenses and changes in fund net assets for the MERC component unit	$ (6,363,635)

Other Financial Schedules

METRO

Schedule of Property Tax Transactions and Outstanding Receivable

For the year ended June 30, 2006

Fiscal Year		Original levy or balance of receivable July 1, 2005	Add (deduct) Discounts	Adjustments	Interest	Collections	Property taxes receivable June 30, 2006
2005-06	$	28,618,145	(707,066)	(107,073)	3,711	(27,115,918)	691,799
2004-05		711,650	-	(54,706)	9,713	(458,918)	207,739
2003-04		241,308	-	(24,787)	5,685	(111,553)	110,653
2002-03		124,719	-	(16,720)	4,791	(64,599)	48,191
2001-02		55,501	-	(10,603)	3,056	(32,612)	15,342
2000-01 & prior		37,688	-	(11,580)	1,432	(1,234)	26,306
	$	29,789,011	(707,066)	(225,469)	28,388	(27,784,834)	1,100,030

Reconciliation to property tax revenue presented in the Statement of Activities:		Governmental Activities
Cash collections July 1, 2005 to June 30, 2006	$	27,784,834
Accrual of receivables:		
July 1, 2005 to August 31, 2005		(180,720)
July 1, 2006 to August 31, 2006		156,335
Timing difference between county tax collector and county treasurer		4,361
Payments in lieu of property taxes		86,016
Taxes earned but not available:		
June 30, 2005		(990,146)
June 30, 2006		943,694
Property tax revenue per Statement of Activities	$	27,804,374

METRO

Schedule of Future Bonded Debt Service Requirements
General Obligation Bonds

June 30, 2006

Year of maturity		1995 Series B Open Spaces Program General Obligation Bonds Principal	Interest	2002 Series General Obligation Refunding Bonds Principal	Interest	2001 Series A General Obligation Refunding Bonds Principal	Interest
2006-07	$	288,945	211,055	6,040,000	3,890,313	3,870,000	1,473,863
2007-08		271,585	228,415	6,350,000	3,580,562	4,065,000	1,309,389
2008-09		254,775	245,225	6,685,000	3,254,688	4,270,000	1,131,545
2009-10		238,540	261,460	7,030,000	2,911,812	4,525,000	918,045
2010-11		223,356	277,644	7,395,000	2,551,188	4,785,000	691,795
2011-12		-	-	8,265,000	2,159,687	5,035,000	486,040
2012-13		-	-	8,690,000	1,735,813	5,290,000	264,500
2013-14		-	-	9,140,000	1,278,637	-	-
2014-15		-	-	9,630,000	785,925	-	-
2015-16		-	-	10,155,000	266,569	-	-
2016-17		-	-	-	-	-	-
Total	$	1,277,201	1,223,799	79,380,000	22,415,194	31,840,000	6,275,177

(1) The principal amount of the bonds is reported in governmental activities on the statement of net assets net of unamortized issuance costs, premiums and deferred amounts on refunding.

Metro Washington Park Zoo Oregon Project 1996 Series A General Obligation Bonds		2005 Series General Obligation Refunding Bonds		Total	
Principal	Interest	Principal	Interest	Principal (1)	Interest
1,345,000	80,700	20,000	815,725	11,563,945	6,471,656
-	-	1,435,000	815,125	12,121,585	5,933,491
-	-	1,480,000	772,075	12,689,775	5,403,533
-	-	1,555,000	698,075	13,348,540	4,789,392
-	-	1,620,000	643,650	14,023,356	4,164,277
-	-	1,710,000	562,650	15,010,000	3,208,377
-	-	1,795,000	477,150	15,775,000	2,477,463
-	-	1,890,000	387,400	11,030,000	1,666,037
-	-	1,995,000	292,900	11,625,000	1,078,825
-	-	2,095,000	193,150	12,250,000	459,719
-	-	2,210,000	88,400	2,210,000	88,400
1,345,000	80,700	17,805,000	5,746,300	131,647,201	35,741,170

METRO

Schedule of Future Bonded Debt Service Requirements
Revenue, Full Faith and Credit, and Pension Obligation Bonds

June 30, 2006

	Revenue Bonds			
	Metro Central Transfer Station 1990 Series A		Waste Disposal System Refunding Revenue Bonds 2003 Series	
Year of maturity	Principal (1)	Interest	Principal (1)	Interest
2006-07	$ 2,140,000	-	95,000	113,013
2007-08	1,070,000	-	155,000	110,512
2008-09	-	-	2,265,000	83,481
2009-10	-	-	2,320,000	29,000
2010-11	-	-	-	-
2011-12	-	-	-	-
2012-13	-	-	-	-
2013-14	-	-	-	-
2014-15	-	-	-	-
2015-16	-	-	-	-
2016-17	-	-	-	-
2017-18	-	-	-	-
2018-19	-	-	-	-
2019-20	-	-	-	-
2020-21	-	-	-	-
2021-22	-	-	-	-
2022-23	-	-	-	-
2023-24	-	-	-	-
2024-25	-	-	-	-
2025-26	-	-	-	-
2026-27	-	-	-	-
2027-28	-	-	-	-
Total	$ 3,210,000	-	4,835,000	336,006

(1) The principal amount of the bonds is reported in business-type activities on the statement of net assets net of unamortized issuance costs, discounts, accretion and deferred amounts on refunding.

(2) The principal amount of the bonds is reported in governmental activities on the statement of net assets net of unamortized issuance costs, discounts and deferred amounts on refunding.

(3) The principal amount of the bonds is reported in component unit activities on the statement of net assets net of unamortized issuance costs, discounts and deferred amounts on refunding.

Full Faith and Credit Bonds				Pension Obligation Bonds	
Refunding Bonds 2003 Series		Oregon Local Governments 2006 Series		Metro Limited Tax Pension Obligation Bonds Series 2005	
Principal (2)	Interest	Principal (3)	Interest	Principal (2)	Interest
1,140,000	769,228	130,000	722,799	-	1,198,898
1,170,000	742,472	555,000	634,931	160,000	1,198,898
1,195,000	711,431	580,000	612,231	220,000	1,191,973
1,225,000	679,668	600,000	588,631	290,000	1,182,339
1,265,000	644,615	625,000	564,131	360,000	1,169,472
1,300,000	605,327	650,000	538,631	435,000	1,153,214
1,340,000	562,905	675,000	512,131	525,000	1,129,289
1,385,000	516,558	705,000	483,650	615,000	1,105,071
1,440,000	466,400	735,000	453,050	710,000	1,076,381
1,485,000	413,007	765,000	421,175	820,000	1,041,882
1,325,000	360,360	795,000	387,528	930,000	1,002,039
1,210,000	310,985	830,000	349,387	1,055,000	956,850
1,255,000	261,684	870,000	306,888	1,185,000	905,587
1,305,000	209,832	915,000	262,263	1,325,000	848,008
1,360,000	154,520	960,000	215,388	1,480,000	783,626
1,420,000	95,430	1,010,000	169,925	1,645,000	709,567
1,475,000	32,450	1,055,000	126,044	1,820,000	627,251
-	-	1,095,000	76,250	2,010,000	536,179
-	-	1,150,000	24,438	2,210,000	435,598
-	-	-	-	2,430,000	325,010
-	-	-	-	2,660,000	203,413
-	-	-	-	1,405,000	70,306
22,295,000	7,536,872	14,700,000	7,449,471	24,290,000	18,850,851

