BEFORE THE METRO COUNCIL

FOR THE PURPOSE OF METRO COUNCIL'S ACCEPTANCE OF THE RESULTS OF THE INDEPENDENT AUDIT REPORT FOR FINANCIAL ACTIVITY DURING FISCAL YEAR 2006-2007	))))))	**RESOLUTION NO. 08-3904** Introduced by: Suzanne Flynn, Metro Auditor in concurrence with Council President Bragdon

WHEREAS, State ORS provision 297.465 requires an annual independent audit of Metro's financial statements; and

WHEREAS, Metro Code Section 2.15.80 requires the Metro Auditor to appoint the external certified public accountant to conduct certified financial statement audits as specified in state and local laws; and

WHEREAS, Metro engaged in Contract No. 927943 with Moss Adams LLP, independent Certified Public Accountants to provide the following audit services:

1. Audit of Metro's financial statements (including all costs associated with the Comprehensive Annual Financial Report and applicable management recommendations and comments);
2. MERC (a component unit of Metro) financial statements and applicable management recommendations and comments;
3. Single Audit and applicable management recommendations and comments; and
4. Metro Natural Areas Bond Measure Expenditures and applicable management recommendations and comments

WHEREAS, the annual independent audit has been completed and an unqualified opinion received from Moss Adams LLP; and

WHEREAS, a separate letter was delivered to management and a management plan of action completed; now, therefore,

BE IT RESOLVED that the Metro Council hereby acknowledges and accepts the results of the independent audit report.

ADOPTED by the Metro Council this 31st day of January, 2008.

David Bragdon, Council President

Officially Approved
Approvato Ufficialmente
Consiglio Metropolitano
METRO COUNCIL
Metro Council

Approved as to Form:

Daniel B. Cooper, Metro Attorney

Resolution No. 08-3904
Exhibit A

Metro CAFR

Comprehensive Annual Financial Report

For the year ended June 30, 2007

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

METRO

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

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600 NORTHEAST GRAND AVENUE | PORTLAND, OREGON 97232 2736
TEL 503 797 1700 | FAX 503 797 1797

METRO

December 19, 2007

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 year ended June 30, 2007, together with the report thereon of Metro's independent auditors, Moss Adams, LLP.

The Comprehensive Annual Financial Report (CAFR) presents the financial position of Metro as of June 30, 2007, 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 by management 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 as noted in the table of contents, including a section with 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 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 Moss Adams, LLP. The objective of the audit is to provide reasonable assurance that the financial statements of Metro, for the year ended June 30, 2007, are free of material misstatement. The auditor issued an unqualified ("clean") opinion on Metro's financial statements for the year ended June 30, 2007 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 463 square miles of the urban portions of Clackamas, Multnomah and Washington counties in northwestern Oregon and serves more than 1.4 million residents. 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. Metro oversees world-class facilities such as the Oregon Zoo, the Oregon Convention Center (OCC) and a system of regional parks, open spaces and natural areas, as well as managing solid waste disposal and increasing recycling.

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 OCC, 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 (PCPA).

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 the Portland Exposition Center (Expo). 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. Information regarding a change from prior years in the reporting of MERC activities, now reported as part of the primary government, can be found in the MD & A. 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 OZF are included in this report as a discretely presented component unit.

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 1.4 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 economic growth.

The Portland economy continues to lose steam from the pace seen over the last couple of years. The labor force for the Portland-Vancouver PMSA grew 4.8% from 2002 through 2006, with non-agricultural wage and salary employment up 6.0% over the same period. Employment growth decelerated in March 2007 to 2.1% year-over-year from the peak 3.7% seen in May 2006. However, this is still better than the 1.4% growth for the nation. The slowdown is broad based, with growth moderating in every sector of the economy except government. Higher paying industries such as professional/business services and financial services have slowed markedly. The population for the Metro area increased 5.7% since 2002. Net migration improved in 2005 and 2006 as domestic migration rebounded, thanks in part to increased flows from California as residents there sold their homes and moved to enjoy Portland's relatively cheaper housing market. This improvement in migration trends, as well as job growth over the past couple of years, helped home price growth outpace the national trend. Indeed, Oregon recorded the nation's highest home price growth of the 50 states between 1990 and 2006, and only Washington D.C. showed a higher increase. The number of building permits for new single-family construction rose 9.8% from 2004 to 2006.

Outlook. Portland's economic growth is expected to slow as the housing market slump permeates throughout the economy. Employment growth will slip in 2007 to about 1.9% as financial services and construction cool amid the housing slump, professional business services moderate, and trade and transportation see weaker activity amid a general national slowdown. The area's unemployment rate is expected to increase as income growth slows. Home prices are expected to rise moderately as migration trends remain strong.

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. 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.

The adopted Capital Budget for Metro for fiscal year 2008 through fiscal year 2012 includes 80 capital projects at an estimated total cost of $208.8 million. This amount is an increase of ten projects and $75 million over the prior year Capital Budget and comes primarily from the addition of new projects funded by the Natural Areas bond measure passed in November 2006. The largest share of planned capital project expenditures among Metro departments in the current Capital Budget are in Regional Parks and Greenspaces at 87.7%, Solid Waste and Recycling at 6.7%, and the Oregon Zoo at 3.6%.

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 and donations. The Zoo has active fundraising support in OZF and is relying on their efforts for almost 67% of their capital project funding needs. An additional 29% of funding for Zoo projects in fiscal year 2008 comes from excise taxes for renewal and replacement. Regional Parks and Greenspaces non-land expenditures are predominately funded by general obligation bonds (93%), donations, and a portion of the excise tax. Land purchases and some major improvements are funded by general obligation bonds.

The Capital Budget also contains a projection from each department of the net impact on operating costs (reflected in 2006 dollars) resulting from each capital project, for the first full year of operation after project completion. Metro, overall, will have an additional cost of $277,275 to $965,202 per year from these projects. The projects adding the most to operating costs are the Regional Parks Cooper Mountain Natural Area, the Graham Oaks Nature Area Development, the Mt. Talbert Development Open Spaces - Phase II, and the California Condor Captive Breeding Facility. Seven projects are expected to produce positive cash flows, three in Regional Parks, three at the Oregon Zoo, and one in the Financial Services division.

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.

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.

In fiscal year 2008, Metro established fund balance reserves within the General Fund for Recovery Rate Stabilization, PERS reserves for potential additional pension liabilities, and a reserve for future debt service on the full faith and credit bonds issued to refinance Metro Regional Center. This fund balance also includes reserves for cash flow and fund stabilization. Based upon an historical analysis, Metro's revised policies call for a minimum of 7.0% of operating revenues be set aside in either a contingency or stabilization reserve to guard against unexpected downturns in revenues and stabilize resulting budget actions. The target provides a 90% confidence level that revenues would only dip below this amount once every ten years.

Metro plans to carry forward $127.7 million of fund balance into fiscal year 2009. Primary among the planned funds to be carried forward are bond proceeds received in fiscal year 2007 for the Natural Areas acquisition program and 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 June 2007. 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 2007, from a low of 5.04% in July 2006 to a high of 5.19% in June 2007. The average yield for the fiscal year was 5.16% compared to 4.05% 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 year ended June 30, 2007. 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 2007-07 Adopted Budget.*

Major initiatives. Future budgets face the typical problems of constrained revenues. Finding the means within the budget to maintain and operate the areas purchased by the Open Spaces and Natural Areas bond funds is an immediate challenge. Identifying resources to promote the regional economic development objectives of the OCC is another challenge. Metro looks to ensure that sufficient resources are available to deliver on the Council's *Making the Greatest Places* expectation. The Oregon Zoo is also challenged to increase operating revenues to meet increasing costs without compromising the visitor experience.

Metro remains challenged by workforce issues that influence the agency's labor costs. Metro is optimistic, but not certain, that the volatility of the PERS system is behind us. In light of this, the fiscal year 2008 budget releases one-half of the accumulated PERS reserves for general spending, but retains half to protect against this possibility. Metro is not as optimistic about health care costs, which are shared between Metro and its employees. Designing effective and affordable health care programs will remain a challenge for both management and labor.

Looking ahead to fiscal year 2008, specific strategic initiatives include: addressing the maintenance backlog at the Oregon Zoo; laying the foundation for the great metropolitan region by building on the planning framework established by the Region 2040 Growth Concept and developing tools and resources to create more vibrant town centers, transit station areas, corridors and employment centers through the *Making the Greatest Places* effort; building towards a regional system of parks and greenspaces; negotiating a new long-term contract for solid waste transport for the next decade; evaluating the feasibility of a headquarters hotel for the OCC; and continuing to make progress towards responsive and innovative government.

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, 2006. This was the fifteenth 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, 2006. 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 tenth consecutive year that Metro received this award.

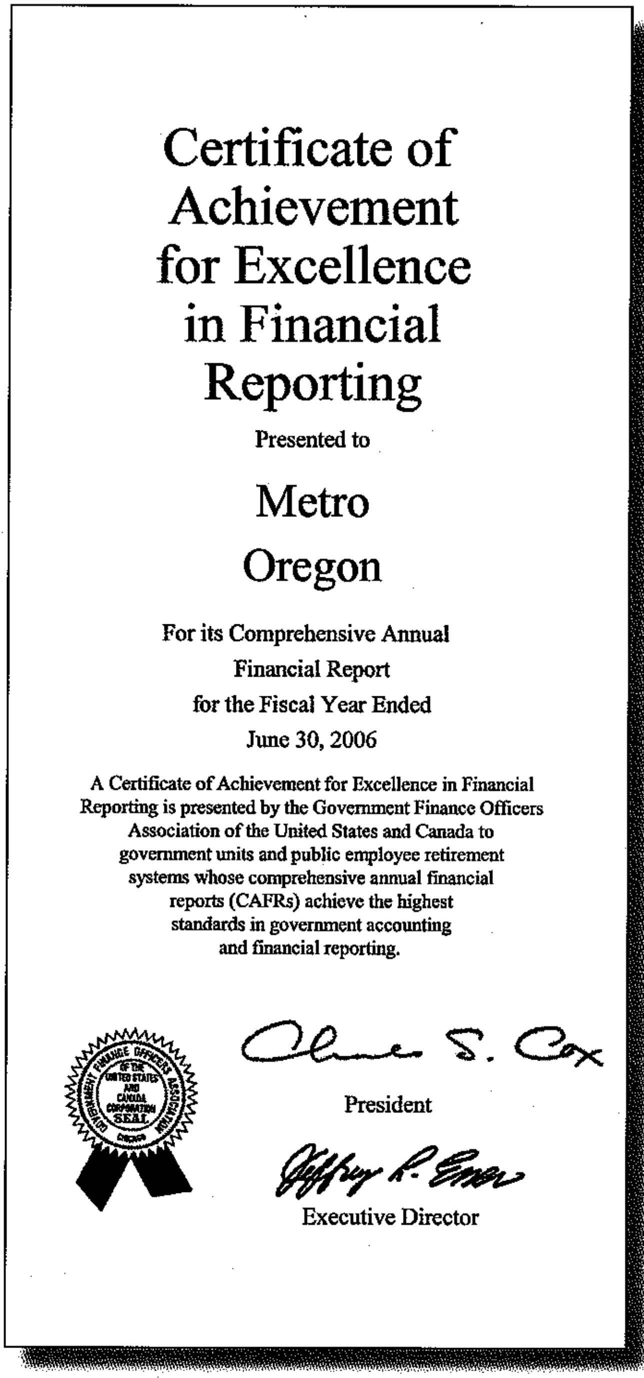
Acknowledgements

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 Moss Adams LLP. 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, 2006

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

The Government Finance Officers 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, 2006. This was the fifteenth consecutive year that the government has achieved this prestigious award.

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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 the GFOA to determine its eligibility for another certificate.

June 30, 2007

Elected Officials

Council President

David Bragdon
Term expires December 2010

Auditor

Suzanne Flynn, CIA
Term expires December 2010

Councilors

Rod Park
District 1
Term expires December 2010

Carlotta Collette
District 2
Term expires December 2010

Carl Hosticka
District 3
Term expires December 2008

Kathryn Harrington
District 4
Term expires December 2010

Rex Burkholder
District 5
Term expires December 2008

Deputy Council President
Robert Liberty
District 6
Term expires December 2008

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

Kate Marx
Public Affairs and Government
Relations Director

Ruth Scott
Human Resources Director

David Woolson
Metropolitan Exposition Recreation
Commission
Chief Executive Officer

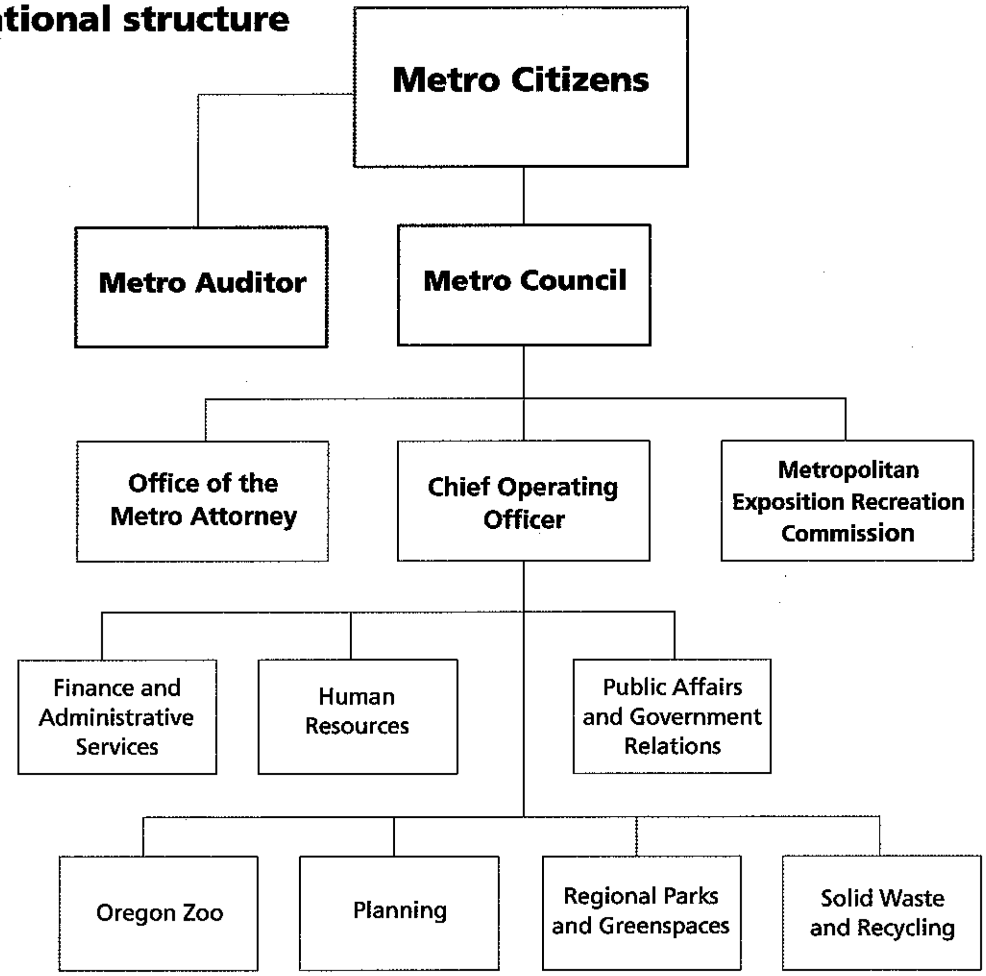
Registered Agent

Christina Billington

Address of Registered and Administrative Office

600 NE Grand Ave.
Portland, OR 97232-2736

Organizational structure



METRO ELECTED OFFICIALS

Council President, David Bragdon; District 1– Rod Park, District 2– Carlotta Colletta ; District 3– Carl Hosticka; District 4– Kathryn Harrington; District 5– Rex Burkholder; District 6– Robert Liberty, Deputy Council President; Metro Auditor– Suzanne Flynn

ADMINISTRATIVE AND SUPPORT SERVICES

Council Office and Chief Operating Officer: Staff supports the councilors, Chief Operating Officer and Metro Policy Advisory Committee.

Finance and Administrative Services: Office of the Chief Financial Officer, Financial planning, budget management, accounting services, procurement of goods and services, property services and information technology.

Human Resources: Labor relations, benefits and compensation, and recruitment and retention.

Metro Attorney: Provides agency legal services, research, evaluation, analysis, and advice, contract review and negotiations and assistance on legislative matters.

Public Affairs and Government Relations: Manages public and government affairs, office of citizen involvement, communication and web design.

PLANNING AND ENTERPRISE DEPARTMENTS

Oregon Zoo: Conservation and education, visitor services, animal and facility management.

Planning: Land-use and transportation planning, data and map services.

Regional Parks and Greenspaces: Parks and natural resources planning, parks management, education, open spaces and natural areas acquisition.

Solid Waste and Recycling: Garbage disposal system planning and management, recycling and hazardous waste services and education programs.

Metropolitan Exposition Recreation Commission (MERC): MERC general manager reports directly to Metro Council. MERC operates the Oregon Convention Center, Portland Center for the Performing Arts and the Portland Expo Center.

Resolution No. 08-3904
Exhibit A

METRO

Suzanne Flynn
Metro Auditor
600 NE Grand Ave
Portland, OR
97232-2736
TEL 503 797 1540
FAX 503 797 1793

December 19, 2007

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. The Metro Auditor is required by Metro Code to appoint certified public accountants to conduct this audit. After completing a competitive process, I appointed Moss Adams to conduct the audit of Metro. My office coordinated and monitored this audit.

Following this letter is the independent auditor's report on Metro's financial statements as of June 30, 2007. 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, 2007, have been issued under separate cover.

Respectfully submitted,

Suzanne Flynn, CIA
Metro Auditor

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INDEPENDENT AUDITOR'S REPORT

Metro Council and Metro Auditor
Portland, Oregon

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major of Metro as of and for the year ended June 30, 2007, 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 opinions 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 represents 1.01% and 2.23% of total assets and total revenues, 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, and each major fund of Metro, as of June 30, 2007, 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.

As described in the section titled "Prior Period Adjustments" in the notes to the financial statements, Metro has recorded adjustments to correct errors in the reporting of unearned revenue, long term loans payable and the accounts of MERC as of July 1, 2006.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2007 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 grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison on pages 17 through 39, and 92 through 98 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures to the management's discussion and analysis on pages 17 through 39 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. The schedules of revenues, expenditures, and changes in fund balance – budget and actual, on pages 92 through 98 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Metro's, basic financial statements. The introductory section, other supplementary information, capital assets, other financial schedules, and statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information, capital assets, and other financial schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

James C. Lanzarotta

For Moss Adams LLP
Eugene, Oregon
December 19, 2007

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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 year ended June 30, 2007. 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

- In November 2006, voters in region granted Metro the authority to issue a total of $227.4 million in general obligation bonds to fund activities to acquire and preserve natural areas and stream frontages, maintain and improve water quality, and protect fish and wildlife habitat. On April 3, 2007, Metro issued $124,295,000 of 2007 Series Natural Areas General Obligation Bonds (additional bonds are expected to be issued in a future period). The bonds bear an interest rate ranging from 4.0% to 5.0%. During fiscal year 2007, Metro acquired approximately 304 acres from willing sellers in six different target areas and seven separate land transactions from the proceeds of the Natural Areas general obligation bonds. The total capitalized cost for the property acquired in the current fiscal year under this program was $8,987,674.

- Beginning July 1, 2006, Metro began collection of a new Construction Excise Tax (CET) which provided $1,806,012 in revenue during the fiscal year ended June 30, 2007. This tax is imposed on new construction within the region, with limited exceptions, and is intended to raise $6.2 million over three years to fund concept planning in the new areas recently brought into the Urban Growth Boundary. Of the amount collected, $1,201,466 was provided by agreement to other local governments during the fiscal year for specified planning activities.

- During fiscal year 2007, Metro reassessed the legal status of the Metropolitan Exposition-Recreation Commission (MERC) in relation to the requirements of GASB Statement 14, *The Financial Reporting Entity*, and determined that MERC is not legally separate from Metro. This determination results in MERC operations being reported as a business-type activity and enterprise fund of Metro, rather than a component unit. A prior period adjustment has been made to incorporate MERC's results of those activities into the primary government, rather than a separate component unit column as reported in prior years. This prior period adjustment is reflected as $193,441,156 for government-wide reporting and $197,054,173 for proprietary fund reporting, the difference resulting from required allocations of internal service fund charges at the government-wide level.

- Metro reassessed the terms of an intergovernmental agreement with TriMet for funding of the Transit-Oriented Development (TOD) program during fiscal year 2007, and determined that the revenue recognition event for these funds had occurred in prior years. Accordingly, a prior period adjustment is reflected to reduce unearned revenue and increase net assets at July 1, 2006 by $6,554,744. Additionally, a $450,000 long-term loan payable in the TOD program for the General Fund should not have been reported in the governmental funds (modified accrual basis) financial statements and a prior period adjustment has been made in this amount to remove this liability and increase fund balance at July 1, 2006.

- Metro's total net assets increased 13.3% over the prior year. Governmental activities' net assets increased by $17,133,286, while business-type activities' net assets decreased $639,022 due to operations as described later in this analysis.

- Revenues of Metro's business-type activities (Solid Waste and MERC operations) totaled $96,945,795, up 5.3% ($4,919,323). Total expenses increased 4.8%, or $4,509,283, to a total of $97,874,234. As a result, operations of business-type activities reflected a decrease in net assets of $639,022 for the fiscal year ended June 30, 2007

- Fund balance in Metro's General Fund grew to $43,082,401 at June 30, 2007. Metro completed the fiscal year reporting combined fund balances in the governmental funds of $192,490,979, with the primary increase over the prior year reflected in the new Natural Areas Capital Project Fund that reflected a fund balance of $122,299,467 at June 30, 2007.

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.

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.

METRO

Management's Discussion and Analysis, Continued

Statement Element	Government-Wide Financial Statements	Fund Financial Statements: Governmental Funds	Fund Financial Statements: 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 ▪ MERC
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. In fiscal year 2007 these activities consisted of the operation of the solid waste system and MERC operations.