METRO

Schedule of Long-term Bonded Debt Transactions
General Obligation Bonds

For the year ended June 30, 2006

	Principal				
	Outstanding July 1, 2005	Issued During Year	Matured and Paid During Year	Outstanding June 30, 2006	Interest Expenditure
DEBT SERVICE FUND:					
Open Spaces Program 1995 Series B General Obligation Bonds with interest rates from 5.1 to 5.5%, final maturity 9/1/10	$ 1,585,238	-	308,037	1,277,201	193,963
2002 Series General Obligation Refunding Bonds with interest rates from 5.0 to 5.25%, final maturity 9/1/15	85,175,000	-	5,795,000	79,380,000	4,157,213
2001 Series A General Obligation Refunding Bonds with interest rates from 4.0 to 5.0%, final maturity 1/1/13	35,535,000	-	3,695,000	31,840,000	1,621,664
Metro Washington Park Zoo Oregon Project 1996 Series A General Obligation Bonds, partially refunded 5/12/05, interest rate 6.0%, final maturity 1/15/07	2,620,000	-	1,275,000	1,345,000	157,200
2005 Series General Obligation Refunding Bonds with interest rates from 3.0 to 5.0%, final maturity 1/15/17	18,085,000	-	280,000	17,805,000	556,284
Total	$ 143,000,238	-	11,353,037	131,647,201	6,686,324

METRO

Schedule of Long-term Bonded Debt Transactions
Revenue, Full Faith and Credit, and Pension Obligation Bonds

For the year ended June 30, 2006

	Principal				
	Outstanding July 1, 2005	Issued During Year	Matured and Paid During Year	Outstanding June 30, 2006	Interest Expenditure
GENERAL FUND:					
Full Faith and Credit					
Refunding Bonds 2003 Series with interest rates from 2.0 to 4.4%, final maturity 8/1/22	$ 23,420,000	-	1,125,000	22,295,000	791,878
Pension Obligation					
Metro Limited Tax Series 2005 with interest rates from 4.328 to 5.5%, final maturity 6/1/28	-	24,290,000	-	24,290,000	825,907
Total	23,420,000	24,290,000	1,125,000	46,585,000	1,617,785
ENTERPRISE FUNDS:					
SOLID WASTE FUND:					
Metro Central Transfer Station					
1990 Series A Solid Waste Disposal Project Revenue Bonds with interest rate 7.1%, final maturity 7/1/07	5,350,000	-	2,140,000	3,210,000	-
Waste Disposal System					
Refunding Revenue Bonds 2003 Series with interest rates from 2.0 to 2.5%, final maturity 7/1/09	4,925,000	-	90,000	4,835,000	114,863
Total	10,275,000	-	2,230,000	8,045,000	114,863
COMPONENT UNIT:					
MERC FUND:					
Full Faith and Credit					
Oregon Local Governments 2006 Series with interest rates from 4.0 to 5.0%, final maturity 12/1/24	-	14,700,000	-	14,700,000	-
Total	$ -	14,700,000	-	14,700,000	-

Statistical Section

Statistical Section

This section of Metro's comprehensive annual financial report presents detailed data regarding the current and prior fiscal years for assistance in understanding what the information in the financial statements, note disclosures, and required supplementary information says about Metro's overall financial health. The information presented is in accordance with GASB Statement No. 44, which was implemented by Metro in the current fiscal year. The information is presented in five categories:

	Page
Financial Trends These schedules contain trend information to help the reader understand how Metro's financial performance and well-being have changed over time.	143-148
Revenue Capacity These schedules contain information to help the reader assess the factors affecting Metro's ability to generate its most significant own-source revenue, solid waste fees.	149-151
Debt Capacity These schedules present information to help the reader assess the affordability of Metro's current levels of outstanding debt and Metro's ability to issue additional debt in the future.	152-160
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which Metro's financial activities take place.	161-162
Operating Information These schedules contain information about Metro's operations and resources to help the reader understand how Metro's financial information relates to the services Metro provides and the activities it performs.	163-166

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. Metro implemented GASB Statement No. 34 in fiscal year 2002; schedules presenting government-wide information include data beginning in that year. Other schedules present data for the most recent ten years, unless otherwise specified by the requirements of GASB Statement No. 44.

METRO

Net Assets by Component

Last Five Fiscal Years
(accrual basis of accounting)
Unaudited

	Fiscal Year				
	2002	2003	2004	2005	2006
Governmental activities:					
Invested in capital assets, net of related debt (1) (2)	$ (43,843,323)	(19,603,144)	(6,201,885)	4,684,793	72,055,226
Restricted	37,354,215	20,629,174	17,989,881	16,795,028	21,244,741
Unrestricted	9,479,810	9,400,821	9,811,543	16,612,577	35,400,215
Total governmental activities net assets	$ 2,990,702	10,426,851	21,599,539	38,092,398	128,700,182
Business-type activities:					
Invested in capital assets, net of related debt (2)	$ 64,550,034	72,436,990	74,741,322	78,479,226	25,651,561
Restricted	18,498,208	10,399,251	9,310,641	11,266,839	12,040,936
Unrestricted	38,783,590	36,454,726	36,315,111	35,258,896	25,367,865
Total business-type activities net assets	$ 121,831,832	119,290,967	120,367,074	125,004,961	63,060,362
Primary government:					
Invested in capital assets, net of related debt	$ 20,706,711	52,833,846	68,539,437	83,164,019	97,706,787
Restricted	55,852,423	31,028,425	27,300,522	28,061,867	33,285,677
Unrestricted	48,263,400	45,855,547	46,126,654	51,871,473	60,768,080
Total primary government net assets	$ 124,822,534	129,717,818	141,966,613	163,097,359	191,760,544

(1) These balances include the result of Metro financing capital assets for the business-type and MERC component unit activities through the issuance of general obligation bonds. The amount of long-term debt outstanding on these bonds is reflected as a liability of the governmental activities in which repayment of the bonds occurs, whereas the associated capital assets financed by this debt are reflected with the business-type activities and component unit. These balances increase over time as a result of increases in capital assets, decreases in related long-term debt outstanding, and reductions in the amount of related unspent bond proceeds.

(2) Most of the change between governmental and business-type activities balances between fiscal years 2005 and 2006 is due to the consolidation of Oregon Zoo operations into the General Fund in fiscal year 2006.

METRO

Changes in Net Assets

Last Five Fiscal Years
(accrual basis of accounting)
Unaudited

	Fiscal Year				
	2002	2003	2004	2005	2006
Expenses					
Governmental activities:					
General government operations (1)	$ 3,540,021	2,380,124	2,546,034	3,158,675	10,128,233
Regional planning and development	14,571,106	11,063,962	10,599,654	11,367,579	10,580,855
Culture and recreation	5,943,716	8,094,833	7,774,128	8,582,520	6,515,693
Zoo (1)	-	-	-	-	23,159,685
Interest on long-term debt	11,419,881	9,167,669	8,324,767	7,679,504	8,421,370
Total governmental activities expenses	$ 35,474,724	30,706,588	29,244,583	30,788,278	58,805,836
Business-type activities:					
Solid Waste	$ 48,087,521	49,769,905	48,612,392	47,697,124	50,565,165
Zoo (1)	23,817,594	23,683,884	25,296,229	24,158,065	-
Total business-type activities expenses	$ 71,905,115	73,453,789	73,908,621	71,855,189	50,565,165
Total primary government expenses	$ 107,379,839	104,160,377	103,153,204	102,643,467	109,371,001
Program revenues					
Governmental activities:					
Charges for services:					
General government operations (1)	$ 20,438	897	9,470	2,593	1,377,281
Regional planning and development	940,949	827,644	972,578	1,215,077	1,547,604
Culture and recreation	2,469,031	2,536,879	2,942,318	2,699,983	2,568,418
Zoo (1)	-	-	-	-	14,417,730
Operating grants and contributions	10,547,223	7,272,201	7,582,801	8,552,429	12,015,598
Capital grants and contributions (1)	-	-	-	-	959,676
Total governmental activities program revenues	$ 13,977,641	10,637,621	11,507,167	12,470,082	32,886,307
Business-type activities:					
Charges for services:					
Solid Waste	$ 46,122,748	48,380,854	50,315,937	51,574,923	53,814,957
Zoo (1)	11,816,937	11,516,328	12,782,768	13,184,305	-
Operating grants and contributions (1)	1,658,457	1,575,494	962,418	1,396,306	67,103
Capital grants and contributions (1)	-	174,333	1,763,235	786,534	-
Total business-type activities program revenues	$ 59,598,142	61,647,009	65,824,358	66,942,068	53,882,060
Total primary government program revenues	$ 73,575,783	72,284,630	77,331,525	79,412,150	86,768,367

(Continued)

METRO

Changes in Net Assets, Continued

Last Five Fiscal Years
(accrual basis of accounting)
Unaudited

	Fiscal Year 2002	2003	2004	2005	2006
Net (Expense)/Revenue					
Governmental activities	$ (21,497,083)	(20,068,967)	(17,737,416)	(18,318,196)	(25,919,529)
Business-type activities	(12,306,973)	(11,806,780)	(8,084,263)	(4,913,121)	3,316,895
Total primary government net expense	$ (33,804,056)	(31,875,747)	(25,821,679)	(23,231,317)	(22,602,634)
General Revenues and Other Changes in Net Assets					
Governmental activities:					
Property taxes (1)	$ 20,215,467	16,336,901	17,481,813	17,545,652	27,804,374
Excise taxes	7,922,160	9,821,988	10,506,081	13,577,891	14,243,252
Cemetery revenue surcharge	-	-	33,086	25,270	21,395
Local government shared revenues	435,786	384,166	476,514	540,690	547,512
Unrestricted investment earnings	1,947,669	962,061	412,610	839,350	2,315,910
Special items	760,350	-	-	-	357,921
Transfers	-	-	-	306,009	533,324
Total governmental activities	$ 31,281,432	27,505,116	28,910,104	32,834,862	45,823,688
Business-type activities:					
Property taxes (1)	$ 8,498,916	8,355,692	8,605,342	8,941,517	-
Unrestricted investment earnings	1,696,440	910,223	555,028	915,500	1,361,750
Transfers	(359,510)	-	-	(306,009)	(533,324)
Total business-type activities	$ 9,835,846	9,265,915	9,160,370	9,551,008	828,426
Total primary government	$ 41,117,278	36,771,031	38,070,474	42,385,870	46,652,114
Change in Net Assets					
Governmental activities	$ 9,784,349	7,436,149	11,172,688	14,516,666	19,904,159
Business-type activities	(2,471,127)	(2,540,865)	1,076,107	4,637,887	4,145,321
Total primary government	$ 7,313,222	4,895,284	12,248,795	19,154,553	24,049,480
Prior period adjustment	$ -	-	-	1,976,193	4,613,707

(1) Changes in general government operations and Zoo related revenues and expenses between fiscal years 2005 and 2006 is due primarily to the consolidation of a number of funds, including former special revenue funds, former internal service funds, and Zoo funds into the General Fund in fiscal year 2006.

METRO

Fund Balances, Governmental Funds

Last Five Fiscal Years
(modified accrual basis of accounting)
Unaudited

	Fiscal Year				
	2002	2003	2004	2005	2006
General Fund (1)					
Reserved	$ -	-	-	-	7,333,324
Unreserved	1,288,482	1,648,753	2,561,919	4,443,897	25,630,402
Total general fund	$ 1,288,482	1,648,753	2,561,919	4,443,897	32,963,726
All Other Governmental Funds (1)					
Reserved	$ 13,094,846	12,292,783	10,451,417	10,155,731	10,680,405
Unreserved, reported in:					
Special Revenue Funds	9,332,740	9,548,645	10,476,628	12,592,408	5,679,471
Capital Projects Funds	15,737,419	9,415,427	5,564,935	4,413,313	9,151,671
Permanent Funds	-	-	-	-	178,943
Total all other governmental funds	$ 38,165,005	31,256,855	26,492,980	27,161,452	25,690,490

(1) Changes in General Fund and Other Governmental Funds fund balances between fiscal years 2005 and 2006 is due primarily to the consolidation of a number of funds, including former special revenue funds, former internal service funds, and Zoo funds into the General Fund in fiscal year 2006. In addition, capital projects related funds for regional parks and the Zoo were also consolidated into the Metro Capital fund.