Component unit – Metro includes *The Oregon Zoo Foundation* (OZF) as a discretely presented component unit. OZF is considered a component unit in accordance with GASB Statement 39, 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 eight individual governmental funds (the General, Smith and Bybee Lakes, Rehabilitation and Enhancement, General Obligation Bond Debt Service, Open Spaces, Natural Areas, Metro Capital and Cemetery Perpetual Care). Each of these is presented by Metro as a "major fund" in accordance with professional standards, as Metro management believes reporting each of these funds provides consistency and is in the public interest. 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, a portion of one budgetary fund (the General Revenue Bond Fund) is allocated to the General Fund 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 enterprise funds to account for its Solid Waste and MERC 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, the MERC 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 - 90 of this report.

METRO

Management's Discussion and Analysis, Continued

FINANCIAL ANALYSIS OF METRO AS A WHOLE

The financial analysis provided below has incorporated the change noted earlier in the reporting of MERC as part of the primary government's activities in the business-type activity columns for both the current and prior year columns.

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 $408,250,708 at June 30, 2007, which reflects an increase of 4.3% ($16,494,264) 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	
		2007	2006 (as restated)	2007	2006 (as restated)	2007	2006 (as restated)
Current and other assets	$	235,359,486	106,932,544	73,081,677	64,944,020	308,441,163	171,876,564
Capital assets		233,213,363	223,406,695	218,597,005	226,193,915	451,810,368	449,600,610
Total assets		468,572,849	330,339,239	291,678,682	291,137,935	760,251,531	621,477,174
Long-term debt outstanding		296,057,014	177,934,753	19,566,442	21,657,021	315,623,456	199,591,774
Other liabilities		20,127,623	17,149,560	16,249,744	12,979,396	36,377,367	30,128,956
Total liabilities	$	316,184,637	195,084,313	35,816,186	34,636,417	352,000,823	229,720,730
Net assets							
Invested in capital assets, net of related debt		70,472,572	72,055,226	199,184,754	204,536,894	269,657,326	276,592,120
Restricted		24,458,851	21,244,741	12,688,488	12,415,936	37,147,339	33,660,677
Unrestricted		57,456,789	41,954,959	43,989,254	39,548,688	101,446,043	81,503,647
Total net assets	$	152,388,212	135,254,926	255,862,496	256,501,518	408,250,708	391,756,444

Metro's business-type activities account for the most significant portion of total net assets – totaling $255,862,496 (62.7%), whereas governmental activities account for $152,388,212 (37.3%). Of Metro's total net assets, 66.1% of the total reflects its investment in capital assets, net of related debt, down from 71.8% of net assets 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, $70,472,572, includes the result of Metro financing capital assets for the MERC enterprise, specifically the Oregon Convention Center (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 business-type activities related to MERC's operations as these assets are used to provide services to citizens. In addition, Metro's investment in its headquarters offices, zoo exhibits, open spaces property and other significant assets is reflected here. Overall, the decrease in the amount invested in capital assets (net of related debt) for governmental activities reflects a net increase in capital assets of $9,806,668 and an increase in capital related long-term debt outstanding of $11,389,322 associated with Open Spaces and Natural Areas acquisitions. Amounts invested in capital assets net of related debt for business-type activities changed primarily due to the amount of increase in accumulated depreciation exceeding capital asset additions by $7,596,911, while related long-term debt declined $2,090,579.

In addition, 9.1% 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 $3,486,662 (10.4%) from the amount at June 30, 2006. The increased amounts restricted for capital projects are due primarily to unspent amounts related to the Natural Areas bonds within the governmental activities and resulted in $6,361,475 of the increase from the prior year. The remaining $101,446,043 is unrestricted, with 56.6% ($57,456,789) of this amount attributable to Metro's governmental activities. Unrestricted net assets increased $15,501,830 (36.9%) in governmental activities and increased $4,440,566 (11.2%) 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 79.5% ($136,564,599) on a government-wide basis. The increase is primarily attributed to the additional equity in pooled cash and investments from issuance of the Natural Areas bonds in April 2007, which accounted for $122,639,615 of this increase and is reflected in governmental-activities restricted assets. Unrestricted cash and investments decreased $3,904,635 or 3.6%, mostly due to purchases in the Open Spaces program. Unrestricted cash and investments increased $5,823,721 over the prior year in business-type activities with $3,834,010 of this amount attributable to MERC operations. This increase was offset by a decline of $525,573 in prepaid items primarily 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 increased 25.2% ($3,270,348) from June 30, 2007. Other liabilities in the governmental activities increased $2,978,063, after restating the prior year for a prior period adjustment. This increase was primarily due to the increase in accrued interest payable of $1,294,164 related to the aforementioned Natural Areas bonds. The restatement in the prior year for the prior period adjustment was made to recognize revenue on the Tri-Met TOD program intergovernmental agreement in the Planning Department previously, reflected as unearned revenue (noted earlier). Metro should have recognized an additional $5,570,696 in fiscal years 2005 and prior, while an additional $984,048 should have been recognized as revenue and net income in fiscal year 2006.

METRO

Management's Discussion and Analysis, Continued

Long-term debt outstanding increased 58.1% ($116,031,682). Exclusive of the amounts related to the issuance of the Natural Areas bonds, the remainder of governmental activity long-term debt decreased $12,703,945 or 6.4%, and business-type activity long-term debt decreased $2,090,579 or 9.7% from June 30, 2006 as a result of scheduled debt payments. A further discussion of the financing activities undertaken during the year is presented later in this analysis.

Changes in net assets. As noted earlier, Metro's total net assets increased 13.3% over the prior year. Governmental activities' net assets increased by $17,133,286, while business-type activities' net assets decreased $639,022. The components of this change in net assets are reflected in the condensed information from Metro's Statement of Activities below (fiscal year 2006 restated for the prior period adjustments noted earlier).

Changes in Metro's Net Assets

	Governmental Activities		Business-Type Activities		Total - Primary Government	
	2007	2006 (as restated)	2007	2006 (as restated)	2007	2006 (as restated)
Revenues:						
Program revenues						
Charges for services	$ 20,603,231	19,911,033	83,172,102	80,111,273	103,775,333	100,022,306
Operating grants and contributions	9,674,387	12,999,646	692,146	984,284	10,366,533	13,983,930
Capital grants and contributions	1,378,075	959,676	-	-	1,378,075	959,676
General revenues						
Property taxes	28,686,523	27,804,374	-	-	28,686,523	27,804,374
Excise taxes	16,640,733	14,243,252	-	-	16,640,733	14,243,252
Local government shared revenues	519,463	547,512	9,976,554	8,852,246	10,496,017	9,399,758
Other	4,978,208	2,337,305	3,104,993	2,078,669	8,083,201	4,415,974
Total revenues	$ 82,480,620	78,802,798	96,945,795	92,026,472	179,426,415	170,829,270
Expenses:						
General government operations	11,724,680	10,128,233	-	-	11,724,680	10,128,233
Regional planning and development	11,633,709	10,580,855	-	-	11,633,709	10,580,855
Culture and recreation	6,906,903	6,515,693	-	-	6,906,903	6,515,693
Zoo	25,165,745	23,159,685	-	-	25,165,745	23,159,685
Interest on long-term debt	9,626,880	8,421,370			9,626,880	8,421,370
Solid Waste	-	-	52,805,117	50,565,165	52,805,117	50,565,165
Metro Exposition-Recreation	-	-	45,069,117	42,799,786	45,069,117	42,799,786
Total expenses	$ 65,057,917	58,805,836	97,874,234	93,364,951	162,932,151	152,170,787
Increase in net assets before transfers and special items	$ 17,422,703	19,996,962	(928,439)	(1,338,479)	16,494,264	18,658,483
Transfers	(289,417)	533,324	289,417	(533,324)	-	-
Special Item	-	357,921	-	(357,921)	-	-
Increase (decrease) in net assets	$ 17,133,286	20,888,207	(639,022)	(2,229,724)	16,494,264	18,658,483
Net Assets, July 1, 2006	135,254,926	114,366,719	256,501,518	258,731,242	391,756,444	373,097,961
Net Assets, June 30, 2007	$ 152,388,212	135,254,926	255,862,496	256,501,518	408,250,708	391,756,444

Program revenues generated directly from Metro's operations, which includes charges for services, increased $554,029 or 0.5% from the prior year, while the share of total revenues derived from these sources decreased slightly from the prior year, from 67.3% to 64.4%. A significant portion (57.8%) of Metro's revenues come from, or are based upon, its charges for services and as a percent of revenues is down slightly from the prior year (58.6%). This amount includes charges to customers for use of Metro facilities and services, such as solid waste fees and admission fees. Program revenues from business-type activities increased 3.4%, or $2,768,691. Governmental activities program revenue decreased 7.0% ($2,214,662), with the Zoo accounting for an increase of $1,281,865, whereas planning activities charges for services revenues declined $522,992. Charges for services revenues increased 3.5% ($692,198) in governmental activities and grew 3.8% ($3,060,829) in business-type activities. Operating grants and contributions decreased 25.9% ($3,617,397) from the prior year, with decreases in zoo ($287,710) and planning ($3,007,395) programs.

General revenues are used by Metro to fund expenses not covered by program revenues. The most significant general revenue, property taxes, accounts for 34.8% of all revenues, down from 35.7% 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 ($18,812,500 and $9,874,023, 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 and natural areas 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 ($8.35, which is up from $8.34 in the prior year) and as a percentage (7.5%) of revenues on all other authorized revenues to fund primarily general government and planning functions - provided $14,834,721 in general revenue, up $591,469 or 4.2%. This increase is reflective of higher revenues upon which the tax is assessed and a 3.7% increase in solid waste tonnage. An additional $3.14 per ton portion of the excise tax on solid waste tonnage is dedicated in support of the operations of the Regional Parks and Greenspaces Department, a renewal and replacement account for the Oregon Zoo, and for the support of OCC. 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.

Beginning July 1, 2006, Metro began collection of a new CET which provided $1,806,012 in revenue during the fiscal year ended June 30, 2007. This tax is imposed on new construction within the region, with limited exceptions, and is intended to raise $6.2 million over three years to fund concept planning in the new areas recently brought into the Urban Growth Boundary. Of the amount collected, $1,201,466 was provided to other local governments during the fiscal year and resulted in additional expenses in that amount over the prior year in general government operations expenses.

Most of the remaining revenue for Metro comes from federal, state and local grants or other contributions ($9,674,387 or 11.7%) that fund various programs such as regional transportation and growth management planning activities. These revenues were down 28.2% or $3,007,395 from the prior year due in large part to change in grant funded project work in the Planning Department and the decrease in revenues recognized for the TOD program as TriMet was unable to provided additional funding in fiscal year 2007 for budgetary reasons.

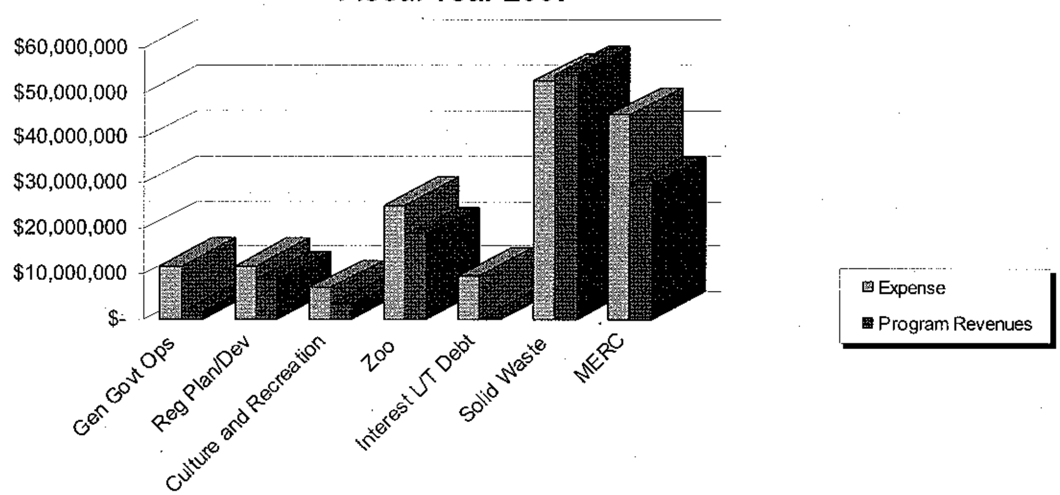
METRO

Management's Discussion and Analysis, Continued

The total cost of all programs and services increased 7.1% ($10,761,364) from the prior year to a total of $162,932,151. Business-type activities, consisting of Solid Waste and MERC programs, represent 60.1% of this total, compared to 61.4% in the prior year. General government operations reflected 7.2% of total costs, compared to 6.7% in the prior year. Regional planning and development, and culture and recreation (primarily regional parks programs), accounted for 7.1% and 4.2% of total costs, respectively. The remainder was primarily interest on long-term debt, which increased by $1,205,510 or 14.3% from the prior year and totaled $9,626,880 or 5.9% of total costs, up from 5.5% 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, 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.

Metro
Government-Wide Revenues and Expenses
Fiscal Year 2007



Governmental activities. Revenues for Metro's governmental activities increased $4,661,870 (6.0%) to a total of $82,480,620 with 34.8% of this revenue ($28,686,523) coming from property taxes. Property taxes funded interest expense totaling $9,626,880 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, up $2,629,298 or 114%, due to a more favorable interest rate environment and three months of additional cash for investment from the Natural Areas bond proceeds, the latter of which accounted for $1,301,230 of this increase.

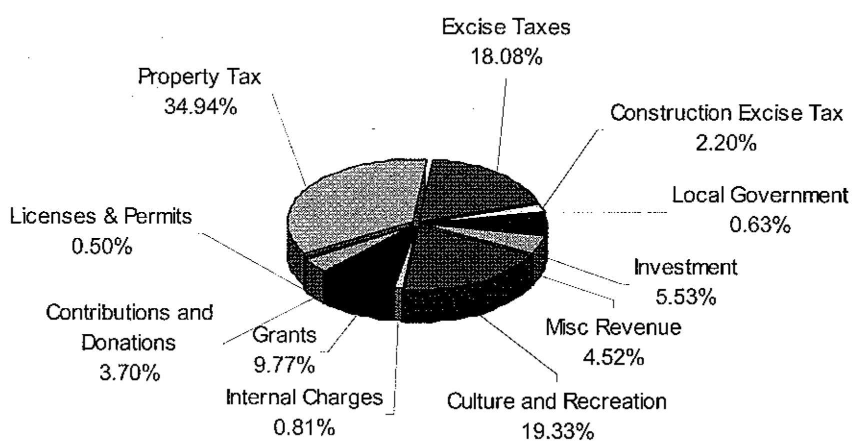
METRO

Management's Discussion and Analysis, Continued

Metro's general government operations accounted for 18.0% ($11,724,680) of Metro's total expenses for governmental activities, which was an increase of $1,596,447 over that reported in the prior year. Reported expenses increased primarily due to the first year of payments to other governments of CET funding for their concept planning work, totaling $1,201,466. General government operations rely significantly on general revenues, primarily excise taxes and transfers, to offset its net expense of $10,238,054.

Metro's regional planning and development activities had total costs of $11,633,709 for the fiscal year ending June 30, 2007, up $1,052,854 (10.0%) from the prior year. Revenues that fund these activities are primarily from operating grants and contributions ($7,656,031), which decreased 28.2% or $3,007,395 from the prior year, again, due primarily to the effects on revenue for TOD funding received from TriMet noted earlier. 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. In addition to the effects on revenue recognition for TOD funding, both the Portland Streetcar and Willamette Shoreline projects ended in the prior year. Additional revenues were received for work on the Earmark funded Steetcar project due to new funding availability, as well as increased work on the Regional Travel Options over the prior year and a new grant for the Milwaukie Light Rail Transit project. The net expense of $2,953,066 (an increase of $4,583,241) is covered by general revenues, such as excise taxes. The total amount expended for program purchases of TOD assets held for resale in the current fiscal year totaled $2,771,316, bringing the amount of property assets held for resale to $8,518,324 (consisting of eight properties) at June 30, 2007.

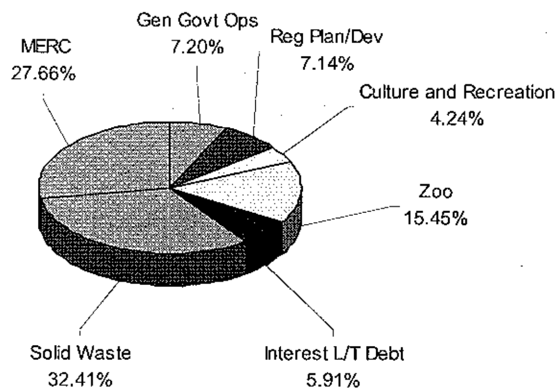
Metro
Governmental Activities
Sources of Revenue, Fiscal Year 2007



Culture and recreation activities, which includes operation of Metro's regional parks and management of open spaces, accounted for total expenses of $6,906,903, up $391,210 or 6.0% from the prior year. This increase is primarily attributable to reclassification of expenses related to Rehabilitation and Enhancement programs reported in regional planning and development in the prior year. Program revenues from charges for services (e.g., admission fees, rentals, etc.) totaled $2,519,340, down 1.9% or $49,078 from the prior year. Additional support was provided from operating grants and contributions in the amount of $434,659, a decrease of $149,041 or 25.5% from the prior year. The decrease in this later category was due to a number of grant funded projects on Gales Creek and Multnomah Channel being delayed to fiscal year 2008. The remaining net expense of this function, $3,952,904, was funded from general revenues, including local government shared revenues (e.g., marine fuel taxes from the State of Oregon) of $487,736, excise taxes and interest.

Operations of the Oregon Zoo reflected program revenues of $18,534,425 an increase of $1,602,554 or 9.5% from the prior year, with a $287,710 decrease reflected in operating grants and contributions as in the prior year the zoo had received a one-time grant for storm water management for the zoo parking lot. An increase of $608,399 in capital grants was experienced during fiscal year 2007 due primarily to capital grants received from OZF for the Predators of the Serengeti exhibit. Charges for services revenues (e.g., admission fees, food and retail sales) accounted for 84.7% of program revenues, which increased $1,281,865 or 8.7% due to the highest attendance year in the zoo's history (up 10.5% over the prior year) and higher revenues from spending by zoo visitors. Contributing to the zoo's record attendance was the opening of the babirusa pigs and completion of the Cascade Canyon exhibit. Total expenses for Zoo operations totaled $25,165,745, an increase of $2,006,060 or 8.7% from the prior year.

Metro
Function/Program Expenses
Fiscal Year 2007



Expenses were higher for costs associated with the higher attendance and sales activities, certain deferred maintenance projects that were undertaken during the year, higher utility costs (up $197,368)

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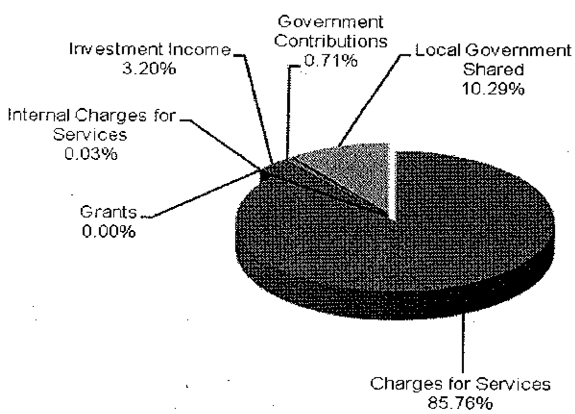
Management's Discussion and Analysis, Continued

and $211,882 in expenses for contracted professional services related to zoo master planning for the Zoo Future Vision committee. The resulting net expense of $6,631,620 (an increase of $413,506 or 6.5% over the prior year) is financed from general revenues, such as property taxes and investment earnings.

Business-type activities. Revenues of Metro's business-type activities (Solid Waste and MERC operations) totaled $93,840,802, up 2.0% ($1,814,330). Total expenses increased 4.8%, or $4,509,283, to a total of $97,874,234. As a result, operations of business-type activities reflected a decrease in net assets of $639,022 for the fiscal year ended June 30, 2007.

Solid waste tonnage brought to Metro facilities was up slightly (3.7%). The increase in tonnage was offset by a decrease in rates charged (tonnage charge was $46.20 per ton, compared to $46.80 per ton in the prior year) resulting in an overall increase of $810,630 in disposal fee revenues. In fiscal year 2007, the Metro Council adopted a split transaction fee based upon two customer classes: users of staffed scalehouses and users of the automated scale system, with fees of $8.50 and $3.00 per transaction, respectively. The growth of 3.3% in the number of transactions was offset by an expected shift in fees received from these customer classes and resulted in an overall reduction of $69,348. This decrease was in addition to a decrease in revenue generated from the Regional System Fee, which declined $822,686 as regional disposal tons increased about 4.4% from the prior year, while the fee was lowered from $14.54 per ton to $13.57 per ton. Compost bin sales and latex paint facility sales were up $57,000 and $54,000, respectively. Expenses were up $2,239,952, or 4.4%, due to higher costs of handling the increased waste tonnage at Metro transfer stations, higher transport and disposal fees, and higher expenses in Waste Reduction and Outreach programs. Net revenue for the Solid Waste activity was $1,306,030 for the fiscal year, down $2,010,865 from the prior year.

Metro
Business-Type Activities
Sources of Revenue, Fiscal Year 2007



MERC operates the Metro-owned OCC and Portland Exposition Center (Expo). In addition, under terms of an intergovernmental agreement with the City of Portland, MERC operates the city-owned Portland Center for the Performing Arts (PCPA). Net assets for MERC totaled $190,159,258, with 90.6% of this amount invested in capital assets, net of related debt. Unrestricted net assets total $17,887,043 at June 30, 2007.

Net assets decreased $3,281,898 during the fiscal year, or 1.7%. Unrestricted net assets increased $3,706,220 from the prior year. Program revenue includes charges for services of $29,064,019 and operating grants and contributions of $689,082. Charges for services revenue rose $2,767,703 or 10.5% from the prior year. This revenue growth is due primarily to a successful year for the OCC which reflected increased operating revenues totaling $6,789,473, up $518,593 or 8.5% as well as increases in food and beverage sales which were up $1,885,399 or 26.1%. Two large events in June 2007 for Tektronix and the Unitarian Universalists contributed to these increases.

Total expenses for MERC were $45,069,117, up $2,269,331, or 5.3%. These increased expenses were primarily attributable to costs directly associated with the increase in operating revenues, such as food and beverage costs, which at OCC were up $1,174,206 over the prior year. Payroll and fringe benefit costs increased $759,368 or 5.5%, and contributions to other governments (primarily for capital improvements to PCPA which is owned by the City of Portland) declined $1,094,936 or 73.5%.

The resulting net expense of MERC operations was $15,316,016 for the fiscal year ended June 30, 2007, compared to $15,586,289 in the prior year, an improvement of $270,273 or 1.7%. General revenues used to support this net expense include local government shared revenues (transient lodging taxes) and investment income of $9,976,554 and $3,104,993, 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.

The beginning fund balance of the General Fund increased by a prior period adjustment of $7,004,744 which was the result of two TOD related balances - the removal of a $450,000 loan payable that is not reportable on the modified accrual basis of accounting and, upon review of a TOD intergovernmental agreement with TriMet, the determination that unearned revenue reported in the prior year totaling $6,554,744 should have been recognized as earned during the prior fiscal year. Fund balance grew to $43,082,401 at June 30, 2007. Metro completed the fiscal year with its governmental funds reporting *combined* fund balances of $192,490,979, with the primary increase over the prior year reflected in the new Natural Areas Capital Project Fund that reflected a fund balance of $122,299,467 at June 30, 2007.

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 2007, the Federal Transit Administration (FTA) Willamette Shoreline Alternatives Analysis (now known as the Lake Oswego to Portland Alternatives Analysis) work continued as well as work on the Portland Streetcar, other Earmark-funded projects, and the Regional Travel Options and the Milwaukie Light Rail projects. Additional work was performed on the New Look project. As a result of these work efforts, operating expenses were up $760,100 due to an increase in personal services costs of $661,350 and an increase of $723,666 in contracted professional services, which were offset by a decrease of $773,878 in TOD program purchases due to a deferral of receipt of $2 million in TOD funds from TriMet due to TriMet's budget restrictions.

The General Fund's Regional Parks and Greenspaces Department incurred expenditures of $5,299,519 during the fiscal year ending June 30, 2007. This was $454,268 lower than the prior year, as personal services expenditures declined $129,189 or 3.5% due to a number of partial and full-year vacancies. Materials and services expenditures were down $289,879 or 14.7% from the prior year as the current year did not have the contracted professional services expenditures for the Lovejoy Restoration (almost $330,000) or Killin Wetland Restoration ($60,000) projects. Increases were experienced in repair and maintenance and property taxes paid on parks properties.

The General Fund's Oregon Zoo Department had its highest attendance in its 120-year history – with 1,508,564 people passing through the gates, up 10.5% from the prior year. This improvement in attendance, combined with increased visitor spending enabled the department to reflect positive growth in revenues as noted earlier. Facility operating expenditures totaled $22,889,967. Zoo administrative expenditures increased $324,877 from the prior year, to a total of $661,546 primarily due to contractual costs of $187,864 for zoo master planning and $60,393 of new payments to OZF for conservation programs funded by the zoo's conservation surcharge on admission fees. Construction maintenance division expenditures were up $503,566 or 12.3%, to a total of $4,591,571, with utilities costs up $183,926 or 11.2% and the zoo addressed deferred maintenance projects, up $280,483 or 39.8%. Guest services expenditures increased in relation to the growth in revenues, up $236,960 or 2.6%, to a total of $9,466,121. Of this amount, payments to Aramark for retail operations increased $227,658 or 19.2% over the prior year, whereas retail sales revenues rose $192,736 or 11.1%.

In summary, the General Fund generated an increase of $3,113,931 in fund balance from its operations, to a total of $43,082,401 at June 30, 2007. Of this amount, $8,518,324 is reserved for assets held for resale in the TOD program. Unreserved fund balance of $34,564,077 represents 64.9% of the expenditures incurred during the fiscal year.

The Rehabilitation and Enhancement Fund received an additional $396,216 transferred from the Solid Waste Fund for fees collected and earned $106,013 in investment income. During the year, Metro provided funding to the City of Forest Grove ($81,211) and City of Oregon City ($144,975) in accordance with intergovernmental agreements for projects in their jurisdictions. Metro expended an additional $58,291 in North Portland and $120,409 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 $2,021,856 at June 30, 2007, up $67,329 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 $18,783,637, up $332,359 over the prior year. Required interest payments on the bonds totaled $6,471,656, which was $214,668 lower than the prior year reflecting the reduction in outstanding principal. An additional $11,563,945 was expended on principal payments, leaving $12,082,430 in fund balance reserved for debt service at fiscal year end.

The Open Spaces Fund expended an additional $1,661,145 on acquisitions as it acquired approximately 12 acres from willing sellers in two different target areas and expended $121,689 to stabilize properties acquired. At June 30, 2007, $400,389 remains in fund balance, with management estimating that this amount will be expended in the next fiscal year.

The Metro Capital Fund is used for capital accounts for the zoo, parks and general support functions. The fund received $1,252,310 in contributions and donations for zoo purposes as part of the total of $1,534,850 in total contributions and donations for the year. Of the $2,525,304 in total expenditures, $1,630,337 was expended for zoo capital projects and $562,807 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 $8,473,161.

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 $66,622,634 at year-end, up 4.2% or $2,655,547. Of this amount, $27,021,607 is unrestricted, up 2.8%, and represents 52.6% of annual operating expenses. Additional net assets are restricted for renewal and replacement ($7,269,712), landfill closure ($4,101,487) and debt service ($1,317,289). 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 $2,512,960 or 5.1% from the prior year. Payroll and fringe benefits increased 2.0% ($174,548) due to higher fringe benefit costs and scheduled wage increases. Facility operating expenses for Metro's two solid waste transfer stations increased $582,464 or 6.7% and disposal fees paid for waste disposal at the Gilliam County landfill increased 3.0% ($375,238), with these increases attributable to the net effect of higher tonnage and cost of living increases. Waste transport costs increased 5.7% ($375,238), with higher fuel costs and increased tonnage accounting for this increase. Waste reduction grants, a non-operating expense, totaled $1,067,132 in the current fiscal year, down $182,648 or 14.6% from the prior year.

Net assets for MERC totaled $193,816,310 at June 30, 2007, up $375,154 or 0.2% over the prior year. Of this amount, $21,544,095 is unrestricted and represents 49.1% of annual operating expenses. Analysis of the fiscal year 2007 changes in net assets for MERC was noted earlier.

The Risk Management Fund, an internal service fund that is incorporated in governmental activities for government-wide reporting, had net assets of $1,101,136 at June 30, 2007. Total assets were $8,529,007, primarily in equity in Metro's internal cash and investment pool ($8,099,461). Significant liabilities included the actuarially determined accrued self-insurance claims ($1,046,248, up $102,488 from the prior year), an environmental impairment liability ($5,225,000, which is unchanged from the prior year) and an increase in the liability for amounts collected by the fund and unearned on health benefit related items, which totaled $392,500 at June 30, 2007 (reflected in an unearned revenue liability of $258,672 and a $133,828 portion of payroll liabilities).

GENERAL FUND BUDGETARY HIGHLIGHTS

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

Of the fourteen total budget amendments made during the fiscal year, ten budget amendments were applicable to the General Fund, which resulted in an addition of $735,280 to appropriations between the original and amended budget. The most significant were three amendments related to the sale of Natural Areas bonds. Two significant amendments provided for a total of $8.1 million in temporary interim appropriation authority to meet the possible obligations related to the bonds during the time period between approval of the bonds in November and the sale of the bonds in April 2007. Once the bonds were sold, expenditures incurred were reallocated to the Natural Areas Fund and the temporary interim appropriation authority was reversed with the third significant amendment.

Another amendment, Ordinance 07-1156, authorized $500,000 of additional expenditure authority for operating expenses of the zoo due to the increased attendance noted earlier. Other less significant amendments included: additional expenditure authority for the Council Office of $17,500 for Metro's Diversity Action Plan, assisted by a reduction in spending authority of $5,000 for other sponsorship expenditures (Ordinance 06-1126); an additional $200,150 in capital outlay and $21,500 in operating expenditure authority in the Finance and Administrative Services department for reconfiguration of office space for movement of Human Resources, Office of the Metro Auditor, Procurement and Natural Areas staff, as well as funding of the Council's portable sound system (Ordinance 06-1131); increases in the staff of the Office of Metro Attorney for Natural Areas bond work program (Ordinance 06-1133); additional appropriation authority of $108,394 for a zoo animal transport vehicle funded by donations from OZF (Ordinance 07-1142); releasing restrictions on spending authority as a part of the transition of incoming elected officials in the Metro Auditor ($237,175) and Council ($1,500), (Ordinance 06-1132); and additional expenditure authority of $20,000 for the Regional Parks and Greenspaces Department to conduct public opinion research for a regional parks summit that was held in June 2007 (Ordinance 07-1145).

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-departmental expenditures (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, 2007 and many of departments expended 90.0% or more of their appropriation.

The departments which spent under 90.0% of their appropriations included the Metro Auditor (76.8%), Regional Parks and Greenspaces (74.8%), Planning (55.4%), Office of Metro Attorney (87.9%) and Finance and Administrative Services (88.4%). Planning had several large projects that either had a very late start in fiscal year 2007 or were deferred until fiscal year 2008, such as $895,000 for Streetcar Methods, $667,000 for Next Corridor, $248,000 for Regional Transportation Plan Finance and additional TOD projects.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Metro's investment in capital assets for its governmental and business type activities amounts to $451,810,368 (net of accumulated depreciation) as of June 30, 2007. This investment in capital assets includes land, buildings and exhibits, improvements, and various types of equipment. The total increase (including additions and deductions) in Metro's investment in capital assets for the current fiscal year grew $2,209,758 or 0.5%, net of accumulated depreciation. Metro reflects an increase of $9,806,668 or 4.4% in capital assets attributable to governmental activities and a decrease of $7,596,911 ($1,698,294 in additional capital assets, less a $10,446,323 increase in accumulated depreciation), or 3.4%, in business-type activity capital assets.

Metro's Capital Assets

(Net of accumulated depreciation)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006	2007	2006 *(as restated)*	2007	2006 *(as restated)*
Land	$ 154,446,228	$ 143,979,130	19,329,786	19,329,786	173,776,014	163,308,916
Buildings and Exhibits	67,524,460	69,237,330	191,179,939	200,157,072	258,704,399	269,394,402
Improvements	7,510,090	7,864,949	3,440,051	3,524,349	10,950,141	11,389,298
Equipment	1,542,967	1,283,187	2,799,995	2,324,453	4,342,962	3,607,640
Office furniture/equip	588,838	795,559	689,657	850,622	1,278,495	1,646,181
Railroad equip/facilities	406,340	246,540	-	-	406,340	246,540
Leasehold Improvements	-	-	6,459	7,634	6,459	7,634
Construction in Progress	1,194,440	-	1,151,118	-	2,345,558	
Total	$ 233,213,363	223,406,695	218,597,005	226,193,916	451,810,368	449,600,611

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

- Acquisition of approximately 12 acres of open spaces property from willing sellers in two different target areas, involving three separate land transactions during the fiscal year. This brought the total acquired acreage to 8,185 (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 $1,794,860 and is reflected in governmental-activities capital assets.

- Acquisition of approximately 304 acres from willing sellers in six different target areas and seven separate land transactions from the proceeds of the Natural Areas general obligation bonds. The total capitalized cost for the property acquired in the current fiscal year under this program was $8,987,674 and is also reflected in governmental activities capital assets.

- The Oregon Zoo completed several capital projects, the largest being the completion of the Great Northwest exhibit and its "Introduction to the Forest" component, which added $961,217 to governmental activities capital assets. The Zoo also installed a new ticketing system with a capitalized cost of $122,420.

- Regional Parks and Greenspaces capitalized additional construction of the Blue Lake Park water play structure ($42,547), Blue Lake Golf Course Design ($130,922), a donation of land from Multnomah County and other capital costs for Morrison Street property, and capital expenditures for the Cooper Mountain open spaces ($10,798).

- Solid Waste capitalized the rebuild on Metro Central Station's compactor #2 ($247,802) and the woodline conveyor ($460,846), as well as other smaller projects at its facilities.

- MERC's largest capitalized project in fiscal year 2007 was for the OCC's Audio Visual Head Room Equipment project, with capitalized costs of $1,007,414. Other *Leadership in Energy and Environmental Design* (LEED) improvements to OCC to support Green Building LEED certification added $114,294.

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 $314,397,026 (net of unamortized costs, discounts, deferred amounts on refunding and unamortized accretion). Of this amount, $252,287,497 comprises debt backed by the full faith and credit of Metro and the remainder ($62,109,529) 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 (bonds are reflected net of

METRO

Management's Discussion and Analysis, Continued

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	
	2007	2006	2007	2006 (as restated)	2007	2006 (as restated)
Gen. obligation bonds	$ 252,287,497	$ 133,778,271	-	-	252,287,497	133,778,271
Revenue bonds	42,697,278	43,649,331	19,412,251	21,492,551	62,109,529	65,141,882
Loans	1,072,239	507,151	154,191	164,470	1,226,430	671,621
Total	$ 296,057,014	177,934,753	19,566,442	21,657,021	315,623,456	199,591,774

Metro's total debt increased $116,0313,742 (58.1%) during the current fiscal year. The key factors in this increase were:

- On April 3, 2007, Metro issued $124,295,000 of 2007 Series Natural Areas General Obligation Bonds. The bonds bear an interest rate ranging from 4.0% to 5.0%. The Natural Areas bonds were issued by Metro under the authority granted by the voters in November 2006 for a total of $227.4 million in general obligation bonds to fund activities to acquire and preserve natural areas and stream frontages, maintain and improve water quality, and protect fish and wildlife habitat. The remaining portion of the bonds will be issued in approximately 2010.

- 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 $592,500 loan bears an interest rate of 6.5%, with annual interest-only payments in fiscal year 2008 and 2009. The loan will be paid in full on January 26, 2010.

Metro's newest General Obligation Bonds, Natural Areas, 2007 series are rated "AAA" and "Aaa" by Standard & Poor's and Moody's, respectively. Metro maintains an "AA+" rating from Standard & Poor's and an "Aa1" rating from Moody's for other general obligation debt. Metro's General Obligation Refunding Bonds, 2005 Series are rated "AAA" and "Aa1" by Standard & Poor's and Moody's, respectively. Metro's Limited Tax Pension Obligation Bonds, 2005 Series have an underlying rating of "A3" and the issue was insured to receive an "Aaa" rating from Moody's. 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 $18,178,724,753, which is significantly in excess of Metro's outstanding general obligation debt.

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 economy has experienced positive trends since the mid-1980s, with the strongest growth occurring during he early to mid-1990s. The exodus of Californians to the less populated and more affordable Portland area stimulated the local economy. Between 1990 and 2006 Oregon recorded the second highest increase in home prices in the nation, in large part because of continued in-migration. Substantial Pacific Rim investment in the Pacific Northwest also stimulated the economy of the Portland area.
The Portland area has one of the most diversified economies of any major metropolitan area on the West Coast. High-tech companies such as Tektronix, Inc., Intel Corporation, LSI Logic, and Sequent Computers are located in the area. In addition, several large sports-oriented companies such as Nike, Adidas, Jantzen, and Columbia Sportswear have headquarters in the Portland area.

As of this writing, markets are still recovering from two financial shocks. First, according to certain industry analysts, loose underwriting standards allowed loans to be made that, in retrospect, should never have been completed because of collateral of questionable value. Second, the Non-Farm Payroll report for August fell by 4,000 jobs, contrary to the previously predicted increase of 110,000 jobs. As a result of both these and other events, the Federal Reserve Board reduced the overnight Fed funds rate by 25 basis points on September 19, 2007, with a further decrease in the Fed funds rate expected by the end of calendar year 2007.

The Metro fiscal year 2008 budget continues a focus on controlling overhead costs and creating efficiencies in order to protect core public services and investments. The following paragraphs provide a summary of the significant initiatives planned and budgeted for in the coming fiscal year.

The November 2006 approval by citizens of the region to invest $227.4 million to acquire some of the most precious natural areas remaining in the region and preserve the region's legacy for clean water and thriving natural environment led to the initial issuance of the Natural Areas bonds described earlier in this analysis. These proceeds are the most significant reason for the increase in Metro's budget from $316 million in fiscal year 2007 to $465 million in fiscal year 2008 as Metro acquires additional natural areas in the coming year.

The coming fiscal year will provide for formalizing Metro's short term appropriated contingency, setting aside an unappropriated stabilization reserve to safeguard against any significant economic disruption, and catch up on renewal and replacement reserves for its governmental activities as noted earlier in the letter of transmittal.

The fiscal year 2008 budget calls for addressing the maintenance backlog at the Oregon Zoo, including funds for modernizing and updating the primate facility and committing $100,000 for the design and architectural drawings for a new veterinary hospital. In addition, Metro's regional planning efforts will focus on *Making the Greatest Places* and develop tools and resources to create more vibrant town centers, transit station areas, corridors, and employment centers. This work includes aligning the region's transportation plan and project selection to support shared community and regional goals, addressing infrastructure needs, and using public investments to foster private sector investment.

In fiscal year 2008, the Metro Council will evaluate and negotiate a new long-term contract for transport of waste to the Columbia Ridge Landfill in Gilliam County. The contract will be worth approximately $150 million over ten years and provides opportunities for a regional freight system. A competitive procurement process will be undertaken to minimize cost and risk, as well as maximizing sustainability and operating efficiencies.

Metro will also be considering the feasibility of a convention center headquarters hotel and the fiscal year 2008 budget includes funding to perform the due diligence required before any decision can be made.

The fiscal year 2008 budget includes an excise tax rate of 7.5% on all non-solid waste generated revenues and a flat fee that will decrease from $8.35 in fiscal year 2007 to $8.23 per ton in fiscal year 2008 on all solid waste tonnage, including the additional $3.22 (up from $3.14 in the prior year) 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 $14.7 million from all sources during fiscal year 2008. Metro expects to collect 94% of property taxes levied and approximately $282,000 in delinquent taxes, consistent with historical experience.

As noted earlier, the Metro Council established a Construction Excise Tax (CET), effective July 1, 2006 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 2008.

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 2008. Annual attendance and admission rates determine the per capita estimate used to budget admissions revenue. The fiscal year 2008 budget assumes attendance of 1.4 million visitors at the Oregon Zoo, slightly below that experienced in fiscal year 2007. Projections for food, beverage and catering sales revenue is based upon per capita spending of $2.48 multiplied by the anticipated attendance. Using these and other factors, Metro estimates enterprise revenues brought into the General Fund from zoo operations at $15,220,206 for fiscal year 2008, or 0.33% higher than budgeted in the prior year.

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 2008 budget includes a scheduled increase in the rate of $0.89 per ton in the Metro tip fee and a $0.51 increase in the regional system fee, both effective September 1, 2007. The transaction fee will remain 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 0.83% with these changes in rates and a predicted 5.9% decrease in tonnage.

For fiscal year 2008, MERC has budgeted operating revenues of $27.4 million with a 5.8% increase in general operating revenues and 3.6% increase in food and beverage revenues. Rental rates are increased by 10% for OCC as of July 2007, up 3% for Expo and an increase of $0.25 per ticket for resident tenant user fees at the PCPA.

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.

METRO

Statement of Net Assets

June 30, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Oregon Zoo Foundation
Assets				
Equity in internal cash and investment pool	$ 55,978,475	47,163,306	103,141,781	1,750,668
Investments	-	-	-	3,340,945
Receivables (net of allowance for uncollectibles):				
Property taxes	1,140,509	-	1,140,509	-
Trade	1,653,370	5,238,117	6,891,487	423,029
Other	1,049,511	5,766,905	6,816,416	339,330
Interest	1,352,198	363,755	1,715,953	84,508
Grants	3,530,204	-	3,530,204	-
Internal balances	4,576,448	(4,576,448)	-	-
Inventories	104,370	309,291	413,661	-
Assets held for resale	8,518,324	-	8,518,324	-
Prepaid items	355,152	1,209,935	1,565,087	-
Loan receivable (net of discount)	402,179	-	402,179	-
Net pension asset	22,167,701	-	22,167,701	-
Other assets	97,599	1,454,594	1,552,193	54,595
Restricted assets:				
Equity in internal cash and investment pool	10,809,160	14,840,583	25,649,743	-
Investments	123,624,286	1,311,639	124,935,925	1,766,263
Capital assets:				
Land, improvements and construction in progress	155,640,668	20,480,904	176,121,572	-
Other capital assets (net of accumulated depreciation)	77,572,695	198,116,101	275,688,796	34,418
Total assets	$ 468,572,849	291,678,682	760,251,531	7,793,756
Liabilities				
Accounts payable	$ 3,902,767	5,445,633	9,348,400	278,596
Salaries, withholdings and payroll taxes payable	2,451,955	1,034,376	3,486,331	-
Contracts payable	66,822	21,508	88,330	1,202,972
Accrued interest payable	4,354,935	113,627	4,468,562	-
Accrued self-insurance claims	1,046,248	-	1,046,248	-

(Continued)

METRO

Statement of Net Assets

June 30, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Oregon Zoo Foundation
Liabilities, Continued				
Unearned revenue	$ 822,436	2,365,098	3,187,534	1,967,025
Deposits payable	143,033	2,177,407	2,320,440	6,646
Other liabilities	2,089	546,137	548,226	-
Payable from restricted assets:				
Contracts payable	-	252,852	252,852	61,661
Post-closure costs payable	-	3,214,100	3,214,100	-
Non-current liabilities:				
Due within one year:				
Bonds payable	23,731,585	1,780,000	25,511,585	-
Loans payable	479,739	10,279	490,018	-
Compensated absences	1,427,970	869,116	2,297,086	-
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)	271,253,190	17,632,251	288,885,441	-
Loans payable	592,500	143,912	736,412	-
Compensated absences	684,368	209,890	894,258	-
Total liabilities	$ 316,184,637	35,816,186	352,000,823	3,516,900
Net Assets				
Invested in capital assets, net of related debt	70,472,572	199,184,754	269,657,326	34,418
Restricted for:				
Renewal and replacement	-	7,269,712	7,269,712	-
Landfill closure	-	4,101,487	4,101,487	-
Debt service	8,813,935	1,317,289	10,131,224	-
Rehabilitation and enhancement	2,021,856	-	2,021,856	-
Capital projects	13,400,608	-	13,400,608	-
Perpetual care-non-expendable	222,452	-	222,452	-
Zoo purposes:				
Expendable	-	-	-	567,172
Non-expendable	-	-	-	170,001
Unrestricted	57,456,789	43,989,254	101,446,043	3,505,265
Total net assets	$ 152,388,212	255,862,496	408,250,708	4,276,856

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

METRO

Statement of Activities

For the year ended June 30, 2007

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary Government:				
Governmental activities:				
General government operations	$ 11,724,680	1,359,684	126,942	-
Regional planning and development	11,633,709	1,024,612	7,656,031	-
Culture and recreation	6,906,903	2,519,340	434,659	-
Zoo	25,165,745	15,699,595	1,456,755	1,378,075
Interest on long-term debt	9,626,880	-	-	-
Total governmental activities	65,057,917	20,603,231	9,674,387	1,378,075
Business-type activities:				
Solid Waste	52,805,117	54,108,083	3,064	-
MERC	45,069,117	29,064,019	689,082	-
Total business-type activities	97,874,234	83,172,102	692,146	-
Total primary government	$ 162,932,151	103,775,333	10,366,533	1,378,075
Component Unit:				
Oregon Zoo Foundation	$ 5,275,150	3,825,404	1,552,162	-

General revenues:
Property taxes
Excise taxes
Construction excise tax
Cemetery revenue surcharge
Unrestricted local government shared revenues
Unrestricted investment earnings
Transfers
Total general revenues and transfers
Change in net assets

Net assets-July 1, 2006, as previously stated
Prior period adjustments
Net assets-July 1, 2006, as restated

Net assets-June 30, 2007

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

Net (Expense) Revenue and Changes in Net Assets				
	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Oregon Zoo Foundation
	(10,238,054)	-	(10,238,054)	
	(2,953,066)	-	(2,953,066)	
	(3,952,904)	-	(3,952,904)	
	(6,631,320)	-	(6,631,320)	
	(9,626,880)	-	(9,626,880)	
	(33,402,224)	-	(33,402,224)	
	-	1,306,030	1,306,030	
	-	(15,316,016)	(15,316,016)	
	-	(14,009,986)	(14,009,986)	
	(33,402,224)	(14,009,986)	(47,412,210)	
				102,416
$	28,686,523	-	28,686,523	-
	14,834,721	-	14,834,721	-
	1,806,012	-	1,806,012	-
	33,000	-	33,000	-
	519,463	9,976,554	10,496,017	-
	4,945,208	3,104,993	8,050,201	427,609
	(289,417)	289,417	-	-
	50,535,510	13,370,964	63,906,474	427,609
	17,133,286	(639,022)	16,494,264	530,025
	128,700,182	63,060,362	191,760,544	3,746,831
	6,554,744	193,441,156	199,995,900	-
	135,254,926	256,501,518	391,756,444	3,746,831
$	152,388,212	255,862,496	408,250,708	4,276,856

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, construction excise tax, 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 source of revenue is investment income.