METRO

Changes in Fund Balances, Governmental Funds

Last Five Fiscal Years
(modified accrual basis of accounting)
Unaudited

	Fiscal Year				
	2002	2003	2004	2005	2006
Revenues (1)					
Property taxes	$ 19,235,074	16,494,258	17,536,825	17,653,137	27,850,826
Excise taxes	7,922,160	9,821,988	10,506,081	13,577,891	14,243,252
Cemetery revenue surcharge	-	-	33,086	25,270	21,395
Local government shared revenues	435,786	384,166	476,514	540,690	547,512
Investment income	1,515,629	725,628	267,466	625,190	2,068,326
Government fees	265,558	207,705	244,119	352,195	490,892
Culture and recreation fees	1,085,371	1,218,280	1,204,030	1,125,860	14,712,855
Other fees	1,259,528	1,393,044	1,617,773	1,438,929	3,237,906
Internal charges for services	779,805	579,082	875,511	790,222	514,885
Licenses and permits	-	-	-	-	402,300
Miscellaneous revenue	40,156	30,192	95,673	235,784	573,107
Grants	10,151,521	6,814,472	7,061,492	6,871,101	10,682,649
Government contributions	73,085	116,929	104,508	46,865	-
Contributions and donations	322,617	340,800	416,801	1,634,463	1,332,949
Capital contributions and donations	-	-	-	-	959,676
Total revenues	$ 43,086,290	38,126,544	40,439,879	44,917,597	77,638,530
Expenditures (1)					
General government operations	$ 3,824,481	2,981,919	2,625,450	3,541,419	8,853,776
Regional planning and development	15,016,781	11,134,840	10,453,513	11,624,509	10,553,489
Culture and recreation	7,837,607	8,892,911	7,714,121	9,085,680	6,349,345
Zoo	-	-	-	-	20,908,177
Debt service:					
Principal	9,019,895	9,835,232	11,586,058	10,640,155	12,478,037
Interest	9,879,518	7,834,398	8,007,626	7,534,732	8,304,109
Capital outlay	10,426,457	4,407,455	3,861,065	2,425,758	5,210,036
Total expenditures	$ 56,004,739	45,086,755	44,247,833	44,852,253	72,656,969
Excess of revenues over (under) expenditures	$ (12,918,449)	(6,960,211)	(3,807,954)	65,344	4,981,561

(Continued)

METRO

Changes in Fund Balances, Governmental Funds, Continued

Last Five Fiscal Years
(modified accrual basis of accounting)
Unaudited

	Fiscal Year				
	2002	2003	2004	2005	2006
Other financing sources (uses)					
Bonds issued	$ 47,855,350	100,681,603	-	18,085,000	24,290,000
Premium on bonds issued	-	-	-	1,230,005	23,286
Transfers in	6,965,963	6,873,213	7,056,279	10,306,075	4,288,434
Payment to refunded bond escrow agent	(47,943,691)	(100,272,797)	-	(19,112,101)	-
Transfers out	(5,528,185)	(6,869,687)	(7,099,034)	(10,000,066)	(3,752,514)
Total other financing sources (uses)	$ 1,349,437	412,332	(42,755)	508,913	24,849,206
Special item	$ -	-	-	-	(24,022,369)
Net change in fund balances	$ (11,569,012)	(6,547,879)	(3,850,709)	574,257	5,808,398
Prior period adjustment	$ -	-	-	1,976,193	4,613,707
Debt service as a percentage of noncapital expenditures	43.5%	44.8%	49.5%	43.9%	31.2%

(1) Changes in revenues and expenditures between fiscal years 2005 and 2006 is due primarily to the consolidation of a number of funds, including former special revenue funds, former internal service funds, and Zoo funds into the General Fund in fiscal year 2006.

METRO

Solid Waste Tonnage by Waste Type and Destination (1)

Last Ten Fiscal Years

Unaudited

Fiscal year ended June 30,	Waste (2) Metro-Owned Facilities	Waste (2) Total Per Ton Rate	Waste (2) Privately-Owned Facilities	Waste (2) Total Per Ton Rate	Organic (3) Metro-Owned Facilities	ECU (4) Privately-Owned Facilities	Regional Total All Waste Types
1997	759,683	$75.00	440,847	$17.50	5,936	46,413	1,252,879
1998	744,908	70.00	455,459	15.00	6,532	27,089	1,233,988
1999	706,343	62.50	503,008	14.00	9,535	31,567	1,250,453
2000	698,535	62.50	538,760	14.00	9,478	28,318	1,275,091
2001	641,220	62.50	547,429	17.58	13,084	32,180	1,233,913
2002	603,946	62.50	589,111	17.94	13,446	45,320	1,251,823
2003	570,165	66.23	628,973	21.39	11,888	151,178	1,362,204
2004	564,337	67.18	673,500	22.89	13,460	312,587	1,563,884
2005	572,611	70.96	730,127	23.67	13,881	309,636	1,626,255
2006	589,140	71.41	755,847	22.87	19,340	356,044	1,720,371

(1) Waste generated in Multnomah, Washington, and Clackamas counties and delivered to solid waste facilities for disposal. The figures represent tons of solid waste from which the Solid Waste Revenue Fund derives revenue.

(2) "Waste" is general mixed waste for which a per ton rate (tip fee) is charged, including solid waste surcharge and taxes that fund solid waste programs and Metro general government.

(3) "Organic" is clean, source-separated wood waste, yard debris and compostable food waste for which tip fees or acceptance fees are charged, but which are exempt from solid waste surcharges and taxes.

(4) "ECU" or "Environmental Clean-Up" material is soil and cleanup media contaminated by hazardous substances, though not itself a hazardous waste; including petroleum contaminated soils. Metro charges reduced solid waste surcharges and taxes on ECU.

Source: Metro Solid Waste and Recycling Department.

METRO

Solid Waste Disposal Rates

Last Ten Fiscal Years

Unaudited

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Metro Facilities										
Disposal fee (1) (2)	$ 39.25	37.83	38.61	38.61	29.75	29.75	33.02	42.55	45.55	46.80
Disposal fee - unspecified (1) (2)	-	-	-		4.32	3.96	-	-	-	-
Metro facility fee (1) (2)	9.50	8.00	1.15	1.15	2.55	2.55	2.55	-	-	-
Regional transfer fee (1) (2)	7.20	7.50	7.00	7.00	6.56	6.56	7.53	-	-	-
Regional system fee	17.50	15.00	14.00	14.00	12.90	12.90	15.00	16.57	15.09	14.54
Excise tax (2)	-	-	-	-	4.68	5.04	6.39	6.32	8.58	8.33
Rehabilitation & enhancement and host fee	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
DEQ fees - orphan sites	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13
DEQ fees - promotion	0.92	1.04	1.11	1.11	1.11	1.11	1.11	1.11	1.11	1.11
Total rate per ton (3)	$ 75.00	70.00	62.50	62.50	62.50	62.50	66.23	67.18	70.96	71.41
Transaction fee	$ -	-	5.00	5.00	5.00	5.00	6.00	6.00	7.50	7.50
Privately-Owned Facilities										
Regional system fee	$ 17.50	15.00	14.00	14.00	12.90	12.90	15.00	16.57	15.09	14.54
Excise tax (4)	-	-	-	-	4.68	5.04	6.39	6.32	8.58	8.33
Total rate per ton (3)	$ 17.50	15.00	14.00	14.00	17.58	17.94	21.39	22.89	23.67	22.87

(1) Beginning with fiscal year 2004, the noted fees were combined into the disposal fee.

(2) For fiscal years 1997-2000, excise tax is included in the noted fees.