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 resources are property taxes and 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.

Natural Areas Fund

This fund was established to account for proceeds of voter-approved general obligation bonds to fund activities to acquire and preserve natural areas and stream frontages, maintain and improve water quality, and protect fish and wildlife habitat. The principal resources are bond proceeds and 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, 2007

		Special Revenue	
	General	Smith and Bybee Lakes	Rehabilitation and Enhancement
Assets			
Equity in internal cash and investment pool	$ 32,995,103	3,879,620	2,091,823
Investments	-	-	-
Receivables:			
Property taxes	389,190	-	-
Trade	1,636,046	-	-
Other	1,049,511	-	-
Interest	256,963	29,283	15,366
Grants	3,511,372	-	-
Inventories	104,370	-	-
Assets held for resale	8,518,324	-	-
Prepaid items	355,152	-	-
Other assets	97,249	-	-
Restricted assets:			
Equity in internal cash and investment pool	1,456	-	-
Total assets	$ 48,914,736	3,908,903	2,107,189
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	$ 3,132,474	80	85,333
Salaries, withholdings and payroll taxes payable	1,663,068	-	-
Contracts payable	-	-	-
Deferred revenue	327,907	-	-
Unearned revenue	563,764	-	-
Deposits payable	143,033	-	-
Other liabilities	2,089	-	-
Total liabilities	5,832,335	80	85,333
Fund balances:			
Reserved for:			
Assets held for resale	8,518,324	-	-
Debt service	-	-	-
Unreserved	34,564,077	3,908,823	2,021,856
Total fund balances	43,082,401	3,908,823	2,021,856
Total liabilities and fund balances	$ 48,914,736	3,908,903	2,107,189

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 are not available to pay for current-period expenditures and therefore are deferred in the funds.

Deferrred revenue reported in the funds is eliminated (recognized).

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	Total
Debt Service	Open Spaces	Natural Areas	Metro Capital	Cemetery Perpetual Care	Governmental Funds
2,302,274	399,205	7,751,786	8,691,701	220,767	58,332,279
9,532,035	-	114,092,251	-	-	123,624,286
751,319	-	-	-	-	1,140,509
-	-	-	-	50	1,636,096
-	-	-	-	-	1,049,511
129,588	2,871	795,228	63,431	1,635	1,294,365
-	-	-	18,832	-	3,530,204
-	-	-	-	-	104,370
-	-	-	-	-	8,518,324
-	-	-	-	-	355,152
-	-	350	-	-	97,599
-	-	-	-	-	1,456
12,715,216	402,076	122,639,615	8,773,964	222,452	199,684,151
-	879	302,986	232,751	-	3,754,503
-	808	34,442	3,950	-	1,702,268
-	-	2,720	64,102	-	66,822
632,786	-	-	-	-	960,693
-	-	-	-	-	563,764
-	-	-	-	-	143,033
-	-	-	-	-	2,089
632,786	1,687	340,148	300,803	-	7,193,172
-	-	-	-	-	8,518,324
12,082,430	-	-	-	-	12,082,430
-	400,389	122,299,467	8,473,161	222,452	171,890,225
12,082,430	400,389	122,299,467	8,473,161	222,452	192,490,979
12,715,216	402,076	122,639,615	8,773,964	222,452	
					233,213,363
					22,569,880
					960,693
					5,677,584
					(302,524,287)
					$ 152,388,212

METRO

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

For the year ended June 30, 2007

	General	Special Revenue: Smith and Bybee Lakes	Special Revenue: Rehabilitation and Enhancement
Revenues:			
Property taxes	$ 9,885,888	-	-
Excise taxes	14,834,721	-	-
Construction excise tax	1,806,012	-	-
Cemetery revenue surcharge	-	-	-
Local government shared revenues	519,463	-	-
Investment income	1,785,310	202,838	106,013
Government fees	441,531	-	-
Culture and recreation fees	15,860,633	-	-
Other fees	3,008,317	1,041	-
Internal charges for services	661,007	-	-
Licenses and permits	409,332	-	-
Miscellaneous revenue	211,369	-	-
Grants	7,997,004	-	-
Government contributions	60,000	-	-
Contributions and donations	1,316,011	-	-
Capital contributions and donations	125,765	-	-
Total revenues	58,922,363	203,879	106,013
Expenditures:			
Current:			
General government operations	9,634,211	-	-
Regional planning and development	11,896,946	-	-
Culture and recreation	5,299,519	20,000	434,900
Zoo	22,889,967	-	-
Debt service:			
Principal	1,140,000	-	-
Interest	1,997,376	-	-
Capital outlay	395,763	-	-
Total expenditures	53,253,782	20,000	434,900
Revenues over (under) expenditures	5,668,581	183,879	(328,887)
Other financing sources (uses):			
Loan proceeds	592,500	-	-
Bonds issued	-	-	-
Premium on bonds issued	-	-	-
Transfers in	537,599	-	396,216
Transfers out	(3,684,749)	-	-
Total other financing sources (uses)	(2,554,650)	-	396,216
Net change in fund balances	3,113,931	183,879	67,329
Fund balances - July 1, 2006, as previously stated	32,963,726	3,724,944	1,954,527
Prior period adjustment	7,004,744	-	-
Fund balances - July 1, 2006, as restated	39,968,470	3,724,944	1,954,527
Fund balances - June 30, 2007	$ 43,082,401	3,908,823	2,021,856

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

	Capital Projects			Permanent	Total
Debt Service	Open Spaces	Natural Areas	Metro Capital	Cemetery Perpetual Care	Governmental Funds
18,783,637	-	-	-	-	28,669,525
-	-	-	-	-	14,834,721
-	-	-	-	-	1,806,012
-	-	-	-	33,000	33,000
-	-	-	-	-	519,463
653,989	69,003	1,301,230	407,637	10,509	4,536,529
-	-	-	-	-	441,531
-	-	-	-	-	15,860,633
-	3,476	-	-	-	3,012,834
-	-	-	-	-	661,007
-	-	-	-	-	409,332
-	-	10,000	-	-	221,369
-	-	-	18,832	-	8,015,836
-	-	-	282,540	-	342,540
-	-	-	-	-	1,316,011
-	-	-	1,252,310	-	1,378,075
19,437,626	72,479	1,311,230	1,961,319	43,509	82,058,418
-	-	-	-	-	9,634,211
-	-	-	-	-	11,896,946
-	121,689	1,579,136	282,059	-	7,737,303
-	-	-	84,294	-	22,974,261
11,563,945	-	-	-	-	12,703,945
6,471,656	-	-	-	-	8,469,032
-	1,661,145	8,104,426	2,158,951	-	12,320,285
18,035,601	1,782,834	9,683,562	2,525,304	-	85,735,983
1,402,025	(1,710,355)	(8,372,332)	(563,985)	43,509	(3,677,565)
-	-	-	-	-	592,500
-	-	124,295,000	-	-	124,295,000
-	-	6,383,369	-	-	6,383,369
-	-	-	1,999,927	-	2,933,742
-	(1,794)	(6,570)	(1,914)	-	(3,695,027)
-	(1,794)	130,671,799	1,998,013	-	130,509,584
1,402,025	(1,712,149)	122,299,467	1,434,028	43,509	126,832,019
10,680,405	2,112,538	-	7,039,133	178,943	58,654,216
-	-	-	-	-	7,004,744
10,680,405	2,112,538	-	7,039,133	178,943	65,658,960
12,082,430	400,389	122,299,467	8,473,161	222,452	192,490,979

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, 2007

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

Net change in fund balances-total governmental funds		$ 126,832,019
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	$ 13,703,602	
Less current year depreciation	(3,896,934)	9,806,668
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	16,999	
Amortization of discount on loan receivable	18,105	35,104
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.		815,291
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	(124,295,000)	
Principal payments on bonds	12,703,945	
Deferred amount on issuance-premium and costs	(6,087,480)	
Settlement of arbitrage payable liability	17,724	
Loan proceeds	(592,500)	
Principal payments on loans	27,412	(118,225,899)
The issuance of loans uses current financial resources of governmental funds, but creates long-term assets in the statement of net assets.		
Issuance of loans (net of discount)		320,254
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	(217,539)	
Amortization of deferred amounts on refunding	121,362	
Amortization of net pension asset	(1,059,810)	
Accrued interest on long-term debt	(1,294,164)	(2,450,151)
Change in net assets of governmental activities		$ 17,133,286

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

Fund Financial Statements

Proprietary Funds

Enterprise Funds

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.

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.

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, 2007

	Business-type Activities-Enterprise Funds			Governmental Activities-Internal Service Fund
Assets	Solid Waste	MERC	Total	Risk Management
Current assets:				
Equity in internal cash and investment pool	$ 24,019,277	23,144,029	47,163,306	8,099,461
Receivables:				
Trade	4,416,564	821,553	5,238,117	17,274
Other	1,175,087	4,591,818	5,766,905	-
Interest	287,950	75,805	363,755	57,833
Inventories	309,291	-	309,291	-
Prepaid items	1,184,205	25,730	1,209,935	-
Other assets	27,300	1,427,294	1,454,594	-
Total current assets	31,419,674	30,086,229	61,505,903	8,174,568
Noncurrent assets:				
Restricted equity in internal cash and investment pool	14,839,892	691	14,840,583	354,439
Restricted investments	1,311,639	-	1,311,639	-
Capital assets, net	32,387,633	186,209,372	218,597,005	-
Total noncurrent assets	48,539,164	186,210,063	234,749,227	354,439
Total assets	79,958,838	216,296,292	296,255,130	8,529,007
Liabilities				
Current liabilities:				
Accounts payable	3,446,469	1,999,164	5,445,633	148,264
Salaries, withholdings and payroll taxes payable	395,116	639,260	1,034,376	749,687
Contracts payable	21,508	-	21,508	-
Accrued interest payable	56,031	57,596	113,627	-
Accrued self-insurance claims	-	-	-	1,046,248
Unearned revenue	-	2,365,098	2,365,098	258,672
Deposits payable	-	2,177,407	2,177,407	-
Other liabilities	191	545,946	546,137	-
Bonds payable-current	1,225,000	555,000	1,780,000	-
Loans payable-current	-	10,279	10,279	-
Compensated absences-current	422,692	446,424	869,116	-
Total current liabilities	5,567,007	8,796,174	14,363,181	2,202,871

(Continued)

METRO

Statement of Net Assets, Continued
Proprietary Funds

June 30, 2007

Liabilities, continued	Business-type Activities-Enterprise Funds: Solid Waste	Business-type Activities-Enterprise Funds: MERC	Total	Governmental Activities-Internal Service Fund: Risk Management
Noncurrent liabilities:				
Payable from restricted assets:				
Contracts payable	$ 252,852	-	252,852	-
Post-closure costs payable	3,214,100	-	3,214,100	-
Environmental impairment liability	-	-	-	5,225,000
Bonds payable (net of unamortized discount and deferred amount on refunding)	4,250,094	13,382,157	17,632,251	-
Loans payable	-	143,912	143,912	-
Compensated absences	52,151	157,739	209,890	-
Total non-current liabilities	7,769,197	13,683,808	21,453,005	5,225,000
Total liabilities	13,336,204	22,479,982	35,816,186	7,427,871
Net Assets				
Invested in capital assets, net of related debt	26,912,539	172,272,215	199,184,754	-
Restricted for:				
Renewal and replacement	7,269,712	-	7,269,712	-
Landfill closure	4,101,487	-	4,101,487	-
Debt service	1,317,289	-	1,317,289	-
Unrestricted	27,021,607	21,544,095	48,565,702	1,101,136
Total net assets	$ 66,622,634	193,816,310	260,438,944	1,101,136
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			(4,576,448)	
Net assets of business-type activities			$ 255,862,496	

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, 2007

	Business-type Activities- Enterprise Funds			Governmental Activities- Internal Service Fund
	Solid Waste	MERC	Total	Risk Management
Operating revenues:				
Charges for services	$ 54,078,068	29,064,019	83,142,087	51,480
Internal charges for services	30,015	-	30,015	7,189,419
Government contributions	-	689,082	689,082	-
Total operating revenues	54,108,083	29,753,101	83,861,184	7,240,899
Operating expenses:				
Payroll and fringe benefits	8,745,451	14,495,420	23,240,871	137,295
Depreciation and amortization	1,817,501	8,628,822	10,446,323	-
Administrative expenses	3,445,982	2,159,528	5,605,510	-
Facility operating expenses	9,356,632	6,482,994	15,839,626	-
Marketing expense	-	2,409,615	2,409,615	-
Concessions expense	-	9,630,534	9,630,534	-
Disposal fees	12,894,883	-	12,894,883	-
Waste transport costs	8,073,223	-	8,073,223	-
Special waste disposal fees	737,143	-	737,143	-
Recycling credits	419,555	-	419,555	-
Consulting services	2,176,455	-	2,176,455	-
Charges for services	498,218	68,594	566,812	-
Payments to other governments	545,698	-	545,698	-
Insurance expense	-	-	-	6,204,995
Claims expense	-	-	-	846,767
Actuarial claims expense	-	-	-	102,488
Other materials and services	2,654,145	-	2,654,145	104,592
Total operating expenses	51,364,886	43,875,507	95,240,393	7,396,137
Operating income (loss)	2,743,197	(14,122,406)	(11,379,209)	(155,238)
Non-operating revenues (expenses):				
Local government shared revenue	-	9,976,554	9,976,554	-
Investment income	2,074,614	1,030,379	3,104,993	390,574
Grants	3,064	-	3,064	51,381
Waste reduction grants	(1,067,132)	-	(1,067,132)	-
Contributions to other governments	-	(394,872)	(394,872)	-
Interest expense	(360,428)	(754,703)	(1,115,131)	-
Total non-operating revenues (expenses)	650,118	9,857,358	10,507,476	441,955
Income (loss) before transfers	3,393,315	(4,265,048)	(871,733)	286,717
Transfers in	-	1,324,462	1,324,462	475,000
Transfers out	(737,768)	(297,277)	(1,035,045)	(3,132)
Change in net assets	2,655,547	(3,237,863)	(582,316)	758,585
Total net assets - July 1, 2006, as previously stated	63,967,087	-		342,551
Prior period adjustment	-	197,054,173		-
Total net assets - July 1, 2006, as restated	63,967,087	197,054,173		342,551
Total net assets - June 30, 2007	$ 66,622,634	193,816,310		1,101,136
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			(56,706)	
Change in net assets of business-type activities			$ (639,022)	

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, 2007

	Business-type Activities-Enterprise Funds			Governmental Activities-Internal Service Fund
	Solid Waste	MERC	Total	Risk Management
Cash flows from operating activities:				
Receipts from customers	$ 54,418,390	29,570,298	83,988,688	6,120,090
Receipts from other governments	-	689,082	689,082	-
Receipts from interfund services provided	-	-	-	1,328,001
Other operating receipts	109,448	19,890	129,338	51,480
Payments to suppliers for goods and services	(36,079,278)	(18,845,696)	(54,924,974)	(5,878,748)
Payments for claims	-	-	-	(846,767)
Payments to other governments	(545,698)	-	(545,698)	-
Payments to employees for services	(8,709,266)	(14,360,989)	(23,070,255)	(136,660)
Payments for interfund services used	(3,445,982)	(2,228,122)	(5,674,104)	-
Net cash provided by (used in) operating activities	5,747,614	(5,155,537)	592,077	637,396
Cash flows from noncapital financing activities:				
Local government shared revenues	-	9,976,554	9,976,554	-
Grants received	25,175	-	25,175	34,107
Grants to others	(1,067,132)	-	(1,067,132)	-
Transfers from other funds	-	1,324,462	1,324,462	475,000
Transfers to other funds	(737,768)	(297,277)	(1,035,045)	(3,132)
Net cash provided by (used in) noncapital financing activities	(1,779,725)	11,003,739	9,224,014	505,975
Cash flows from capital and related financing activities:				
Principal payment on bonds	(2,235,000)	(130,000)	(2,365,000)	-
Interest payments	(113,013)	(731,413)	(844,426)	-
Acquisition and construction of capital assets	(1,091,843)	(2,152,441)	(3,244,284)	-
Principal payments on loans	-	(10,279)	(10,279)	-
Net cash used in capital and related financing activities	(3,439,856)	(3,024,133)	(6,463,989)	-
Cash flows from investing activities:				
Investment income	1,954,512	1,010,632	2,965,144	362,687
Proceeds from sale of investments	2,617,832	-	2,617,832	353,201
Purchase of investments	(2,682,793)	-	(2,682,793)	-
Net cash provided by investing activities	1,889,551	1,010,632	2,900,183	715,888
Net increase in cash including restricted amounts	2,417,584	3,834,701	6,252,285	1,859,259
Cash at beginning of year including restricted amounts	36,441,585	19,310,019	55,751,604	6,594,641
Cash at end of year including restricted amounts	$ 38,859,169	23,144,720	62,003,889	8,453,900
Equity in internal cash and investment pool	$ 24,019,277	23,144,029	47,163,306	8,099,461
Restricted equity in internal cash and investment pool	14,839,892	691	14,840,583	354,439
	$ 38,859,169	23,144,720	62,003,889	8,453,900

(Continued)

METRO

Statement of Cash Flows, Continued
Proprietary Funds

For the year ended June 30, 2007

	Business-type Activities-Enterprise Funds Solid Waste	Business-type Activities-Enterprise Funds MERC	Total	Governmental Activities-Internal Service Fund Risk Management
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	$ 2,743,197	(14,122,406)	(11,379,209)	(155,238)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	1,817,501	8,628,822	10,446,323	-
Change in assets and liabilities:				
Trade/other accounts receivable	419,756	(1,340,805)	(921,049)	-
Inventory	66,732	-	66,732	-
Other assets	526,388	(1,431,452)	(905,064)	-
Accounts payable	271,768	983,679	1,255,447	3,470
Salaries, withholdings and payroll taxes payable/compensated absences	36,185	134,431	170,616	428,004
Accrued self-insurance claims	-	-	-	102,488
Contracts payable	169,360	-	169,360	-
Unearned revenue	-	468,568	468,568	-
Deposits payable	-	1,398,406	1,398,406	-
Other liabilities	389	125,220	125,609	258,672
Post-closure costs payable	(303,662)	-	(303,662)	-
Total adjustments	3,004,417	8,966,869	11,971,286	792,634
Net cash provided by (used in) operating activities	$ 5,747,614	(5,155,537)	592,077	637,396
Noncash investing, capital, and financing activities:				
Investment income relating to the change in the fair value of investments	$ 106,267	29,095	135,362	20,836

Acquisiton and construction of capital assets includes $394,872 that became capital assets of the City of Portland under terms of an intergovernmental agreement.

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

METRO

Notes to the Financial Statements

For the Year Ended June 30, 2007

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 by a Council President and six Councilors. As required by GAAP, Metro's financial statements present Metro (the primary government) and its component unit -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. This discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from Metro. For materiality reasons, disclosures accompanying Metro's financial statements have generally been limited to those of the primary government.

Discretely Presented Component Unit

OZF - The legally separate 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.

MERC – In prior years, MERC had been reflected in Metro's financial statements as a component unit. In fiscal year 2007, Metro re-evaluated this position, determined that MERC is not legally separate from Metro as defined in GASB Statement 14, *The Financial Reporting Entity*, and reports the activities of MERC as an enterprise fund type of the reporting entity, Metro. While this change results in no effect on previous MERC-specific financial statement elements nor in reported amounts for activities on those previous MERC-specific financial statements, a prior period adjustment is necessary in the current year to present those balances in the proprietary fund statements, as well as in the business-type activities columns of the government-wide statements. Unless noted otherwise in these policies, the accounting policies of MERC 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 holds all of MERC's corporate powers, as MERC does not have the right to sue or be sued in its own name without recourse to Metro, nor the right to buy, sell, lease, or mortgage property in its own name.

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.

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 unit. 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 unit.

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, construction excise tax, 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 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. For consistency purposes and in the public interest, Metro chooses to report all of its funds as "major funds" under governmental financial reporting requirements.

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.

Natural Areas Fund – This fund was established to account for proceeds of voter-approved general obligation bonds to fund activities to acquire and preserve natural areas and stream frontages, maintain and improve water quality, and protect fish and wildlife habitat.

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 Funds - 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 funds are:

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.

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. 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.

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 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.

Private-sector standards of accounting and financial reporting 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. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. Metro has elected not to follow subsequent private-sector guidance.

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, MERC 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. For purposes of the statement of cash flows, cash is considered to be cash on hand, demand deposits, cash in restricted accounts and equity in the internal cash and investment pool. Metro pools virtually all funds for investment purposes. 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 2007 allocated indirect costs to grants at a rate of approximately 27% 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.

METRO

Notes to the Financial Statements, Continued

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, other long-term assets and long-term liabilities are either not reported or are deferred in the funds. The details of these differences are:

	Capital assets	Other long-term assets	Long-term liabilities
Capital assets	$ 280,701,946	-	-
Accumulated depreciation	(47,488,583)	-	-
Net pension asset	-	22,167,701	-
Loan receivable (net of discount)	-	402,179	-
Accrued interest payable	-	-	(4,354,935)
Bonds payable (net of unamortized premium and deferred amount on refunding)	-	-	(294,984,775)
Loans payable	-	-	(1,072,239)
Compensated absences	-	-	(2,112,338)
Net adjustment to fund balance-total governmental funds to arrive at net assets-governmental activities	$ 233,213,363	22,569,880	(302,524,287)

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

PRIOR PERIOD ADJUSTMENTS

Certain payments received in prior years from TriMet were recorded as unearned revenue. Upon further review of the contracts in fiscal year 2007, Metro determined that revenue should have been recognized instead. Accordingly, a prior period adjustment of $6,554,744 was made to increase net assets of governmental activities at July 1, 2006 as shown in the statement of activities. Additionally, a $450,000 long-term loan payable for the General Fund was incorrectly reported at June 30, 2006, resulting in a total prior period adjustment of $7,004,744 (increase in net assets) in the governmental funds. The effect on net income is an increase of $984,048 (governmental activities) and $1,434,048 (governmental funds) for fiscal year 2006.

In prior years, MERC had been reflected in Metro's financial statements as a component unit. In fiscal year 2007, Metro re-evaluated this position, determined that MERC is not legally separate from Metro as defined in GASB Statement 14, *The Financial Reporting Entity*, and reports the activities of MERC as an enterprise fund type of the reporting entity, Metro. A prior period adjustment of $193,441,156 is necessary in the current year to present the MERC net assets in the proprietary fund statements, as well as in the business-type activities columns of the government-wide statements, instead of in a component unit column (resulting in an increase in primary government net assets).

DETAILED NOTES ON ALL FUNDS

1. CASH AND INVESTMENTS

Oregon statutes require each depository institution to maintain on deposit (on balances above federal deposit insurance) securities valued at not less than 25% of the certificates of participation issued by its pool manager.

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. Equity in internal cash and investment pool on the Statement of Net Assets includes the internal pool reported below. The OZF component unit does not participate in the internal investment pool of Metro. As of June 30, 2007, Metro had the following investments and maturities:

METRO

Notes to the Financial Statements, Continued

		Held by			Investment Maturities (in months)		
Investment Type		Individual funds	Internal pool	Fair Value	Less than 3	3-17	18-59
Bankers' Acceptances	$	6,333,999	-	6,333,999	4,300,249	2,033,750	-
U.S. Government securities - USGSE		108,786,394	82,293,133	191,079,527	33,421,124	157,658,403	-
Commercial paper		3,979,998	7,958,349	11,938,347	11,938,347	-	-
State Treasurer's investment pool		5,835,534	7,644,749	13,480,283	13,480,283	-	-
Total	$	124,935,925	97,896,231	222,832,156	63,140,003	159,692,153	-

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.

Custodial Credit Risk - Metro monitors custodial credit risk on deposits (the risk that if a bank failed, Metro's deposits would not be returned) in accordance with Oregon statutes and Metro investment policy. Oregon statutes require each depository institution to maintain on deposit (on balances above federal deposit insurance) securities valued at not less than 25% of the certificates of participation issued by its pool manager, resulting in 75% of deposits not being collateralized. Metro monitors its depository institutions for indications that could potentially cause loss of Metro funds. At June 30, 2007, Metro had $15,062,541 that was not collateralized.

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. In addition, 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. At June 30, 2007 Metro was in compliance with all percentage restrictions. More than 5 percent of Metro's total investments are in securities by the following issuers:

			Fund Concentrations Exceeding Total Entity Concentration	
Issuer	Percentage of Total Investments (Total Entity Concentration)	Policy Allowed Maximum	Debt Service Fund	Natural Areas Fund
Federal Home Loan Bank (FHLB)	28.6%	40.0%	-	-
Federal Home Loan Mortgage Corporation (FHLMC)	20.7%	40.0%	45.9%	26.0%
Federal Farm Credit Bank (FFCB)	9.8%	40.0%	-	-
Federal National Mortgage Association (FNMA)	20.1%	40.0%	-	-
Commercial paper	4.9%	35.0%	-	-
Bankers' Acceptances	2.6%	100.0%	-	5.5%

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 at June 30 is:

Property Name	Address	Amount
CenterCal	NW Civic Drive & NW 15th, Gresham, OR	$1,185,000
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
		$8,518,324

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%	$555,000	$452,821	$102,179
2 years	1%	300,000	-	300,000
			Total	$402,179

The 50-year loan agreement calls for annual payments beginning March 15, 2028 and continuing through March 15, 2056. The 2-year loan agreement bears simple interest, and the outstanding principal balance and accrued interest are due and payable no later than July 5, 2008. Upon future agreement between the parties, the repayment period on the 2-year loan may be extended 18 months to January 5, 2010.

4. CAPITAL ASSETS

Capital asset balances and activity for fiscal year 2007 were as follows:

	Balance July 1, 2006	Increases	Decreases	Transfers	Balance June 30, 2007
Governmental activities:					
Capital assets, non-depreciable:					
Land	$ 143,979,130	10,467,098	-	-	154,446,228
Construction in progress	-	1,194,440	-	-	1,194,440
Total non-depreciable	143,979,130	11,661,538	-	-	155,640,668
Capital assets, depreciable:					
Buildings and exhibits	100,899,620	1,097,502	-	-	101,997,122
Improvements	11,525,150	306,487	-	-	11,831,637
Equipment	4,094,133	533,463	-	-	4,627,596
Office furniture/equipment	4,162,691	104,612	-	-	4,267,303
Railroad equipment/facilities	2,337,620	-	-	-	2,337,620
Total depreciable	123,019,214	2,042,064	-	-	125,061,278
Accumulated depreciation:					
Buildings and exhibits	(31,662,289)	(2,810,373)	-	-	(34,472,662)
Improvements	(3,660,201)	(632,571)	-	(28,775)	(4,321,547)
Equipment	(2,810,946)	(302,458)	-	28,775	(3,084,629)
Office furniture/equipment	(3,367,132)	(311,333)	-	-	(3,678,465)
Railroad equipment/facilities	(2,091,081)	(18,530)	178,331	-	(1,931,280)
Total accumulated depreciation	(43,591,649)	(4,075,265)	178,331	-	(47,488,583)
Total capital assets, depreciable, net	79,427,565	(2,033,201)	178,331	-	77,572,695
Governmental activities capital assets, net	$ 223,406,695	9,628,337	178,331	-	233,213,363

METRO

Notes to the Financial Statements, Continued

	Balance July 1, 2006 (as restated)	Increases	Decreases	Transfers	Balance June 30, 2007
Business-type activities:					
Capital assets, non-depreciable:					
Land	$ 19,329,786	-	-	-	19,329,786
Construction in progress	-	1,151,118	-	-	1,151,118
Total non-depreciable	19,329,786	1,151,118	-	-	20,480,904
Capital assets, depreciable:					
Buildings	276,523,045	592,894	-	-	277,115,939
Improvements	6,079,067	130,142	-	-	6,209,209
Equipment	6,396,528	970,218	-	-	7,366,746
Office furniture/equipment	5,251,912	5,040	-	-	5,256,952
Leasehold improvements	9,086,791	-	-	-	9,086,791
Total depreciable	303,337,343	1,698,294	-	-	305,035,637
Accumulated depreciation:					
Buildings	(76,365,973)	(9,570,027)	-	-	(85,936,000)
Improvements	(2,554,718)	(214,440)	-	-	(2,769,158)
Equipment	(4,072,075)	(494,676)	-	-	(4,566,751)
Office furniture/equipment	(4,401,290)	(166,005)	-	-	(4,567,295)
Leasehold improvements	(9,079,157)	(1,175)	-	-	(9,080,332)
Total accumulated depreciation	(96,473,213)	(10,446,323)	-	-	(106,919,536)
Total capital assets, depreciable, net	206,864,130	(8,748,029)	-	-	198,116,101
Business-type activities capital assets, net	$ 226,193,916	(7,596,911)	-	-	218,597,005

Due to the previously described change in reporting for MERC, $193,080,625 of capital assets (net) of MERC that were presented as component unit capital assets in fiscal year 2006 became capital assets (net) of business-type activities at July 1, 2006.

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, 2007.

Capital assets for MERC are those of Metro owned facilities. Capital assets used in operating the PCPA are not included in the statement of net assets of Metro 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.

METRO

Notes to the Financial Statements, Continued

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General government operations	$ 889,839
Regional planning and development	56,367
Culture and recreation	790,271
Zoo	2,160,457
Total depreciation expense - governmental activities	$ 3,896,934
Business-type activities:	
Solid Waste	$ 1,817,501
MERC	8,628,822
Total depreciation expense - business-type activities	$ 10,446,323

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, 2007 were:

	Deferred	Unearned
Delinquent property taxes-General Fund	$327,907	-
Delinquent property taxes-Debt Service Fund	632,786	-
Grant and contract drawdowns prior to meeting all eligibility requirements-General Fund	-	429,349
Advance ticket sales/misc.-General Fund	-	134,415
	$960,693	563,764

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), a cost-sharing multiple-employer defined benefit pension plan 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.

PERS is administered by the Oregon Public Employees Retirement Board (OPERB), which issues a publicly available financial report that includes financial statements and required 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. Metro participates in the PERS state and local government rate pool as created by the Legislature. 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 union employees are required to pay the 6% contribution in accordance with the collective bargaining agreements covering those employees. Metro's current required employer contribution rate, based on the 2005 valuation, is 7.76% of covered employees' salaries. Metro also charges an internal rate of 3.1% of payroll to departments to fund the repayment of pension obligation bonds issued in fiscal year 2006. It is Metro's policy to recognize pension expenditures or expenses as currently funded.

Annual Pension Cost/Pension Asset

For fiscal year 2007, Metro's annual pension cost was $4,120,627. This amount consisted of Metro's actual required contribution of $3,060,817, as well as $1,059,810 in amortization of pension assets. In addition, Metro paid $2,048,727 for the 6% employee contribution as described above. The pension asset is the result of issuance in prior years of limited tax pension obligation bonds to finance Metro's unfunded actuarial accrued liability. Metro's pension asset equaled $22,167,701 at June 30, 2007.

Metro's required employer contribution was determined as part of an actuarial valuation at December 31, 2005, the most recent valuation available, using the projected unit credit actuarial cost method. Significant actuarial assumptions used in the valuation include:

- Consumer price inflation of 2.75% 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 3.75% 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 9.0% in 2007 to 5.0% in 2013.

The actuarial value of assets are reported at fair market value and are determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is amortized as a level percentage of combined valuation payroll over a period of twenty-two years.

Three-year historical trend information:

Fiscal year ended June 30:	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2005	$2,764,971	100%	0
2006	4,110,699	100%	0
2007	4,120,627	100%	0

8. COMMITMENTS

Columbia Ridge Landfill

Metro has a waste disposal services contract expiring December 31, 2019 with the owner and operator of the Columbia Ridge Landfill in Arlington, Oregon for disposal of solid waste from the Metro region. For fiscal year 2007, the contract required a per ton unit price of $24.77 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. $1,184,205 of this payment is unamortized at June 30, 2007 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 for fiscal year 2007, the fixed amount is $1,859,174 per year based on 17,000 tons of waste received each month and a price of $8.66 per ton in excess of 17,000 tons per month. For Metro Central these figures for fiscal year 2007 are $2,079,130 per year for 18,000 tons per month and $9.14 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
2008	$10,092,168	7,199,627	3,235,095	3,819,602
2009	11,140,246	8,253,949	3,537,700	4,411,297
2010	11,463,718	4,313,073	2,749,004	3,392,569
2011	10,961,208	-	-	-
2012	11,363,870	-	-	-
Thereafter	100,411,842	-	-	-
Total	$155,433,052	19,766,649	9,521,799	11,623,468

Construction Projects

Metro is committed under a number of contracts for construction services. The amount of uncompleted contracts totals $1,109,011 at June 30, 2007.

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:	
2008	$134,214	2023-27	$671,070	2058-62	$ 671,070
2009	134,214	2028-32	671,070	2063-67	671,070
2010	134,214	2033-37	671,070	2068-72	671,070
2011	134,214	2038-42	671,070	2073-77	671,070
2012	134,214	2043-47	671,070	2078-82	671,070
2013-17	671,070	2048-52	671,070	2083-84	178,952
2018-22	671,070	2053-57	671,070		
				Total	$10,245,002

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 5.2% to 5.5%.

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

Fiscal year ending June 30:	Principal	Interest
2008	$271,585	228,415
2009	254,775	245,225
2010	238,540	261,460
2011	223,356	277,644
	$988,256	1,012,744

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
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	8,265,000	2,159,687
2013-16	37,615,000	4,066,944
	73,340,000	18,524,881
Unamortized costs/premium	5,264,672	
Deferred amount on refunding	(3,527,234)	
Per statement of net assets	$75,077,438	

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 4.25% 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
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	5,035,000	486,040
2013	5,290,000	264,500
	$27,970,000	4,801,314

2005 Series General Obligation Refunding Bonds

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. The defeased bonds were called and paid in fiscal year 2007 and the escrow account for the defeasance is closed.

The 2005 Series Refunding bonds are to be repaid with proceeds of Metro's *ad valorem* property tax levied each year. The bonds mature serially each January 15 through 2017. Interest is payable semiannually on January 15 and July 15. The bonds have interest rates ranging from 3.0% to 5.0%.

Bond principal and interest outstanding at June 30 and the corresponding maturities on the 2005 Series are as follows:

METRO

Notes to the Financial Statements, Continued

Fiscal year ending June 30:	Principal	Interest
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	1,710,000	562,650
2013-17	9,985,000	1,439,000
	17,785,000	4,930,575
Unamortized costs/premium	856,533	
Deferred amount on refunding	(692,808)	
Per statement of net assets	$17,948,725	

2007 Series Natural Areas General Obligation Bonds

On April 3, 2007, Metro issued $124,295,000 of 2007 Series Natural Areas General Obligation Bonds. The Natural Areas Bonds were issued by Metro under authority granted by voters in November 2006 for a total of $227.4 million in general obligation bonds to fund activities to acquire and preserve natural areas and stream frontages, maintain and improve water quality, and protect fish and wildlife habitat. The remaining portion of the bond authorization will be issued in approximately 2010.

The bonds are to be repaid with proceeds of Metro's *ad valorem* property tax levied each year. 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:

Fiscal year ending June 30:	Principal	Interest
2008	$ 10,280,000	6,904,721
2009	11,750,000	5,432,650
2010	12,340,000	4,845,150
2011	3,910,000	4,228,150
2012	4,070,000	4,071,750
2013-17	23,195,000	17,503,450
2018-22	29,550,000	11,146,250
2023-26	29,200,000	3,357,450
	124,295,000	57,489,571
Unamortized costs/premium	6,008,078	
Per statement of net assets	$130,303,078	

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 2.625% to 4.4%.

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

Fiscal year ending June 30:	Principal	Interest
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	1,300,000	605,327
2013-17	6,975,000	2,319,230
2018-22	6,550,000	1,032,452
2023	1,475,000	32,450
	21,155,000	6,767,645
Unamortized costs/discount	(144,519)	
Deferred amount on refunding	(2,357,842)	
Per statement of net assets	$18,652,639	

Pension Obligation Bonds Metro Limited Tax Series 2005

In prior years, Metro, along with certain other Oregon cities, counties and special districts issued Limited Tax Pension Bonds Series 2005 to finance Metro's PERS unfunded actuarial liability. The proceeds of Metro's $24,290,000 in bonds were paid to PERS and resulted in a new, lower employer contribution rate.

The bonds are to be repaid through assessments on Metro departments in exchange for the 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:

METRO

Notes to the Financial Statements, Continued

Fiscal year ending June 30:	Principal	Interest
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	435,000	1,153,214
2013-17	3,600,000	5,354,662
2018-22	6,690,000	4,203,638
2023-27	11,130,000	2,127,451
2028	1,405,000	70,306
	24,290,000	17,651,953
Unamortized costs/premium	(245,361)	
Per statement of net assets	$24,044,639	

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, 2007.

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
2008	$1,070,000	-	155,000	110,513
2009	-	-	2,265,000	83,481
2010	-	-	2,320,000	29,000
	1,070,000	-	4,740,000	222,994
Unamortized costs/discount			(58,867)	
Deferred amount on refunding	-		(276,039)	
Per statement of net assets	$1,070,000		4,405,094	

Full Faith and Credit Oregon Local Governments 2006 Series

In prior years, 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 on December 1, 2007 the amount due on the refunded loan. At June 30, 2007, $13,586,698 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 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:

Fiscal year ending June 30:	Principal	Interest
2008	$ 555,000	634,931
2009	580,000	612,231
2010	600,000	588,631
2011	625,000	564,131
2012	650,000	538,631
2012-16	3,675,000	2,257,534
2017-21	4,585,000	1,303,851
2022-25	3,300,000	226,732
	14,570,000	6,726,672
Unamortized costs/discount	116,826	
Deferred amount on refunding	(749,669)	
Per statement of net assets	$13,937,157	

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, 2007 was $29,739.

TOD Property Loans

In a prior year, 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, 2007 was $450,000.

In fiscal year 2007, 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%, with annual interest-only payments in fiscal year 2008 and 2009. The loan will be repaid in full on January 26, 2010. The outstanding balance at June 30, 2007 was $592,500.

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 in semi-annual installments through January 13, 2022. The outstanding balance at June 30, 2007 was $154,191.

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

	Governmental Activities						Business-type Activities	
			TOD Property Loans Payable					
Fiscal year ending	Energy Loan Payable		2005 Loan		2007 Loan		LID Payable	
June 30:	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	$ 29,739	1,015	450,000	29,250	-	38,513	10,279	8,072
2009	-	-	-	-	-	38,513	10,279	7,525
2010	-	-	-	-	592,500	38,513	10,279	6,979
2011	-	-	-	-	-	-	10,279	6,432
2012	-	-	-	-	-	-	10,279	5,885
2013-17	-	-	-	-	-	-	51,398	21,221
2018-22	-	-	-	-	-	-	51,398	7,549
	$ 29,739	1,015	450,000	29,250	592,500	115,539	154,191	63,663

12. CHANGES IN LONG-TERM LIABILITIES

The following changes occurred during fiscal year 2007 in long-term liabilities:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	$ 131,647,201	124,295,000	(11,563,945)	244,378,256	22,401,585
Full faith and credit bonds	22,295,000	-	(1,140,000)	21,155,000	1,330,000
Pension obligation bonds	24,290,000	-	-	24,290,000	-
Less deferred amounts:					
For issuance costs and premium or discount	6,443,326	6,087,480	(791,403)	11,739,403	-
On refunding	(7,247,925)	-	670,041	(6,577,884)	-
Total bonds payable	177,427,602	130,382,480	(12,825,307)	294,984,775	23,731,585
Environmental impairment liability	5,225,000	-	-	5,225,000	-
Loans payable	507,151	592,500	(27,412)	1,072,239	479,739
Compensated absences	1,894,799	2,112,338	(1,894,799)	2,112,338	1,427,970
Governmental activity Long-term liabilities	$ 185,054,552	133,087,318	(14,747,518)	303,394,352	25,639,294
Business-type activities:					
Bonds payable:					
Revenue bonds	$ 8,045,000	-	(2,235,000)	5,810,000	1,225,000
Full faith and credit bonds	14,700,000		(130,000)	14,570,000	555,000
Less deferred amounts:					
For accretion	(80,912)	-	80,912	-	-
For issuance costs and premium or discount	35,232	-	22,727	57,959	-
On refunding	(1,206,769)	-	181,061	(1,025,708)	-
Total bonds payable	21,492,551	-	(2,080,300)	19,412,251	1,780,000
Post-closure costs payable	3,517,762	-	(303,662)	3,214,100	838,000
Loans payable	164,470	-	(10,279)	154,191	10,279
Compensated absences	1,019,503	1,079,006	(1,019,503)	1,079,006	869,116
Business-type activity Long-term liabilities	$ 26,194,286	1,079,006	(3,413,744)	23,859,548	3,497,395

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.

13. ENVIRONMENTAL IMPAIRMENT LIABILITY

Metro has environmental impairment exposure arising from its operations in four areas. Of greatest significance is the ownership of the St. Johns Landfill, now in post closure status. Other liabilities arise from Solid Waste operations; ownership of open spaces and natural areas acquired through bond proceeds; and ownership and operations of other buildings and facilities associated with primary functions. In August 2004, industry experts in environmental risk assessment performed a review to provide an analysis of the probability that Metro will incur future costs to resolve actual and potential environmental liabilities. As a result of this study, Metro recognized a liability of $5,225,000. The environmental impairment liability is scheduled to be reviewed next in 2009.