(3) Rates are per ton of mixed waste disposal. For fiscal year 2006, minimum charge is $17.00 for 260 pounds or less. DEQ rates are set by the State of Oregon Department of Environmental Quality.

(4) For fiscal years 1997-2000, excise tax was charged on gross revenue, not per ton.

Source: Metro Solid Waste and Recycling Department.

METRO

Principal Solid Waste Fee Payers

Current Year and Four Years Ago (1)

Unaudited

	2006			2002		
Customer/Payer	Fees Paid (2)	Rank	Percentage of Total Solid Waste Fee Revenue	Fees Paid (2)	Rank	Percentage of Total Solid Waste Fee Revenue
Waste Management of Oregon	$ 9,007,035	1	17.36 %	8,325,504	1	18.50 %
AGG	2,592,013	2	5.00	1,917,138	3	4.26
Portland Disposal & Recycling	2,354,554	3	4.54	1,677,167	4	3.73
Oregon City Garbage Company	2,171,740	4	4.19	2,142,693	2	4.76
Keller Drop Box Inc	1,789,205	5	3.45	1,110,123	6	2.47
Allied Waste Services of Portland	1,719,528	6	3.32	-		-
Trashco Services Inc	1,602,648	7	3.09	1,101,034	7	2.45
Gresham Sanitary Service Inc	1,276,453	8	2.46	1,129,161	5	2.51
Oak Grove Disposal Company Inc	1,177,831	9	2.27	865,564	9	1.92
Walker Garbage Service Inc	817,001	10	1.58	-		-
River City Disposal Company Inc	-		-	982,396	8	2.18
Heiberg Garbage Service	-		-	845,170	10	1.88
Total	$ 24,508,008		47.26 %	$ 20,095,950		44.66 %

(1) Data from nine years ago is not available due to a change in computer systems. The 2002 information presented is the oldest data available.

(2) Customers pay a per ton rate for solid waste disposal. The per ton rate includes various fee components which change each fiscal year. See page 150 for rate detail.

Sources: Metro Solid Waste and Recycling Department and Metro Accounting Division.

METRO

Ratios of Outstanding Debt by Type

Last Five Fiscal Years

Unaudited

	Governmental Activities					
Fiscal year ended June 30,	General Obligation Bonds	General Revenue Refunding Bonds	Full Faith and Credit Refunding Bonds	Pension Obligation Bonds	Loans Payable	Capital Leases
2002	$ 177,847,373	$ 22,710,000	$ -	$ -	$ 151,185	$ 146,747
2003	165,364,313	22,070,000	-	-	129,694	75,135
2004	153,820,393	-	20,380,000	-	106,844	-
2005	143,000,238	-	19,565,000	-	82,550	-
2006	131,647,201	-	22,295,000 (1)	24,290,000	507,151	-

(1) Zoo operations became governmental activities in fiscal year 2006.

(2) See page 161 for personal income and population data.

* Not available

Business-Type Activities						
Revenue Bonds	Full Faith and Credit Refunding Bonds		Loans Payable	Total Primary Government	Percentage of Personal Income (2)	Per Capita (2)
$ 25,590,000	$ -		$ 4,212,156	$ 230,657,461	0.36 %	$ 155.41
16,410,000	-		4,011,819	208,060,961	0.32	138.35
16,410,000	4,055,000		97,407	194,869,644	0.28	128.00
10,275,000	3,855,000		-	176,777,788	N/A *	114.50
8,045,000	-	(1)	-	162,494,352	N/A *	103.55

METRO

Ratios of Net General Bonded Debt Outstanding

Last Ten Fiscal Years

Unaudited

Fiscal year ended June 30,	General Bonded Debt Outstanding: General Obligation Bonds	Less: Amounts Restricted to Repaying Principal	Net General Bonded Debt	Real Market Value (1)	Percentage of Actual Real Market Value of Property	Per Capita (2)
1997	$ 220,480,958	$ 7,048,955	$ 213,432,003	$ 77,721,485,259	0.27 %	$ 159.08
1998	211,002,003	7,624,050	203,377,953	87,320,546,481	0.23	151.58
1999	203,377,953	8,048,755	195,329,198	94,157,744,893	0.21	145.58
2000	195,329,198	8,483,200	186,845,998	105,147,450,817	0.18	139.26
2001	186,845,998	8,938,625	177,907,373	113,011,064,594	0.16	132.60
2002	177,847,373	9,798,060	168,049,313	123,050,948,638	0.14	125.25
2003	165,364,313	11,543,920	153,820,393	128,542,544,330	0.12	114.65
2004	153,820,393	10,328,133	143,492,260	138,455,070,187	0.10	106.95
2005	143,000,238	10,004,443	132,995,795	146,360,729,671	0.09	99.12
2006	131,647,201	10,680,405	120,966,796	156,692,361,468	0.08	90.16

Sources:
(1) The Departments of Assessment and Taxation for Multnomah, Clackamas and Washington Counties.

(2) See page 161 for population data.

METRO

Direct and Overlapping Governmental Activities Debt

As of June 30, 2006

Unaudited

Overlapping government	Percent within District	Overlapping: Gross property tax backed debt	Overlapping: Net property tax backed debt
Clackamas County	74.57 %	$ 25,339,837	$ -
North Clackamas Parks & Rec. District	100.00	7,070,000	-
Oak Lodge Water District 4	100.00	1,720,000	1,720,000
Clackamas County Service District 1	100.00	320,424	-
Clackamas County RFPD 1	84.18	23,028,041	5,909,590
Clackamas County SD 3J (West Linn-Wilsonville)	94.61	167,598,240	127,693,050
Clackamas County SD 7J (Lake Oswego)	100.00	128,434,420	79,215,000
Clackamas County SD 12 (N Clackamas)	98.63	194,019,444	84,806,029
Clackamas County SD 62 (Oregon City)	67.48	73,504,221	42,470,905
Clackamas County SD 115 (Gladstone)	100.00	24,828,996	8,655,000
Clackamas County SD 86 (Canby)	15.73	16,572,696	11,067,992
Clackamas Community College	73.66	73,844,424	33,719,991
City of Gladstone	100.00	2,650,000	-
City of Lake Oswego	100.00	30,005,000	30,005,000
City of Milwaukie	100.00	6,315,000	2,030,000
City of Oregon City	100.00	20,390,000	3,360,000
City of West Linn	100.00	13,165,000	9,590,000
City of Wilsonville	100.00	8,745,000	530,000
Columbia County SD 1J (Scappoose)	6.68	104,266	104,266
Northwest Regional ESD	73.56	6,083,412	-
Multnomah County	98.94	318,893,628	66,794,799
Port of Portland	91.25	67,761,284	-
Multnomah County Drainage District 1	100.00	6,485,000	-
Tri-Met	98.03	245,454,919	75,895,600
Multnomah County SD 1J (Portland)	99.58	492,142,252	-
Multnomah County SD 3 (Parkrose)	100.00	16,725,000	16,725,000
Multnomah County SD 7 (Reynolds)	100.00	149,147,509	49,720,000
Multnomah County SD 28J (Centennial)	100.00	31,518,311	30,789,978
Multnomah County SD 40 (David Douglas)	100.00	48,365,000	48,365,000
Multnomah County SD 51J (Riverdale)	100.00	13,064,464	11,424,464
Multnomah County SD 10J (Gresham-Barlow)	96.01	121,213,578	63,915,322
Multnomah County SD 10J (Orient 6 Bond)	70.72	539,695	539,695
Multnomah ESD	99.02	37,289,576	-
Mt. Hood Community College	86.98	50,595,458	-
Portland Community College	91.88	254,438,739	67,892,287

(Continued)

METRO

Direct and Overlapping Governmental Activities Debt, Continued

As of June 30, 2006

Unaudited

Overlapping government	Percent within District	Overlapping: Gross property tax backed debt	Overlapping: Net property tax backed debt
City of Fairview	100.00 %	$ 3,616,000	$ 1,975,000
City of Gresham	100.00	31,389,591	1,890,000
City of Portland	100.00	658,348,284	47,249,717
City of Troutdale	100.00	11,770,000	11,770,000
City of Wood Village	100.00	620,000	220,000
Washington County	93.07	127,410,914	45,228,338
Tualatin Hills Park & Rec. District	99.97	16,173,354	15,304,657
Forest Grove RFPD	12.18	34,097	34,097
Tualatin Valley Fire & Rescue District	96.92	4,002,841	4,002,841
Washington County SD 15 (Forest Grove)	77.14	64,580,932	39,208,336
Washington County SD 23J (Tigard-Tualatin)	99.37	119,542,742	112,997,038
Washington County SD 1J (Hillsboro 7 Bond)	92.78	923,190	923,190
Washington County SD 48J (Beaverton)	99.78	454,071,491	266,793,629
Washington County SD 88J (Sherwood)	80.40	42,284,071	31,581,120
Washington County SD 1J (Hillsboro)	84.81	194,016,054	106,788,763
Washington County SD 1J (Reedville Bond)	98.40	1,913,969	1,913,969
Washington County SD 1J (Farmington Bond)	0.05	48	48
City of Beaverton	100.00	16,305,000	2,930,000
City of Cornelius	93.24	3,771,388	815,813
City of Durham	100.00	1,875,000	1,875,000
City of Forest Grove	99.74	8,842,377	4,114,473
City of Hillsboro	98.96	25,607,090	-
City of Sherwood	99.99	8,988,849	8,988,849
City of Tigard	100.00	14,113,514	11,572,205
City of Tualatin	100.00	8,320,000	8,320,000
Clackamas County ESD	74.70	13,984,008	-
Clackamas County SD 46 (Oregon Trail)	6.72	51,439	-
Sunrise Water Authority	100.00	1,255,000	1,255,000
Totals		$ 4,511,184,077	$ 1,600,691,051

Note: "Gross property tax backed debt" includes all general obligation bonds and limited-tax general obligation bonds.
"Net property tax backed debt" is gross property tax backed debt less self-supporting unlimited-tax general obligation and self-supporting limited-tax general obligation debt.

Source: The Municipal Debt Advisory Commission, State of Oregon.

METRO

Legal Debt Margin Information

Last Ten Fiscal Years

Unaudited

Legal Debt Margin Calculation for Fiscal Year 2006

True cash value		$ 156,692,361,468
Debt limit (10% of true cash value)		15,669,236,147
Debt applicable to limit:		
Gross bonded debt principal	$ 200,977,201	
Less legal deductions from debt limit:		
Metro Central Transfer Station Project, Solid Waste Disposal System Revenue Bonds	(3,210,000)	
Solid Waste Disposal System Refunding Revenue Bonds	(4,835,000)	
Full Faith and Credit Refunding Bonds Refunding Bonds 2003 Series	(22,295,000)	
Full Faith and Credit Oregon Local Governments Bonds 2006 Series	(14,700,000)	
Metro Limited Tax Pension Obligation Bonds Series 2005	(24,290,000)	
Total net debt applicable to limit		131,647,201
Legal debt margin		$ 15,537,588,946

	Fiscal Year			
	1997	1998	1999	2000
Debt limit	$ 7,772,148,526	8,732,054,648	9,415,774,489	10,514,745,082
Total net debt applicable to limit	217,980,958	211,002,003	203,377,953	195,329,198
Legal debt margin	$ 7,554,167,568	8,521,052,645	9,212,396,536	10,319,415,884
Total net debt applicable to the limit as a percentage of the debt limit	2.80%	2.42%	2.16%	1.86%

Note: ORS 268.520 sets a debt limit of 10% of the true cash value of all taxable property within the district.

Source: The Departments of Assessment and Taxation for Multnomah, Clackamas and Washington Counties.

Fiscal Year					
2001	2002	2003	2004	2005	2006
11,301,106,459	12,305,094,864	12,854,254,433	13,845,507,019	14,636,072,967	15,669,236,147
186,845,998	177,847,373	165,364,313	153,820,393	143,000,238	131,647,201
11,114,260,461	12,127,247,491	12,688,890,120	13,691,686,626	14,493,072,729	15,537,588,946
1.65%	1.45%	1.29%	1.11%	0.98%	0.84%

METRO

Pledged Revenue Coverage

Last Ten Fiscal Years

Unaudited

	Solid Waste Revenue Bonds					
Fiscal year ended June 30,	Solid Waste operating revenue	Less: operating expenses	Net available revenue	Debt service (1) Principal	Debt service (1) Interest	Coverage
1997	$ 64,797,003	$ 49,773,711	$ 15,023,292	$ 1,710,000	985,200	5.57
1998	57,867,670	48,363,946	9,503,724	1,825,000	874,783	3.52
1999	54,758,546	56,023,559	(1,265,013)	1,950,000	754,870	-0.47
2000	53,275,735	45,930,547	7,345,188	1,577,500	624,398	3.34
2001	50,297,847	43,537,879	6,759,968	2,364,493	544,176	2.32
2002	47,291,208	44,642,220	2,648,988	1,001,037	1,643,109	1.00
2003	49,037,072	45,362,166	3,674,906	629,526	1,294,455	1.91
2004	50,652,679	44,068,880	6,583,799	256,944	117,060	17.60
2005	51,935,277	44,695,266	7,240,011	830,493	1,501,060	3.11
2006	55,276,659	47,332,824	7,943,835	781,768	1,555,221	3.40

Note: The coverage information in this schedule is presented based on the formula required by bond covenants, which specifies that Metro shall maintain its existing solid waste disposal system and establish rates to produce net revenues each year which at least equal 110% of annual debt service. Under the covenants, operating expenses exclude depreciation, amortization and capital assets.