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, 2007 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 $303,662 in closure costs as the closure process continued ($38,179,801 cumulative to date), reducing the remaining estimated liability to $3,214,100 at June 30, 2007. Metro has accumulated $7,315,587 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, 2007 were due to the consolidation of internal service fund activities for the government-wide statements:

Receivable Entity	Payable Entity	Amount
Governmental activities	Business-type activities	$4,576,448

METRO

Notes to the Financial Statements, Continued

Interfund transfers for the fiscal year by fund were:

	Transfers in					
Transfers out	General	Rehab./ Enhance.	Metro Capital	MERC	Risk Mgmt	Total
General	$ -	-	1,999,927	1,324,462	360,360	3,684,749
Open Spaces	1,109	-	-	-	685	1,794
Natural Areas	6,570	-	-	-	-	6,570
Metro Capital	1,914	-	-	-	-	1,914
Solid Waste	227,597	396,216	-	-	113,955	737,768
MERC	297,277	-	-	-	-	297,277
Risk Mgmt	3,132	-	-	-	-	3,132
Total	$537,599	396,216	1,999,927	1,324,462	475,000	4,733,204

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. 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 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 property insurance policy. The property coverage is in the amount of $504,531,000 with a $500,000 deductible.

METRO

Notes to the Financial Statements, Continued

- 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 $1,046,248 reported as accrued self-insurance claims in the Risk Management Fund at June 30, 2007 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 .962 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 and current fiscal year were:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Fiscal Year Liability
2005-2006	$987,535	1,050,529	1,094,304	943,760
2006-2007	$943,760	949,255	846,767	1,046,248

17. 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.

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, 2007

	Budgeted Amounts		Actual	Variance with final budget positive
	Original	Final	Amounts	(negative)
Revenues:				
Program revenues:				
Charges for services:				
Government fees	$ 275,600	275,600	441,531	165,931
Culture and recreation fees	14,740,870	14,740,870	15,860,633	1,119,763
Other fees	2,750,511	2,750,511	3,008,317	257,806
Internal charges for services	48,100	48,100	13,224	(34,876)
Licenses and permits	405,000	405,000	409,332	4,332
Pension debt service assessment	-	-	1,217,035	1,217,035
Miscellaneous revenue	1,428,905	1,428,905	211,369	(1,217,536)
Operating grants and contributions:				
Grants	22,731,548	22,731,548	7,997,004	(14,734,544)
Government contributions	165,300	165,300	60,000	(105,300)
Contributions and donations	1,259,990	1,259,990	1,316,011	56,021
Capital grants and contributions:				
Capital contributions and donations	-	108,394	125,765	17,371
General revenues:				
Taxes:				
Property taxes	9,679,131	9,679,131	9,885,888	206,757
Excise taxes	14,588,507	14,588,507	14,834,721	246,214
Construction excise tax	2,000,000	2,000,000	1,806,012	(193,988)
Local government shared revenue	508,047	508,047	519,463	11,416
Investment income	692,412	692,412	1,774,940	1,082,528
Total revenues	71,273,921	71,382,315	59,481,245	(11,901,070)
Expenditures:				
Council office:				
Operating expenses	1,756,095	1,775,095	1,643,207	131,888
Finance and administrative services:				
Operating expenses	7,352,501	7,374,001	6,502,880	871,121
Capital outlay	5,000	205,150	198,915	6,235
Total finance and administrative services	7,357,501	7,579,151	6,701,795	877,356

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, 2007

	Budgeted Amounts			Variance with final budget
	Original	Final	Actual Amounts	positive (negative)
Expenditures, continued:				
Human resources:				
Operating expenses	1,527,312	1,527,312	1,482,818	44,494
Metro auditor:				
Operating expenses	342,280	579,455	444,825	134,630
Office of Metro attorney:				
Operating expenses	1,448,414	1,582,475	1,390,776	191,699
Oregon Zoo:				
Operating expenses	22,508,631	23,008,631	22,824,817	183,814
Capital outlay	200,000	308,394	196,848	111,546
Total Oregon Zoo	22,708,631	23,317,025	23,021,665	295,360
Planning:				
Operating expenses	23,852,076	23,822,826	13,185,766	10,637,060
Debt service	-	29,250	29,250	-
Total planning	23,852,076	23,852,076	13,215,016	10,637,060
Public affairs and government relations:				
Operating expenses	1,390,721	1,390,721	1,246,801	143,920
Regional parks and greenspaces:				
Operating expenses	6,914,866	6,934,866	5,258,751	1,676,115
Capital outlay	100,000	100,000	-	100,000
Total regional parks and greenspaces	7,014,866	7,034,866	5,258,751	1,776,115
Non-departmental:				
Operating expenses	14,008,594	13,503,594	2,221,603	11,281,991
Debt service	1,198,898	1,198,898	1,198,898	-
Total non-departmental	15,207,492	14,702,492	3,420,501	11,281,991
Contingency	7,689,075	6,582,189	-	6,582,189

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, 2007

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with final budget positive (negative)
Expenditures, continued:				
Total expenditures	90,294,463	89,922,857	57,826,155	32,096,702
Revenues over (under) expenditures	(19,020,542)	(18,540,542)	1,655,090	20,195,632
Other financing sources (uses):				
Loan proceeds	-	-	592,500	592,500
Transfers in	10,486,907	10,034,052	5,863,863	(4,170,189)
Sale of capital assets	2,000	2,000	-	(2,000)
Repayment of interfund loan	(1,550,000)	(1,550,000)	-	1,550,000
Transfers out	(6,273,692)	(6,253,692)	(6,192,892)	60,800
Total other financing sources (uses)	2,665,215	2,232,360	263,471	(1,968,889)
Revenues and other sources over (under) expenditures and other uses	(16,355,327)	(16,308,182)	1,918,561	18,226,743
Beginning fund balance available for appropriation - July 1, 2006 as previously stated	20,290,724	20,290,724	25,882,188	5,591,464
Prior period adjustment	-	-	6,554,744	6,554,744
Beginning fund balance available for appropriation - July 1, 2006 as restated	20,290,724	20,290,724	32,436,932	12,146,208
Unappropriated ending fund balance - June 30, 2007	$ 3,935,397	3,982,542	34,355,493	30,372,951

Reconciliation to Governmental GAAP basis:

Excess of revenues and other financing sources over expenditures and other financing uses on the basis of budgeting:	
General Fund, as presented above	1,918,561
General Revenue Bond Fund-General, from page 117	10,370
Budget requirements not qualifying as expenses under Governmental GAAP:	
Purchase of assets held for resale	1,185,000
General Fund net change in fund balance as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds	$ 3,113,931

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, 2007

		Budgeted Amounts			Variance with final budget
		Original	Final	Actual Amounts	positive (negative)
Revenues:					
Program revenues:					
Charges for services:					
Culture and recreation fees	$	1,700	1,700	-	(1,700)
Other fees		-	-	1,041	1,041
General revenues:					
Investment income		138,009	138,009	202,838	64,829
Total revenues		139,709	139,709	203,879	64,170
Expenditures:					
Operating expenses		45,000	45,000	-	45,000
Contingency		200,000	200,000	-	200,000
Total expenditures		245,000	245,000	-	245,000
Revenues over (under) expenditures		(105,291)	(105,291)	203,879	309,170
Other financing uses:					
Transfers out		(20,000)	(20,000)	(20,000)	-
Revenues over (under) expenditures and other uses		(125,291)	(125,291)	183,879	309,170
Beginning fund balance available for appropriation - July 1, 2006		3,680,250	3,680,250	3,724,944	44,694
Unappropriated ending fund balance - June 30, 2007	$	3,554,959	3,554,959	3,908,823	353,864

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, 2007

	Budgeted Amounts		Actual	Variance with final budget positive
	Original	Final	Amounts	(negative)
Revenues:				
General revenues:				
Investment income	$ 68,734	68,734	106,013	37,279
Total revenues	68,734	68,734	106,013	37,279
Expenditures:				
Operating expenses	533,873	533,873	404,885	128,988
Contingency	300,000	300,000	-	300,000
Total expenditures	833,873	833,873	404,885	428,988
Revenues under expenditures	(765,139)	(765,139)	(298,872)	466,267
Other financing sources (uses):				
Transfers in	438,707	438,707	396,216	(42,491)
Transfers out	(30,015)	(30,015)	(30,015)	-
Total other financing sources (uses)	408,692	408,692	366,201	(42,491)
Revenues and other sources over (under) expenditures and other uses	(356,447)	(356,447)	67,329	423,776
Beginning fund balance available for appropriation - July 1, 2006	1,832,900	1,832,900	1,954,527	121,627
Unappropriated ending fund balance - June 30, 2007	$ 1,476,453	1,476,453	2,021,856	545,403

METRO

Notes to Required Supplementary Information

For the Year Ended June 30, 2007

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 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:

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

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

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.

METRO

Notes to Required Supplementary Information, Continued

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 14 budget amendments during the year ended June 30, 2007. Three of the amendments were significant and related to the sale of Natural Areas bonds, further described below in item 2. Two significant amendments provided for a total of slightly over $8.1 million in temporary interim appropriation authority to meet the possible obligations related to the bonds during the time period between the approval of the bonds in November and the sale of the bonds in April. Once the bonds were sold, expenditures incurred were reallocated to the Natural Areas Fund and the temporary interim appropriation authority was reversed with the third significant amendment.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2007, expenditures of the Natural Areas Fund were not appropriated, as allowed by Oregon Local Budget Law. ORS 294.483(2)(B) exempts from Oregon Local Budget Law expenditures from the sale of bond proceeds for bonds that were approved by the voters in the year in which they were approved. With the approval of the Natural Areas Bonds in November 2006, Metro was exempt from all aspects of Oregon Local Budget Law for the expenditures related to those bonds during fiscal year 2007.

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 162-10-0050 through 162-10-0330 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

Natural Areas 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, 2007

	Budgeted Amounts			Variance with final budget
	Original	Final	Actual Amounts	positive (negative)
Revenues:				
General revenues:				
Taxes:				
Property taxes	$ 18,510,603	18,510,603	18,783,637	273,034
Investment income	100,000	100,000	653,989	553,989
Total revenues	18,610,603	18,610,603	19,437,626	827,023
Expenditures:				
Debt service:				
Principal	11,563,945	11,563,945	11,563,945	-
Interest	6,471,658	6,471,658	6,471,656	2
Total expenditures	18,035,603	18,035,603	18,035,601	2
Revenues over expenditures	575,000	575,000	1,402,025	827,025
Beginning fund balance available for appropriation - July 1, 2006	10,374,854	10,374,854	10,680,405	305,551
Unappropriated ending fund balance - June 30, 2007	$ 10,949,854	10,949,854	12,082,430	1,132,576

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, 2007

		Budgeted Amounts		Actual	Variance with final budget positive
		Original	Final	Amounts	(negative)
Revenues:					
Program revenues:					
Charges for services:					
Culture and recreation fees	$	25,000	25,000	-	(25,000)
Other fees		-	-	3,476	3,476
Operating grants and contributions:					
Grants		200,000	200,000	-	(200,000)
General revenues:					
Investment income		112,470	112,470	69,003	(43,467)
Total revenues		337,470	337,470	72,479	(264,991)
Expenditures:					
Operating expenses		1,387,461	337,461	122,798	214,663
Capital outlay		475,000	1,525,000	1,360,114	164,886
Contingency		112,158	112,158	-	112,158
Total expenditures		1,974,619	1,974,619	1,482,912	491,707
Revenues under expenditures		(1,637,149)	(1,637,149)	(1,410,433)	226,716
Other financing uses:					
Transfers out		(464,797)	(464,797)	(301,716)	163,081
Revenues under expenditures and other uses		(2,101,946)	(2,101,946)	(1,712,149)	389,797
Beginning fund balance available for appropriation - July 1, 2006		2,101,946	2,101,946	2,112,538	10,592
Unappropriated ending fund balance - June 30, 2007	$	-	-	400,389	400,389

METRO

Natural Areas Fund

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

For the year ended June 30, 2007

		Budgeted Amounts		Actual	Variance with final budget positive
		Original	Final	Amounts	(negative)
Revenues:					
Program revenues:					
Charges for services:					
Miscellaneous revenue	$	-	-	10,000	10,000
General revenues:					
Investment income		-	-	1,301,230	1,301,230
Total revenues		-	-	1,311,230	1,311,230
Expenditures:					
Operating expenses		-	-	1,585,706	(1,585,706)
Capital outlay		-	-	8,043,455	(8,043,455)
Total expenditures		-	-	9,629,161	(9,629,161)
Revenues under expenditures		-	-	(8,317,931)	(8,317,931)
Other financing uses:					
Bonds issued		-	-	124,295,000	124,295,000
Premium on bonds issued		-	-	6,383,369	6,383,369
Transfers out		-	-	(60,971)	(60,971)
Total other financing sources (uses)		-	-	130,617,398	130,617,398
Revenues and other sources over expenditures and other uses		-	-	122,299,467	122,299,467
Beginning fund balance available for appropriation - July 1, 2006		-	-	-	-
Unappropriated ending fund balance - June 30, 2007	$	-	-	122,299,467	122,299,467

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, 2007

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with final budget positive (negative)
Revenues:				
Program revenues:				
Operating grants and contributions:				
Grants	$ 4,209,233	4,209,233	18,832	(4,190,401)
Government contributions	631,767	631,767	282,540	(349,227)
Contributions and donations	1,149,274	1,149,274	-	(1,149,274)
Capital grants and contributions:				
Capital contributions and donations	220,000	220,000	1,252,310	1,032,310
General revenues:				
Investment income	131,084	131,084	407,637	276,553
Total revenues	6,341,358	6,341,358	1,961,319	(4,380,039)
Expenditures:				
Operating expenses	697,561	697,561	368,267	329,294
Capital outlay	10,992,000	11,121,274	2,158,951	8,962,323
Contingency	2,617,030	2,617,030	-	2,617,030
Total expenditures	14,306,591	14,435,865	2,527,218	11,908,647
Revenues under expenditures	(7,965,233)	(8,094,507)	(565,899)	7,528,608
Other financing sources (uses):				
Transfers in	2,003,556	2,132,830	1,999,927	(132,903)
Transfers out	(11,955)	(11,955)	-	11,955
Total other financing sources (uses)	1,991,601	2,120,875	1,999,927	(120,948)
Revenues and other sources over (under) expenditures and other uses	(5,973,632)	(5,973,632)	1,434,028	7,407,660
Beginning fund balance available for appropriation - July 1, 2006	6,851,970	6,851,970	7,039,133	187,163
Unappropriated ending fund balance - June 30, 2007	$ 878,338	878,338	8,473,161	7,594,823

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, 2007

		Budgeted Amounts		Actual	Variance with final budget positive
		Original	Final	Amounts	(negative)
Revenues:					
General revenues:					
Taxes:					
Cemetery revenue surcharge	$	19,000	19,000	33,000	14,000
Investment income		4,340	4,340	10,509	6,169
Total revenues		23,340	23,340	43,509	20,169
Beginning fund balance available for appropriation - July 1, 2006		173,588	173,588	178,943	5,355
Unappropriated ending fund balance - June 30, 2007	$	196,928	196,928	222,452	25,524

Proprietary Funds

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

Enterprise Funds

Solid Waste Revenue Fund

MERC Fund

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)

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, 2007

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with final budget positive (negative)
Revenues:				
Program revenues:				
Charges for services:				
Government fees	$ 933,550	933,550	797,903	(135,647)
Culture and recreation fees	3,800	3,800	31,458	27,658
Solid waste fees	52,632,999	52,632,999	53,118,225	485,226
Other fees	77,300	77,300	58,371	(18,929)
Miscellaneous revenue	15,000	15,000	109,448	94,448
Operating grants and contributions:				
Grants	-	-	3,064	3,064
General revenues:				
Investment income	1,391,749	1,391,749	2,074,614	682,865
Total revenues	55,054,398	55,054,398	56,193,083	1,138,685
Expenditures:				
Operating Account:				
Operating expenses	47,685,894	47,685,894	46,326,495	1,359,399
Landfill Closure Account:				
Operating expenses	318,600	318,600	277,763	40,837
Capital outlay	545,000	545,000	25,899	519,101
Total Landfill Closure Account	863,600	863,600	303,662	559,938
Renewal and Replacement Account:				
Capital outlay	1,264,000	1,264,000	905,820	358,180
General Account:				
Capital outlay	1,210,000	1,210,000	186,023	1,023,977
Debt Service Account:				
Debt service	2,348,013	2,348,013	2,348,013	-

(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, 2007

	Budgeted Amounts		Actual	Variance with final budget positive
	Original	Final	Amounts	(negative)
Expenditures, continued:				
Contingency	$ 15,950,078	15,908,078	-	15,908,078
Total expenditures	69,321,585	69,279,585	50,070,013	19,209,572
Revenues over (under) expenditures	(14,267,187)	(14,225,187)	6,123,070	20,348,257
Other financing sources (uses):				
Transfers in	30,015	30,015	30,015	-
Interfund loan	1,550,000	1,550,000	-	(1,550,000)
Transfers out	(6,423,869)	(6,465,869)	(4,492,996)	1,972,873
Total other financing sources (uses)	(4,843,854)	(4,885,854)	(4,462,981)	422,873
Revenues and other sources over (under) expenditures and other uses	(19,111,041)	(19,111,041)	1,660,089	20,771,130
Beginning fund balance available for appropriation - July 1, 2006	37,603,884	37,603,884	40,492,488	2,888,604
Unappropriated ending fund balance - June 30, 2007	$ 18,492,843	18,492,843	42,152,577	23,659,734

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, 2007

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with final budget positive (negative)
Revenues:				
Program revenues:				
Charges for services:				
Culture and recreation fees	$ 24,446,066	25,971,958	27,385,327	1,413,369
Other fees	1,462,000	1,462,000	1,658,802	196,802
Miscellaneous revenue	75,000	75,000	(2,142)	(77,142)
Operating grants and contributions:				
Government contributions	687,200	687,200	689,082	1,882
Contributions and donations	181,270	181,270	-	(181,270)
General revenues:				
Local government shared revenue	8,838,283	8,838,283	9,360,038	521,755
Investment income	355,642	355,642	794,172	438,530
Total revenues	36,045,461	37,571,353	39,885,279	2,313,926
Expenditures:				
Operating expenses	31,962,288	33,428,210	32,994,752	433,458
Debt service	18,899	18,899	18,895	4
Capital outlay	-	40,000	-	40,000
Contingency	1,270,104	259,037	-	259,037
Total expenditures	33,251,291	33,746,146	33,013,647	732,499
Revenues over expenditures	2,794,170	3,825,207	6,871,632	3,046,425
Other financing uses:				
Transfers out	(6,083,731)	(5,588,876)	(3,404,922)	2,183,954
Revenues over (under) expenditures and other uses	(3,289,561)	(1,763,669)	3,466,710	5,230,379
Beginning fund balance available for appropriation - July 1, 2006	13,194,318	13,194,318	15,120,074	1,925,756
Unappropriated ending fund balance - June 30, 2007	$ 9,904,757	11,430,649	18,586,784	7,156,135

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, 2007

	Budgeted Amounts		Actual	Variance with final budget positive
	Original	Final	Amounts	(negative)
Revenues:				
Program revenues:				
Charges for services:				
Miscellaneous revenue	$ -	-	22,032	22,032
General revenues:				
Local government shared revenue	-	-	616,516	616,516
Investment income	75,003	75,003	226,628	151,625
Total revenues	75,003	75,003	865,176	790,173
Expenditures:				
Operating expenses	232,306	368,796	268,800	99,996
Capital outlay	3,277,475	3,140,985	2,152,441	988,544
Contingency	742,926	742,926	-	742,926
Total expenditures	4,252,707	4,252,707	2,421,241	1,831,466
Revenues under expenditures	(4,177,704)	(4,177,704)	(1,556,065)	2,621,639
Other financing sources (uses):				
Transfers in	1,748,367	1,748,367	1,648,462	(99,905)
Transfers out	(76,196)	(76,196)	-	76,196
Total other financing sources (uses)	1,672,171	1,672,171	1,648,462	(23,709)
Revenues and other sources over (under) expenditures and other uses	(2,505,533)	(2,505,533)	92,397	2,597,930
Beginning fund balance available for appropriation - July 1, 2006	3,711,004	3,711,004	3,671,286	(39,718)
Unappropriated ending fund balance - June 30, 2007	$ 1,205,471	1,205,471	3,763,683	2,558,212

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, 2007

	Solid Waste	MERC	Total
Excess of revenues and other financing sources over expenditures and other financing uses on the basis of budgeting:			
Solid Waste Revenue Fund	$ 1,660,089	-	1,660,089
MERC Operating Fund	-	3,466,710	3,466,710
MERC Pooled Capital Fund	-	92,397	92,397
General Revenue Bond Fund-Expo	-	9,580	9,580
Budget resources not qualifying as revenues under GAAP:			
Collection of long-term receivable	(37,337)	-	(37,337)
Budget requirements not qualifying as expenses under GAAP:			
Payment of post-closure liability	303,662	-	303,662
Capital assets additions	1,091,843	1,757,569	2,849,412
Principal and interest payments on bonds	2,291,981	196,631	2,488,612
Principal and interest payments on loans	-	14,289	14,289
Additional expenses required by GAAP:			
Depreciation and amortization	(1,817,501)	(8,628,822)	(10,446,323)
Amortization of bond accretion, discount and costs	(248,365)	(36,335)	(284,700)
Amortization of prepaid item	(525,574)	-	(525,574)
Vacation benefits	(7,220)	(52,286)	(59,506)
Accrued interest on bonds	(56,031)	(57,596)	(113,627)
Change in net assets presented in the statement of revenues, expenses and changes in fund net assets for proprietary funds	$ 2,655,547	(3,237,863)	(582,316)

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, 2007

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with final budget positive (negative)
Revenues:				
Program revenues:				
Charges for services:				
Other fees	$ -	-	35,200	35,200
Internal charges for services	6,685,928	6,685,928	5,861,418	(824,510)
Miscellaneous revenue	-	-	16,280	16,280
Operating grants and contributions:				
Grants	15,000	15,000	51,381	36,381
General revenues:				
Investment income	241,069	241,069	390,574	149,505
Total revenues	6,941,997	6,941,997	6,354,853	(587,144)
Expenditures:				
Operating expenses	8,823,986	8,823,986	7,399,269	1,424,717
Contingency	128,323	128,323	-	128,323
Total expenditures	8,952,309	8,952,309	7,399,269	1,553,040
Revenues under expenditures	(2,010,312)	(2,010,312)	(1,044,416)	965,896
Other financing sources (uses):				
Transfers in	1,803,000	1,803,000	1,803,001	1
Transfers out	(37,599)	(37,599)	-	37,599
Total other financing sources (uses)	1,765,401	1,765,401	1,803,001	37,600
Revenues and other sources over (under) expenditures and other uses	(244,911)	(244,911)	758,585	1,003,496
Beginning fund balance available for appropriation - July 1, 2006	244,911	244,911	342,551	97,640
Unappropriated ending fund balance - June 30, 2007	$ -	-	1,101,136	1,101,136

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, 2007

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with final budget positive (negative)
Revenues:				
General revenues:				
Investment income	$ 6,900	6,900	19,949	13,049
Total revenues	6,900	6,900	19,949	13,049
Expenditures:				
Debt service account:				
Debt service-Metro Regional Center	1,502,064	1,502,064	1,502,064	-
Debt service-Washington Park Parking Lot	407,164	407,164	407,164	-
Debt service-Expo Center Hall D	852,800	852,800	852,799	1
Project account:				
Capital outlay-Washington Park Parking Lot	190,870	190,870	-	190,870
Total expenditures	2,952,898	2,952,898	2,762,027	190,871
Revenues under expenditures	(2,945,998)	(2,945,998)	(2,742,078)	203,920
Other financing sources:				
Transfers in	2,762,028	2,762,028	2,762,028	-
Revenues and other sources over (under) expenditures	(183,970)	(183,970)	19,950	203,920
Beginning fund balance available for appropriation - July 1, 2006	188,410	188,410	198,214	9,804
Unappropriated ending fund balance - June 30, 2007	$ 4,440	4,440	218,164	213,724

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, 2007

	Allocated to: General	Allocated to: MERC	Total
Revenues:			
General revenues:			
Investment income	$ 10,370	9,579	19,949
Total revenues	10,370	9,579	19,949
Expenditures:			
Debt service account:			
Debt service-Metro Regional Center	1,502,064	-	1,502,064
Debt service-Washington Park Parking Lot	407,164	-	407,164
Debt service-Expo Center Hall D	-	852,799	852,799
Total expenditures	1,909,228	852,799	2,762,027
Revenues under expenditures	(1,898,858)	(843,220)	(2,742,078)
Other financing sources:			
Transfers in	1,909,228	852,800	2,762,028
Revenues and other sources over expenditures	10,370	9,580	19,950
Beginning fund balance available for appropriation - July 1, 2006	198,214	-	198,214
Unappropriated ending fund balance - June 30, 2007	$ 208,584	9,580	218,164

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, 2007

Governmental funds capital assets:	
Land	$ 154,446,228
Construction in progress	1,194,440
Buildings	101,997,122
Improvements	11,831,637
Equipment	4,627,596
Office furniture/equipment	4,267,303
Railroad equipment/facilities	2,337,620
Total governmental funds capital assets	$ 280,701,946
Investments in governmental funds capital assets by source:	
General Fund	$ 71,680,840
Special Revenue Fund:	
Smith and Bybee Lakes Fund	2,085,394
Capital Projects Funds:	
Open Spaces Fund	139,245,456
Natural Areas Fund	8,987,674
Metro Capital Fund	58,702,582
Total governmental funds capital assets	$ 280,701,946

(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.