(1) Debt service expenditures paid as pass-through debt service activities and payments to escrow agents on advance refundings are not included as a debt service requirement for purposes of this schedule.

METRO

Demographic and Economic Statistics

Last Ten Fiscal Years

Unaudited

Fiscal year ended June 30,	Population (1)	Total Personal income (in thousands) (2)	Per capita personal income (2)	Portland metropolitan unemployment rate (2)
1997	1,341,700	$ 50,912,454	$ 27,672	4.1 %
1998	1,363,100	54,105,615	28,851	4.2
1999	1,378,450	56,918,006	29,858	4.3
2000	1,444,219	62,189,975	32,122	4.5
2001	1,467,300	63,933,229	32,353	6.1
2002	1,484,150	64,908,688	32,255	7.8
2003	1,503,900	65,958,599	32,328	8.3
2004	1,522,400	69,853,340	33,875	7.1
2005	1,543,910	N/A	* N/A *	5.8
2006	1,569,170 (3)	N/A	* N/A *	N/A *

* Not available

(1) For Clackamas, Multnomah and Washington counties. 2000 was a census year.

(2) Portland-Vancouver-Beaverton, OR-WA MSA consisting of Clackamas, Columbia, Multnomah, Washington and Yamhill counties in Oregon, and Clark and Skamania counties in Washington.

(3) Preliminary estimate

Sources: Population Research Center, Portland State University.
Oregon Employment Department.
U.S. Department of Commerce, Bureau of Economic Analysis (BEA).

METRO

Principal Employers

Current Year and Nine Years Ago

Unaudited

Employer	2006 Employees	2006 Rank	2006 Percentage of Total Metropolitan Area Employment	1997 Employees	1997 Rank	1997 Percentage of Total Metropolitan Area Employment
U.S. Government (1)	18,300	1	11.79 %	17,173	1	8.94 %
Intel Corporation	16,500	2	10.63	9,500	4	4.95
Providence Health System	13,496	3	8.70	8,938	5	4.66
Safeway Inc, Portland division	13,000	4	8.38	-		-
Oregon Health & Science University	11,300	5	7.28	11,000	3	5.73
Fred Meyer Stores	10,500	6	6.77	8,905	6	4.64
Kaiser Foundation Health Plan of the NW	8,747	7	5.64	7,663	7	3.99
Legacy Health System	7,900	8	5.09	6,731	8	3.51
State of Oregon	6,700	9	4.32	15,855	2	8.26
Nike, Inc	5,500	10	3.54	-		-
U.S. Bank	-		-	6,242	9	3.25
Portland Public Schools	-		-	6,000	10	3.13
Total	93,643		72.14 %	80,834		51.06 %

(1) Portland OR MSA consisting of Clackamas, Columbia, Multnomah, Washington and Yamhill counties. Information for this employer only from the Oregon Employment Division.

Sources: Portland Business Alliance and the Portland Metropolitan Chamber of Commerce.

METRO

Full-Time Equivalent Employees by Function/Program

Last Ten Fiscal Years

Unaudited

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Functions/Programs										
Primary Government:										
Governmental activities:										
General government operations	119.38	123.54	124.52	132.51	128.00	131.50	132.75	119.85	122.20	125.50
Regional planning and development	91.33	92.83	93.75	86.65	79.31	80.25	79.00	80.10	73.15	78.60
Culture and recreation	47.00	47.25	49.75	49.75	49.75	49.50	48.00	42.10	44.10	45.15
Zoo	139.14	138.17	147.19	152.85	163.60	167.03	169.73	160.23	151.85	149.13
Total governmental activities	396.85	401.79	415.21	421.76	420.66	428.28	429.48	402.28	391.30	398.38
Business-type activities:										
Solid Waste	103.15	99.35	99.35	96.85	106.25	110.15	109.15	108.70	106.20	106.20
Total primary government	500.00	501.14	514.56	518.61	526.91	538.43	538.63	510.98	497.50	504.58
Component Units:										
MERC	145.00	155.75	161.95	164.50	159.90	152.00	193.00	180.25	157.00	156.00
Total	645.00	656.89	676.51	683.11	686.81	690.43	731.63 (1)	691.23 (2)	654.50 (3)	660.58

(1) Increase over previous fiscal year is due primarily to personnel needs related to the expansion of the Oregon Convention Center and Expo Center facilities in the MERC component unit.

(2) Decrease from previous fiscal year is due primarily to reevaluation of personnel needs related to the expansion of the Oregon Convention Center in the MERC component unit, reductions related to the spend down of the Open Spaces program, and reductions in general government and Zoo due to fiscal constraints of the agency.

(3) Decrease from previous fiscal year is due primarily to reevaluation of personnel needs in response to economic downturns and the completion of the expansion of the Oregon Convention Center in the MERC component unit and reductions at the Zoo due to fiscal constraints of the agency.

Source: Metro Adopted Budget documents.

METRO

Operating Indicators by Function/Program

Last Five Fiscal Years

Unaudited

	Fiscal Year				
	2002	2003	2004	2005	2006
Functions/Programs					
Primary Government:					
Governmental activities:					
General government operations:					
Business licenses issued	2,787	3,034	2,939	3,003	2,980
Live broadcast of Metro Council meetings	-	38	40	40	38
Presentations to citizens, business, and other groups by Councilors and COO	138	267	315	322	461
General obligation bond rating:					
Moody's	Aa1	Aa1	Aa1	Aa1	Aa1
Standard and Poor's	AA+	AA+	AA+	AAA	AAA
Regional planning and development:					
Data Resource Center sales of maps and aerials	$ 134,271	137,352	145,649	177,211	185,182
Culture and recreation:					
Visitors to Blue Lake Park, Oxbow Park and Chinook Landing	751,916	713,276	728,910	721,800	656,616
Volunteers	1,259	1,478	1,575	1,421	1,100
Volunteer hours	16,785	14,312	20,100	30,519	22,570
Acres acquired in Open Spaces land target areas	834	168	80	116	42
Zoo:					
Adult admission price	$ 7.50	8.00	9.00	9.50	9.50
Annual attendance	1,319,459	1,293,597	1,318,458	1,336,287	1,365,459
Volunteer hours	127,000	118,500	122,000	143,500	151,533
Property taxes as percentage of operating revenue	38%	39%	38%	38%	36%
Contributions & donations as percent of total revenue	5.7%	5.6%	3.3%	5.3%	4.9%
Business-type activities:					
Solid Waste:					
Recycling Information Center calls and hits on website	110,320**	108,652**	126,245	126,949	139,830
Students reached in elementary and secondary school presentations	29,911	37,478	41,055	44,314	43,692
Regional recovery rate (1)	47.9%	53.5%	55.2%	57.0%	58.6%
Hazardous waste net cost per pound	$ 0.98	0.90	0.72	0.87	0.89
Gallons of recycled paint produced	104,148	116,107	167,040	137,075	102,196
Latex paint revenue	$ 351,503	539,135	693,774	755,560	809,484

(Continued)

Operating Indicators by Function/Program, Continued

Last Five Fiscal Years

Unaudited

	Fiscal Year				
	2002	2003	2004	2005	2006
Component Units:					
MERC:					
Annual attendance					
Oregon Convention Center	450,000	577,328	668,911	700,360	633,575
Expo Center	582,884	534,367	501,670	469,943	470,984
Portland Center for the Performing Arts	969,000	947,338	900,000	797,752	953,863
Number of events/performances					
Oregon Convention Center	55	66	91	93	85
Expo Center	100	102	92	100	102
Portland Center for the Performing Arts	950	902	978	937	980
Capacity					
Occupancy rate (75% considered maximum)					
Oregon Convention Center	65%	55%	37%	48%	43%

(1) Regional recovery rate is calculated by taking total waste generated in the region divided by amount recycled plus DEQ credits up to 6% for waste prevention, reuse, and home composting.

* Not available

** Calls to Recylcing Information Center only, WebTrends tracking started in 2004

Source: Various Metro departments.

METRO

Capital Asset Statistics by Function/Program

Last Five Fiscal Years

Unaudited

	Fiscal Year				
	2002	2003	2004	2005	2006
Functions/Programs					
Primary Government:					
Governmental activities:					
General government operations:					
Regional Center facilities	1	1	1	1	1
Square footage	110,000	110,000	110,000	110,000	110,000
Parking spaces - Regional Center garage	162	162	162	162	162
Parking spaces - Irving Street garage	485	485	485	485	485
Culture and recreation:					
Regional park facilities	5	5	5	5	5
Acres	1,572	1,572	1,572	1,572	1,572
Cemeteries	14	14	14	14	14
Acres	65	65	65	65	65
Golf facilities	1	1	1	1	1
Acres	232	232	232	232	232
18-hole courses	2	2	2	2	2
Marine facilities	3	3	3	3	3
Natural Areas	6	6	6	6	6
Acres	2,411	2,411	2,411	2,411	2,411
Open Spaces land target areas (1995 bond measure)	27	27	27	27	27
Acres	7,767	7,935	8,015	8,131	8,173
Zoo:					
Acres	65	65	65	65	65
Buildings and exhibits	38	38	38	38	44
Roads and pathways (square footage)	341,000	341,000	341,000	341,000	341,000
Railways	1	1	1	1	1
Business-type activities:					
Solid Waste:					
Transfer stations (including hazardous waste facilities)	2	2	2	2	2
Closed landfills maintained	1	1	1	1	1
Component Units:					
MERC:					
Convention Centers	1	1	1	1	1
Square footage	500,000	907,000	907,000	907,000	907,000
Parking spaces	800	800	800	800	800
Exposition Centers	1	1	1	1	1
Square footage	330,000	330,000	330,000	330,000	330,000
Parking spaces	2,200	2,200	2,200	2,200	2,200

Note: No capital asset indicators are available for the regional planning and development function.

Source: Various Metro departments.

Audit Comments and Disclosures

AUDIT COMMENTS AND DISCLOSURES
REQUIRED BY STATE REGULATIONS

Oregon Administrative Rules 162-010-0000 through 162-16-0000 incorporated in the Minimum Standards for Audits of Oregon Municipal Corporations, as prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy, enumerate the financial statements, schedules, comments and disclosures required in audit reports. The required financial statements and schedules are set forth in the preceding sections of this report. Required comments and disclosures related to the audit of such statements and schedules are set forth on the following pages.

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December 8, 2006

2005-2006 AUDITORS' COMMENTS AND DISCLOSURES

Oregon Administrative Rules 162-10-000 through 162-16-000 (the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy) enumerate the financial statements, schedules, comments and disclosures required in audit reports. The required statements and schedules are set forth in preceding pages of this report. Required comments and disclosures related to our audit of such statements and schedules are set forth as follows.

REPORT ON INTERNAL ACCOUNTING CONTROL

We have audited the basic financial statements of Metro, as of and for the year ended June 30, 2006, and have issued our report thereon dated December 8, 2006.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of Metro is responsible for establishing and maintaining an internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of an internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of basic financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the internal controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the basic financial statements of Metro for the year ended June 30, 2006, we obtained an understanding of the internal control. With respect to the internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control elements does not reduce to a relatively low level the risk that errors and irregularities in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control and its operations that we consider to be material weaknesses as defined above.

This report is intended for the information of management and the State of Oregon, Secretary of State, Audits Division. However, this report is a matter of public record and its distribution is not limited.

ACCOUNTING RECORDS

Metro's accounting records were adequate to meet Metro's financial accounting requirements.

BUDGET TRANSACTIONS

Expenditures of the various funds were within authorized appropriations for Metro's budget period.

2005-2006 and 2006-2007 BUDGETS

The budgets adopted by Metro for the years ended June 30, 2006 and ending June 30, 2007 were reviewed during the audit. It appeared that budget preparation and adoption procedures followed by Metro were in compliance with the Oregon Local Budget Law.

COLLATERAL SECURING BANK DEPOSITS

Based on our selective testing, collateral pledged by the depositories appeared to be adequate at all times during the year to meet requirements of Oregon Law. Each depository is required by ORS Chapter 295 to maintain securities having a value of not less than 25% of the face amount of the collateral certificate issued by the pool manager, for funds deposited in the depository in excess of the amounts insured by the Federal Deposit Insurance Corporation. Deposits in the State Local Government Investment Pool and deferred compensation account are not required to be collateralized.

INVESTMENTS

Metro's investments held during the year ending June 30, 2006, were reviewed and appeared to comply with the legal requirements pertaining to the investment of public funds contained in ORS 294.035, and Metro's investment policy.

PUBLIC CONTRACTS AND PURCHASING

Metro's procedures for awarding public contracts were reviewed and appeared to be in compliance with ORS Chapter 279.

INSURANCE AND FIDELITY BONDS

Details concerning insurance and fidelity bond coverage were reviewed during the audit. The coverage provided appears to meet legal requirements. We do not have the professional expertise to state whether the insurance coverage is adequate.

STATUTORY BONDED DEBT LIMITATION

Metro's statutory bonded debt limitation was not exceeded during the fiscal year 2005-2006. The debt outstanding appeared to be within this limit.

OUTSTANDING WARRANTS

Metro had no outstanding endorsed warrants at June 30, 2006.

PROGRAMS FUNDED FROM OUTSIDE SOURCES

We reviewed and tested, to the extent we considered necessary in the circumstances, transactions and reports relative to federal and state grant programs. Our reports concerning federal grant compliance, related internal control, and other matters, along with a schedule of expenditures of federal awards, are contained in separate reports related to the requirements of the Single Audit Act Amendments of 1996 and OMB Circular A-133.

Pauly, Rogers and Co., P.C.