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

June 30, 2007

Function and Activity		Land	Construction in progress	Buildings	Improvements	Equipment	Office furniture/ equipment	Railroad equipment/ facilities	Total
General governmental operations	$	588,716	300,252	20,741,915	-	854,948	3,646,649	-	26,132,480
Regional planning and development		-	-	-	-	708,208	450,969	-	1,159,177
Culture and recreation		151,284,063	826,624	4,847,154	8,236,740	214,219	-	-	165,408,800
Zoo		2,573,449	67,564	76,408,053	3,594,897	2,850,221	169,685	2,337,620	88,001,489
Total	$	154,446,228	1,194,440	101,997,122	11,831,637	4,627,596	4,267,303	2,337,620	280,701,946

(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, 2007

Function and Activity		Governmental Funds Capital Assets July 1, 2006	Additions	Deductions	Governmental Funds Capital Assets June 30, 2007
General governmental operations	$	25,601,404	531,076	-	26,132,480
Regional planning and development		1,159,177	-	-	1,159,177
Culture and recreation		154,063,460	11,345,340	-	165,408,800
Zoo		86,174,303	1,827,186	-	88,001,489
Total additions	$	266,998,344	13,703,602	-	280,701,946

(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.

Other Financial Schedules

METRO

Schedule of Property Tax Transactions and Outstanding Receivable

For the year ended June 30, 2007

Fiscal Year		Original levy or balance of receivable July 1, 2006	Add (deduct) Discounts	Adjustments	Interest	Collections	Property taxes receivable June 30, 2007
2006-07	$	29,415,279	(727,947)	(62,346)	3,191	(27,895,188)	732,989
2005-06		691,799	-	(26,855)	8,075	(449,025)	223,994
2004-05		207,739	-	(10,330)	3,712	(97,702)	103,419
2003-04		110,653	-	(10,265)	3,943	(63,325)	41,006
2002-03		48,191	-	(7,716)	1,986	(29,651)	12,810
2001-02 & prior		41,648	-	(6,019)	1,011	(10,349)	26,291
	$	30,515,309	(727,947)	(123,531)	21,918	(28,545,240)	1,140,509

Reconciliation to property tax revenue presented in the Statement of Activities:		Governmental Activities
Cash collections July 1, 2006 to June 30, 2007	$	28,545,240
Accrual of receivables:		
July 1, 2006 to August 31, 2006		(156,335)
July 1, 2007 to August 31, 2007		179,816
Timing difference between county tax collector and county treasurer		(6,766)
Payments in lieu of property taxes		107,569
Taxes earned but not available:		
June 30, 2006		(943,694)
June 30, 2007		960,693
Property tax revenue per Statement of Activities	$	28,686,523

METRO

Schedule of Future Bonded Debt Service Requirements
General Obligation Bonds

June 30, 2007

		1995 Series B Open Spaces Program General Obligation Bonds		2002 Series General Obligation Refunding Bonds		2001 Series A General Obligation Refunding Bonds	
Year of maturity		Principal	Interest	Principal	Interest	Principal	Interest
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		-	-	-	-	-	-
2017-18		-	-	-	-	-	-
2018-19		-	-	-	-	-	-
2019-20		-	-	-	-	-	-
2020-21		-	-	-	-	-	-
2021-22		-	-	-	-	-	-
2022-23		-	-	-	-	-	-
2023-24		-	-	-	-	-	-
2024-25		-	-	-	-	-	-
2025-26		-	-	-	-	-	-
Total	$	988,256	1,012,744	73,340,000	18,524,881	27,970,000	4,801,314

(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.

2005 Series General Obligation Refunding Bonds		2007 Series Natural Areas General Obligation Bonds		Total	
Principal	Interest	Principal	Interest	Principal (1)	Interest
1,435,000	815,125	10,280,000	6,904,721	22,401,585	12,838,212
1,480,000	772,075	11,750,000	5,432,650	24,439,775	10,836,183
1,555,000	698,075	12,340,000	4,845,150	25,688,540	9,634,542
1,620,000	643,650	3,910,000	4,228,150	17,933,356	8,392,427
1,710,000	562,650	4,070,000	4,071,750	19,080,000	7,280,127
1,795,000	477,150	4,230,000	3,908,950	20,005,000	6,386,413
1,890,000	387,400	4,400,000	3,739,750	15,430,000	5,405,787
1,995,000	292,900	4,620,000	3,519,750	16,245,000	4,598,575
2,095,000	193,150	4,850,000	3,288,750	17,100,000	3,748,469
2,210,000	88,400	5,095,000	3,046,250	7,305,000	3,134,650
-	-	5,350,000	2,791,500	5,350,000	2,791,500
-	-	5,615,000	2,524,000	5,615,000	2,524,000
-	-	5,895,000	2,243,250	5,895,000	2,243,250
-	-	6,190,000	1,948,500	6,190,000	1,948,500
-	-	6,500,000	1,639,000	6,500,000	1,639,000
-	-	6,825,000	1,314,000	6,825,000	1,314,000
-	-	7,130,000	1,006,875	7,130,000	1,006,875
-	-	7,455,000	686,025	7,455,000	686,025
-	-	7,790,000	350,550	7,790,000	350,550
17,785,000	4,930,575	124,295,000	57,489,571	244,378,256	86,759,085

METRO

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

June 30, 2007

	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
2007-08	$ 1,070,000	-	155,000	110,513
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	$ 1,070,000	-	4,740,000	222,994

(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.

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 (1)	Interest	Principal (2)	Interest
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	261,685	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
21,155,000	6,767,645	14,570,000	6,726,672	24,290,000	17,651,953

METRO

Schedule of Long-term Bonded Debt Transactions
General Obligation Bonds

For the year ended June 30, 2007

	Principal				
	Outstanding July 1, 2006	Issued During Year	Matured and Paid During Year	Outstanding June 30, 2007	Interest Expenditure
DEBT SERVICE FUND:					
1995 Series B Open Spaces Program General Obligation Bonds with interest rates from 5.2 to 5.5%, final maturity 9/1/10	$ 1,277,201	-	288,945	988,256	211,055
2002 Series General Obligation Refunding Bonds with interest rates from 5.0 to 5.25%, final maturity 9/1/15	79,380,000	-	6,040,000	73,340,000	3,890,313
2001 Series A General Obligation Refunding Bonds with interest rates from 4.25 to 5.0%, final maturity 1/1/13	31,840,000	-	3,870,000	27,970,000	1,473,863
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	1,345,000	-	1,345,000	-	80,700
2005 Series General Obligation Refunding Bonds with interest rates from 3.0 to 5.0%, final maturity 1/15/17	17,805,000	-	20,000	17,785,000	815,725
2007 Series Natural Areas General Obligation Bonds with interest rates from 4.0 to 5.0%, final maturity 6/1/26	-	124,295,000	-	124,295,000	-
Total	$ 131,647,201	124,295,000	11,563,945	244,378,256	6,471,656

METRO

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

For the year ended June 30, 2007

	Principal				
	Outstanding July 1, 2006	Issued During Year	Matured and Paid During Year	Outstanding June 30, 2007	Interest Expenditure
GENERAL FUND:					
Full Faith and Credit					
Refunding Bonds 2003 Series with interest rates from 2.625 to 4.4%, final maturity 8/1/22	$ 22,295,000	-	1,140,000	21,155,000	769,228
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	1,198,898
Total	46,585,000	-	1,140,000	45,445,000	1,968,126
ENTERPRISE FUNDS:					
SOLID WASTE FUND:					
Revenue Bonds					
Metro Central Transfer Station 1990 Series A Solid Waste Disposal Project Revenue Bonds with interest rate 7.1%, final maturity 7/1/07	3,210,000	-	2,140,000	1,070,000	-
Waste Disposal System Refunding Revenue Bonds 2003 Series with interest rates from 2.0 to 2.5%, final maturity 7/1/09	4,835,000	-	95,000	4,740,000	113,013
Total	8,045,000	-	2,235,000	5,810,000	113,013
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	-	130,000	14,570,000	722,799
Total	$ 14,700,000	-	130,000	14,570,000	722,799

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 is presented in these 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.	135-140
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.	141-143
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.	144-152
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.	153-154
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.	155-158
Additional Information These schedules present information to meet Metro's continuing disclosure requirements under The Securities and Exchange Commission's Rule 15c2-12 pertaining to governmental debt issuers.	159-162

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 fiscal year and going forward.

METRO

Net Assets by Component

Last Six Fiscal Years (1)
(accrual basis of accounting)
Unaudited

	Fiscal Year 2002	2003	2004	2005	2006	2007
Governmental activities:						
Invested in capital assets,						
net of related debt (2) (3)	$ (43,843,323)	(19,603,144)	(6,201,885)	4,684,793	72,055,226	70,472,572
Restricted	37,354,215	20,629,174	17,989,881	16,795,028	21,244,741	24,458,851
Unrestricted	9,479,810	9,400,821	9,811,543	16,612,577	35,400,215	57,456,789
Total governmental activities net assets	$ 2,990,702	10,426,851	21,599,539	38,092,398	128,700,182	152,388,212
Business-type activities:						
Invested in capital assets,						
net of related debt (3)	$ 221,073,714	271,891,751	268,249,663	264,571,719	204,536,894	199,184,754
Restricted	68,931,726	16,817,817	13,096,821	11,651,127	12,415,936	12,688,488
Unrestricted	50,741,261	44,996,393	42,589,111	48,598,316	39,548,688	43,989,254
Total business-type activities net assets	$ 340,746,701	333,705,961	323,935,595	324,821,162	256,501,518	255,862,496
Primary government:						
Invested in capital assets,						
net of related debt	$ 177,230,391	252,288,607	262,047,778	269,256,512	276,592,120	269,657,326
Restricted	106,285,941	37,446,991	31,086,702	28,446,155	33,660,677	37,147,339
Unrestricted	60,221,071	54,397,214	52,400,654	65,210,893	74,948,903	101,446,043
Total primary government net assets	$ 343,737,403	344,132,812	345,535,134	362,913,560	385,201,700	408,250,708

(1) Restated for prior period adjustment in fiscal year 2007 changing classification of MERC from component unit to business-type activity.

(2) These balances include the result of Metro financing capital assets for the business-type 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. 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.

(3) 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 Six Fiscal Years (1)
(accrual basis of accounting)
Unaudited

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Expenses						
Governmental activities:						
General government operations (2)	$ 3,540,021	2,380,124	2,546,034	3,158,675	10,128,233	11,724,680
Regional planning and development	14,571,106	11,063,962	10,599,654	11,367,579	10,580,855	11,633,709
Culture and recreation	5,943,716	8,094,833	7,774,128	8,582,520	6,515,693	6,906,903
Zoo (2)	-	-	-	-	23,159,685	25,165,745
Interest on long-term debt	11,419,881	9,167,669	8,324,767	7,679,504	8,421,370	9,626,880
Total governmental activities expenses	$ 35,474,724	30,706,588	29,244,583	30,788,278	58,805,836	65,057,917
Business-type activities:						
Solid Waste	$ 48,087,521	49,769,905	48,612,392	47,697,124	50,565,165	52,805,117
Zoo (2)	23,817,594	23,683,884	25,296,229	24,158,065	-	-
MERC	30,930,801	37,737,141	45,514,394	41,363,806	42,799,786	45,069,117
Total business-type activities expenses	$ 102,835,916	111,190,930	119,423,015	113,218,995	93,364,951	97,874,234
Total primary government expenses	$ 138,310,640	141,897,518	148,667,598	144,007,273	152,170,787	162,932,151
Program revenues						
Governmental activities:						
Charges for services:						
General government operations (2)	$ 20,438	897	9,470	2,593	1,377,281	1,359,684
Regional planning and development	940,949	827,644	972,578	1,215,077	1,547,604	1,024,612
Culture and recreation	2,469,031	2,536,879	2,942,318	2,699,983	2,568,418	2,519,340
Zoo (2)	-	-	-	-	14,417,730	15,699,595
Operating grants and contributions	10,547,223	7,272,201	7,582,801	8,552,429	12,015,598	9,674,387
Capital grants and contributions (2)	-	-	-	-	959,676	1,378,075
Total governmental activities program revenues	$ 13,977,641	10,637,621	11,507,167	12,470,082	32,886,307	31,655,693
Business-type activities:						
Charges for services:						
Solid Waste	$ 46,122,748	48,380,854	50,315,937	51,574,923	53,814,957	54,108,083
Zoo (2)	11,816,937	11,516,328	12,782,768	13,184,305	-	-
MERC	17,638,401	20,703,058	25,520,211	27,268,341	26,296,316	29,064,019
Operating grants and contributions (2)	2,955,744	4,307,248	2,087,784	3,774,815	984,284	692,146
Capital grants and contributions (2)	-	924,333	1,763,235	786,534	-	-
Total business-type activities program revenues	$ 78,533,830	85,831,821	92,469,935	96,588,918	81,095,557	83,864,248
Total primary government program revenues	$ 92,511,471	96,469,442	103,977,102	109,059,000	113,981,864	115,519,941

(Continued)

METRO

Changes in Net Assets, Continued

Last Six Fiscal Years (1)
(accrual basis of accounting)
Unaudited

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Net (Expense)/Revenue						
Governmental activities	$ (21,497,083)	(20,068,967)	(17,737,416)	(18,318,196)	(25,919,529)	(33,402,224)
Business-type activities	(24,302,086)	(25,359,109)	(26,953,080)	(16,630,077)	(12,269,394)	(14,009,986)
Total primary government net expense	$ (45,799,169)	(45,428,076)	(44,690,496)	(34,948,273)	(38,188,923)	(47,412,210)
General Revenues and Other Changes in Net Assets						
Governmental activities:						
Property taxes (2)	$ 20,215,467	16,336,901	17,481,813	17,545,652	27,804,374	28,686,523
Excise taxes	7,922,160	9,821,988	10,506,081	13,577,891	14,243,252	14,834,721
Construction excise tax	-	-	-	-	-	1,806,012
Cemetery revenue surcharge	-	-	33,086	25,270	21,395	33,000
Local government shared revenues	435,786	384,166	476,514	540,690	547,512	519,463
Unrestricted investment earnings	1,947,669	962,061	412,610	839,350	2,315,910	4,945,208
Special items	760,350	-	-	-	357,921	-
Transfers	-	-	-	306,009	533,324	(289,417)
Total governmental activities	$ 31,281,432	27,505,116	28,910,104	32,834,862	45,823,688	50,535,510
Business-type activities:						
Property taxes (2)	$ 8,498,916	8,355,692	8,605,342	8,941,517	-	-
Unrestricted local government shared revenues	6,820,346	8,326,852	7,893,216	7,683,769	8,852,246	9,976,554
Unrestricted investment earnings	5,356,090	1,635,825	684,156	1,196,367	2,078,669	3,104,993
Special items	-	-	-	-	(357,921)	-
Transfers	(359,510)	-	-	(306,009)	(533,324)	289,417
Total business-type activities	$ 20,315,842	18,318,369	17,182,714	17,515,644	10,039,670	13,370,964
Total primary government	$ 51,597,274	45,823,485	46,092,818	50,350,506	55,863,358	63,906,474
Change in Net Assets						
Governmental activities	$ 9,784,349	7,436,149	11,172,688	14,516,666	19,904,159	17,133,286
Business-type activities	(3,986,244)	(7,040,740)	(9,770,366)	885,567	(2,229,724)	(639,022)
Total primary government	$ 5,798,105	395,409	1,402,322	15,402,233	17,674,435	16,494,264
Prior period adjustment	$ -	-	-	1,976,193	4,613,707	6,554,744

(1) Restated for prior period adjustment in fiscal year 2007 changing classification of MERC from component unit to business-type activity.

(2) 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 Six Fiscal Years
(modified accrual basis of accounting)
Unaudited

		Fiscal Year				
		2002	2003	2004	2005	2006	2007
General Fund (1)							
Reserved	$	-	-	-	-	7,333,324	8,518,324
Unreserved		1,288,482	1,648,753	2,561,919	4,443,897	25,630,402	34,564,077
Total general fund	$	1,288,482	1,648,753	2,561,919	4,443,897	32,963,726	43,082,401
All Other Governmental Funds (1)							
Reserved	$	13,094,846	12,292,783	10,451,417	10,155,731	10,680,405	12,082,430
Unreserved, reported in:							
Special Revenue Funds		9,332,740	9,548,645	10,476,628	12,592,408	5,679,471	5,930,679
Capital Projects Funds		15,737,419	9,415,427	5,564,935	4,413,313	9,151,671	131,173,017
Permanent Funds		-	-	-	-	178,943	222,452
Total all other governmental funds	$	38,165,005	31,256,855	26,492,980	27,161,452	25,690,490	149,408,578

(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 Six Fiscal Years
(modified accrual basis of accounting)
Unaudited

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Revenues (1)						
Property taxes	$ 19,235,074	16,494,258	17,536,825	17,653,137	27,850,826	28,669,525
Excise taxes	7,922,160	9,821,988	10,506,081	13,577,891	14,243,252	14,834,721
Construction excise tax	-	-	-	-	-	1,806,012
Cemetery revenue surcharge	-	-	33,086	25,270	21,395	33,000
Local government shared revenues	435,786	384,166	476,514	540,690	547,512	519,463
Investment income	1,515,629	725,628	267,466	625,190	2,068,326	4,536,529
Government fees	265,558	207,705	244,119	352,195	490,892	441,531
Culture and recreation fees	1,085,371	1,218,280	1,204,030	1,125,860	14,712,855	15,860,633
Other fees	1,259,528	1,393,044	1,617,773	1,438,929	3,237,906	3,012,834
Internal charges for services	779,805	579,082	875,511	790,222	514,885	661,007
Licenses and permits	-	-	-	-	402,300	409,332
Miscellaneous revenue	40,156	30,192	95,673	235,784	573,107	221,369
Grants	10,151,521	6,814,472	7,061,492	6,871,101	10,682,649	8,015,836
Government contributions	73,085	116,929	104,508	46,865	-	342,540
Contributions and donations	322,617	340,800	416,801	1,634,463	1,332,949	1,316,011
Capital contributions and donations	-	-	-	-	959,676	1,378,075
Total revenues	$ 43,086,290	38,126,544	40,439,879	44,917,597	77,638,530	82,058,418
Expenditures (1)						
General government operations	$ 3,824,481	2,981,919	2,625,450	3,541,419	8,853,776	9,634,211
Regional planning and development	15,016,781	11,134,840	10,453,513	11,624,509	10,553,489	11,896,946
Culture and recreation	7,837,607	8,892,911	7,714,121	9,085,680	6,349,345	7,737,303
Zoo	-	-	-	-	20,908,177	22,974,261
Debt service:						
Principal	9,019,895	9,835,232	11,586,058	10,640,155	12,478,037	12,703,945
Interest	9,879,518	7,834,398	8,007,626	7,534,732	8,304,109	8,469,032
Capital outlay	10,426,457	4,407,455	3,861,065	2,425,758	5,210,036	12,320,285
Total expenditures	$ 56,004,739	45,086,755	44,247,833	44,852,253	72,656,969	85,735,983
Excess of revenues over (under) expenditures	$ (12,918,449)	(6,960,211)	(3,807,954)	65,344	4,981,561	(3,677,565)

(Continued)

METRO

Changes in Fund Balances, Governmental Funds, Continued

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

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Other financing sources (uses)						
Loan proceeds	$ -	-	-	-	-	592,500
Bonds issued	47,855,350	100,681,603	-	18,085,000	24,290,000	124,295,000
Premium on bonds issued	-	-	-	1,230,005	23,286	6,383,369
Transfers in	6,965,963	6,873,213	7,056,279	10,306,075	4,288,434	2,933,742
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)	(3,695,027)
Total other financing sources (uses)	$ 1,349,437	412,332	(42,755)	508,913	24,849,206	130,509,584
Special item	$ -	-	-	-	(24,022,369)	-
Net change in fund balances	$ (11,569,012)	(6,547,879)	(3,850,709)	574,257	5,808,398	126,832,019
Prior period adjustment	$ -	-	-	1,976,193	4,613,707	7,004,744
Debt service as a percentage of noncapital expenditures	43.5%	44.8%	49.5%	43.9%	31.2%	29.4%

(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)				Organic (3)	ECU (4)	
	Metro-Owned Facilities	Total Per Ton Rate	Privately-Owned Facilities	Total Per Ton Rate	Metro-Owned Facilities	Privately-Owned Facilities	Regional Total All Waste Types
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	749,948	22.87	19,340	356,044	1,714,472
2007	610,854	69.86	783,631	21.92	21,639	183,291	1,599,415

(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 surcharges 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. ECU is often generated by one or two large remediation projects in the region; therefore tonnage may vary considerably year to year.

Source: Metro Solid Waste and Recycling Department.

METRO

Solid Waste Disposal Rates

Last Ten Fiscal Years

Unaudited

		Fiscal Year									
		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Metro Facilities											
Disposal fee (1) (2)	$	37.83	38.61	38.61	29.75	29.75	33.02	42.55	45.55	46.80	46.20
Disposal fee - unspecified (1) (2)		-	-		4.32	3.96	-	-	-	-	-
Metro facility fee (1) (2)		8.00	1.15	1.15	2.55	2.55	2.55	-	-	-	-
Regional transfer fee (1) (2)		7.50	7.00	7.00	6.56	6.56	7.53	-	-	-	-
Regional system fee		15.00	14.00	14.00	12.90	12.90	15.00	16.57	15.09	14.54	13.57
Excise tax (2)		-	-	-	4.68	5.04	6.39	6.32	8.58	8.33	8.35
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		1.04	1.11	1.11	1.11	1.11	1.11	1.11	1.11	1.11	1.11
Total rate per ton (3)	$	70.00	62.50	62.50	62.50	62.50	66.23	67.18	70.96	71.41	69.86
Transaction fee-scalehouse	$	-	5.00	5.00	5.00	5.00	6.00	6.00	7.50	7.50	8.50
Transaction fee-automated	$	-	-	-	-	-	-	-	-	-	3.00
Privately-Owned Facilities											
Regional system fee	$	15.00	14.00	14.00	12.90	12.90	15.00	16.57	15.09	14.54	13.57
Excise tax (4)		-	-	-	4.68	5.04	6.39	6.32	8.58	8.33	8.35
Total rate per ton (3)	$	15.00	14.00	14.00	17.58	17.94	21.39	22.89	23.67	22.87	21.92

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

(2) For fiscal years 1998-2000, excise tax is included in the noted fees.

(3) Rates are per ton of mixed waste disposal. For fiscal year 2007, 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 1998-2000, 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 Five Years Ago (1)

Unaudited

	2007			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	$ 8,883,451	1	17.09 %	8,325,504	1	18.50 %
AGG	2,752,583	2	5.30	1,917,138	3	4.26
Portland Disposal & Recycling	2,426,338	3	4.67	1,677,167	4	3.73
Oregon City Garbage Company	2,225,561	4	4.28	2,142,693	2	4.76
Keller Drop Box Inc	2,196,434	5	4.23	1,110,123	6	2.47
Trashco Services Inc	1,793,267	6	3.45	1,101,034	7	2.45
Allied Waste Services of Portland	1,565,225	7	3.01	-		-
Gresham Sanitary Service Inc	1,438,659	8	2.77	1,129,161	5	2.51
Oak Grove Disposal Company Inc	1,206,465	9	2.32	865,564	9	1.92
Heiberg Garbage Service	478,199	10	0.92	845,170	10	1.88
River City Disposal Company Inc	-		-	982,396	8	2.18
Total	$ 24,966,182		48.04 %	$ 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 142 for rate detail.

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

METRO

Ratios of Outstanding Debt by Type

Last Six Fiscal Years (1)

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 (2)	24,290,000	507,151	-
2007	244,378,256	-	21,155,000	24,290,000	1,072,239	-

(1) Restated for prior period adjustment in fiscal year 2007 changing classification of MERC from component unit to business-type activity.

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

(3) See page 153 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 (3)		Per Capita (3)
$ 25,590,000	$ -		$ 19,790,280	$ 246,235,585	0.38	%	$ 165.91
16,410,000	-		19,343,935	223,393,077	0.34		148.54
16,410,000	4,055,000		15,121,263	209,893,500	0.30		137.87
10,275,000	3,855,000		14,620,186	191,397,974	0.26		123.97
8,045,000	14,700,000	(2)	164,470	201,648,822	N/A	*	128.51
5,810,000	14,570,000		154,191	311,429,686	N/A	*	195.45

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	General Bonded Debt Outstanding: Less: Amounts Restricted to Repaying Principal	General Bonded Debt Outstanding: Net General Bonded Debt	Real Market Value (1)	Percentage of Actual Real Market Value of Property	Per Capita (2)
1998	$ 211,002,003	$ 7,624,050	$ 203,377,953	$ 87,320,546,481	0.23 %	$ 149.20
1999	203,377,953	8,048,755	195,329,198	94,157,744,893	0.21	141.70
2000	195,329,198	8,483,200	186,845,998	105,147,450,817	0.18	129.38
2001	186,845,998	8,938,625	177,907,373	113,011,064,594	0.16	121.25
2002	177,847,373	9,798,060	168,049,313	123,050,948,638	0.14	113.23
2003	165,364,313	11,543,920	153,820,393	128,542,544,330	0.12	102.28
2004	153,820,393	10,328,133	143,492,260	138,455,070,187	0.10	94.25
2005	143,000,238	10,004,443	132,995,795	146,360,729,671	0.09	86.14
2006	131,647,201	10,680,405	120,966,796	156,666,228,799	0.08	77.09
2007	244,378,256	12,082,430	232,295,826	181,787,247,525	0.13	145.79

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

(2) See page 153 for population data.

METRO

Direct and Overlapping Governmental Activities Debt

As of June 30, 2007

Unaudited

Overlapping government	Percent within District	Overlapping: Gross property tax backed debt	Overlapping: Net property tax backed debt
Clackamas County	74.12 %	$ 60,707,720	$ 37,054,688
North Clackamas Parks & Rec. District	100.00	6,725,000	-
Oak Lodge Water District 4	100.00	1,505,000	1,505,000
Clackamas County Service District 1	100.00	320,424	-
Clackamas County RFPD 1	84.05	22,444,938	5,353,838
Clackamas County SD 3J (West Linn-Wilsonville)	94.34	158,113,221	118,318,921
Clackamas County SD 7J (Lake Oswego)	100.00	125,037,616	78,050,000
Clackamas County SD 12 (N Clackamas)	98.63	413,285,088	305,874,003
Clackamas County SD 62 (Oregon City)	67.45	71,943,490	40,921,212
Clackamas County SD 115 (Gladstone)	100.00	63,523,821	47,706,673
Clackamas County SD 86 (Canby)	15.46	15,734,947	10,414,828
Clackamas Community College	73.54	71,218,744	31,480,376
City of Gladstone	100.00	2,560,000	-
City of Lake Oswego	100.00	27,875,000	27,875,000
City of Milwaukie	100.00	5,950,000	1,665,000
City of Oregon City	100.00	20,000,000	3,105,000
City of West Linn	100.00	12,540,000	9,130,000
City of Wilsonville	100.00	7,790,000	230,000
Columbia County SD 1J (Scappoose)	6.06	66,993	66,993
Northwest Regional ESD	73.21	5,893,236	-
Multnomah County	98.99	303,967,765	60,926,560
Port of Portland	91.09	67,185,175	-
Multnomah County Drainage District 1	100.00	6,045,000	-
Tri-Met	97.93	228,853,774	67,472,668
Multnomah County SD 1J (Portland)	99.61	482,925,421	-
Multnomah County SD 3 (Parkrose)	100.00	13,935,000	13,935,000
Multnomah County SD 7 (Reynolds)	100.00	145,013,501	47,910,000
Multnomah County SD 28J (Centennial)	100.00	38,588,445	37,923,445
Multnomah County SD 40 (David Douglas)	100.00	44,895,000	44,895,000
Multnomah County SD 51J (Riverdale)	100.00	12,345,669	10,705,669
Multnomah County SD 10J (Gresham-Barlow)	95.83	114,652,735	58,304,736
Multnomah County SD 10J (Orient 6 Bond)	70.56	376,208	376,208
Multnomah ESD	99.03	37,251,865	-
Mt. Hood Community College	86.35	48,490,481	-
Portland Community College	91.63	241,164,633	58,119,577

(Continued)

METRO

Direct and Overlapping Governmental Activities Debt, Continued

As of June 30, 2007

Unaudited

Overlapping government	Percent within District	Overlapping: Gross property tax backed debt	Overlapping: Net property tax backed debt
City of Fairview	100.00 %	$ 3,506,000	$ 1,865,000
City of Gresham	100.00	30,978,272	2,090,390
City of Portland	100.00	699,938,034	68,534,589
City of Troutdale	100.00	11,020,000	11,020,000
City of Wood Village	100.00	190,000	80,000
Washington County	93.26	119,187,748	39,690,392
Tualatin Hills Park & Rec. District	99.97	17,388,382	16,579,643
Forest Grove RFPD	12.16	30,397	30,397
Tualatin Valley Fire & Rescue District	96.93	22,147,500	2,762,380
Washington County SD 15 (Forest Grove)	77.68	62,653,046	37,131,183
Washington County SD 23J (Tigard-Tualatin)	99.29	111,750,284	105,264,520
Washington County SD 1J (Hillsboro 7 Bond)	92.76	635,385	635,385
Washington County SD 48J (Beaverton)	99.69	580,081,310	396,633,044
Washington County SD 88J (Sherwood)	80.99	119,451,774	108,732,831
Washington County SD 1J (Hillsboro)	85.19	327,499,262	239,878,878
Washington County SD 1J (Reedville Bond)	98.51	1,556,520	1,556,520
City of Beaverton	99.98	15,281,194	1,994,503
City of Cornelius	93.35	3,528,498	686,097
City of Durham	100.00	1,785,000	1,785,000
City of Forest Grove	99.73	8,317,565	3,809,724
City of Hillsboro	98.69	25,235,851	-
City of Sherwood	99.99	8,343,907	8,343,907
City of Tigard	100.00	13,379,083	11,066,369
City of Tualatin	100.00	12,110,000	12,110,000
Clackamas County ESD	74.43	20,480,185	-
Clackamas County SD 46 (Oregon Trail)	6.61	47,256	-
Sunrise Water Authority	98.77	809,907	809,907
Totals		$ 5,096,258,270	$ 2,192,411,054

Note: "Gross property tax backed debt" includes all general obligation bonds and full faith and credit bonds.
"Net property tax backed debt" is gross property tax backed debt less self-supporting unlimited-tax general obligation and self-supporting full faith and credit 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 2007

True cash value		$ 181,787,247,525
Debt limit (10% of true cash value)		18,178,724,753
Debt applicable to limit:		
Gross bonded debt principal	$ 310,203,256	
Less legal deductions from debt limit:		
Metro Central Transfer Station Project, Solid Waste Disposal System Revenue Bonds	(1,070,000)	
Solid Waste Disposal System Refunding Revenue Bonds	(4,740,000)	
Full Faith and Credit Refunding Bonds Refunding Bonds 2003 Series	(21,155,000)	
Full Faith and Credit Oregon Local Governments Bonds 2006 Series	(14,570,000)	
Metro Limited Tax Pension Obligation Bonds Series 2005	(24,290,000)	
Total net debt applicable to limit		244,378,256
Legal debt margin		$ 17,934,346,497

	Fiscal Year			
	1998	1999	2000	2001
Debt limit	$ 8,732,054,648	9,415,774,489	10,514,745,082	11,301,106,459
Total net debt applicable to limit	211,002,003	203,377,953	195,329,198	186,845,998
Legal debt margin	$ 8,521,052,645	9,212,396,536	10,319,415,884	11,114,260,461
Total net debt applicable to the limit as a percentage of the debt limit	2.42%	2.16%	1.86%	1.65%

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					
2002	2003	2004	2005	2006	2007
12,305,094,864	12,854,254,433	13,845,507,019	14,636,072,967	15,666,622,880	18,178,724,753
177,847,373	165,364,313	153,820,393	143,000,238	131,647,201	244,378,256
12,127,247,491	12,688,890,120	13,691,686,626	14,493,072,729	15;534,975,679	17,934,346,497
1.45%	1.29%	1.11%	0.98%	0.84%	1.34%

METRO

Pledged Revenue Coverage

Last Ten Fiscal Years

Unaudited

Fiscal year ended June 30,	Solid Waste Revenue Bonds: Solid Waste operating revenue	Less: operating expenses	Net available revenue	Debt service (1): Principal	Debt service (1): Interest	Coverage
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
2007	56,198,701	49,919,528	6,279,173	640,903	1,600,400	2.80

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)
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	32,117	4.4
2001	1,467,300	63,933,229	32,334	6.0
2002	1,484,150	64,908,688	32,228	7.8
2003	1,503,900	66,576,262	32,629	8.3
2004	1,522,400	70,144,100	34,018	7.0
2005	1,543,910	74,282,336	35,430	5.8
2006	1,569,170	N/A *	N/A *	5.1
2007	1,593,370 (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 (1)

Current Year and Nine Years Ago

Unaudited

	2007			1998		
Employer	Employees	Rank	Percentage of Total Metropolitan Area Employment	Employees	Rank	Percentage of Total Metropolitan Area Employment
U.S. Government	21,150	1	2.07 %	17,173	1	1.84 %
State of Oregon	17,730	2	1.73	15,855	2	1.70
Intel Corporation	16,000	3	1.56	11,000	3	1.18
Providence Health System	15,000	4	1.47	8,938	5	0.96
Safeway Inc.	13,000	5	1.27	-		-
Oregon Health & Science University	11,300	6	1.10	11,000	3	1.18
Fred Meyer Stores	10,500	7	1.03	8,905	6	0.95
Legacy Health System	10,000	8	0.98	6,731	8	0.72
Kaiser Foundation Health Plan of the NW	8,747	9	0.85	7,663	7	0.82
Nike, Inc	7,000	10	0.68	-		-
U.S. Bancorp	-		-	6,242	9	0.67
Portland Public Schools	-		-	6,000	10	0.64
Total	130,427		12.74 %	99,507		10.66 %

(1) Portland OR MSA consisting of Clackamas, Columbia, Multnomah, Washington and Yamhill counties.

Sources: Portland Business Alliance, Oregon Employment Division
and the Portland Metropolitan Chamber of Commerce.

METRO

Full-Time Equivalent Employees by Function/Program

Last Ten Fiscal Years (1)

Unaudited

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Functions/Programs										
Primary Government:										
Governmental activities:										
General government operations	123.54	124.52	132.51	128.00	131.50	132.75	119.85	122.20	125.50	134.70
Regional planning and development	92.83	93.75	86.65	79.31	80.25	79.00	80.10	73.15	78.60	81.40
Culture and recreation	47.25	49.75	49.75	49.75	49.50	48.00	42.10	44.10	45.15	42.40
Zoo	138.17	147.19	152.85	163.60	-	-	-	-	149.13	149.13
Total governmental activities	401.79	415.21	421.76	420.66	261.25	259.75	242.05	239.45	398.38	407.63
Business-type activities:										
Solid Waste	99.35	99.35	96.85	106.25	110.15	109.15	108.70	106.20	106.20	106.75
Zoo	-	-	-	-	167.03	169.73	160.23	151.85	-	-
MERC	155.75	161.95	164.50	159.90	152.00	193.00	180.25	157.00	156.00	163.00
Total business-type activities	255.10	261.30	261.35	266.15	429.18	471.88	449.18	415.05	262.20	269.75
Total primary government	656.89	676.51	683.11	686.81	690.43	731.63	691.23	654.50	660.58	677.38
						(2)	(3)	(4)		

(1) Restated for prior period adjustment in fiscal year 2007 changing classification of MERC from component unit to business-type activity.

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

(3) Decrease from previous fiscal year is due primarily to reevaluation of personnel needs related to the expansion of the Oregon Convention Center, 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.

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

Source: Metro Adopted Budget documents.

METRO

Operating Indicators by Function/Program

Last Six Fiscal Years

Unaudited

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Functions/Programs						
Primary Government:						
Governmental activities:						
General government operations:						
Business licenses issued	2,787	3,034	2,939	3,003	2,980	3,032
Live broadcast of Metro Council meetings	-	38	40	40	38	36
Presentations to citizens, business, and other groups by Councilors and COO	138	267	315	322	461	785
General obligation bond rating:						
Moody's	Aa1	Aa1	Aa1	Aa1	Aa1	Aaa
Standard and Poor's	AA+	AA+	AA+	AAA	AAA	AAA
Regional planning and development:						
Data Resource Center sales of maps and aerials	$ 134,271	137,352	145,649	177,211	185,182	178,972
Culture and recreation:						
Visitors to Blue Lake Park, Oxbow Park and Chinook Landing	751,916	713,276	728,910	721,800	656,616	695,176
Volunteers	1,259	1,478	1,575	1,421	1,100	1,687
Volunteer hours	16,785	14,312	20,100	30,519	22,570	14,642
Acres acquired in Open Spaces land target areas	834	168	80	116	42	12
Acres acquired in Natural Areas land target areas	-	-	-	-	-	304
Zoo:						
Adult admission price	$ 7.50	8.00	9.00	9.50	9.50	9.75
Annual attendance	1,319,459	1,293,597	1,318,458	1,336,287	1,365,459	1,508,564
Volunteer hours	127,000	118,500	122,000	143,500	151,533	156,839
Property taxes as percentage of operating revenue	38%	39%	38%	38%	36%	39%
Contributions & donations as percent of total revenue	5.7%	5.6%	3.3%	5.3%	4.9%	4.6%
Business-type activities:						
Solid Waste:						
Recycling Information Center calls and hits on website	110,320**	108,652**	126,245	126,949	139,830	134,489
Students reached in elementary and secondary school presentations	29,911	37,478	41,055	44,314	43,692	43,420
Regional recovery rate (1)	47.9%	53.5%	55.2%	57.0%	58.6%	55.5%
Hazardous waste net cost per pound	$ 0.98	0.90	0.72	0.87	0.89	0.78
Gallons of recycled paint produced	104,148	116,107	167,040	137,075	102,196	92,982
Latex paint revenue	$ 351,503	539,135	693,774	755,560	809,484	955,802

(Continued)

METRO

Operating Indicators by Function/Program, Continued

Last Six Fiscal Years

Unaudited

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
MERC:						
Annual attendance						
Oregon Convention Center	450,000	577,328	668,911	700,360	633,575	608,673
Expo Center	582,884	534,367	501,670	469,943	470,984	477,072
Portland Center for the Performing Arts	969,000	947,338	900,000	797,752	953,863	862,897
Number of events/performances						
Oregon Convention Center	55	66	91	93	85	91
Expo Center	100	102	92	100	102	98
Portland Center for the Performing Arts	950	902	978	937	980	1,113
Capacity						
Occupancy rate (75% considered maximum)						
Oregon Convention Center	65%	55%	37%	48%	43%	46%

(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.

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

Source: Various Metro departments.

METRO

Capital Asset Statistics by Function/Program

Last Six Fiscal Years

Unaudited

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Functions/Programs						
Primary Government:						
Governmental activities:						
General government operations:						
Regional Center facilities	1	1	1	1	1	1
Square footage	110,000	110,000	110,000	110,000	110,000	110,000
Parking spaces - Regional Center garage	162	162	162	162	162	162
Parking spaces - Irving Street garage	485	485	485	485	485	485
Culture and recreation:						
Regional park facilities	5	5	5	5	5	5
Acres	1,572	1,572	1,572	1,572	1,572	1,572
Cemeteries	14	14	14	14	14	14
Acres	65	65	65	65	65	65
Golf facilities	1	1	1	1	1	1
Acres	232	232	232	232	232	232
18-hole courses	2	2	2	2	2	2
Marine facilities	3	3	3	3	3	3
Natural Areas	6	6	6	6	6	6
Acres	2,411	2,411	2,411	2,411	2,411	2,411
Open Spaces land target areas (1995 bond measure)	27	27	27	27	27	27
Acres	7,767	7,935	8,015	8,131	8,173	8,185
Natural Areas land target areas (2006 bond measure)	-	-	-	-	-	35
Acres	-	-	-	-	-	304
Zoo:						
Acres	65	65	65	65	65	65
Buildings and exhibits	38	38	38	38	44	44
Roads and pathways (square footage)	341,000	341,000	341,000	341,000	341,000	341,000
Railways	1	1	1	1	1	1
Business-type activities:						
Solid Waste:						
Transfer stations (incl. hazardous waste facilities)	2	2	2	2	2	2
Closed landfills maintained	1	1	1	1	1	1
MERC:						
Convention Centers	1	1	1	1	1	1
Square footage	500,000	907,000	907,000	907,000	907,000	907,000
Parking spaces	800	800	800	800	800	800
Exposition Centers	1	1	1	1	1	1
Square footage	330,000	330,000	330,000	330,000	330,000	330,000
Parking spaces	2,200	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.

METRO

Property Tax Levies and Collections (1)

Last Ten Fiscal Years

Unaudited

Fiscal year ended June 30,	Taxes levied by assessor	Current tax collections	Current tax collections as percent of current levy	Delinquent tax collections	Total tax collections	Total collections as percent of current levy	Uncollected taxes	Uncollected taxes as percent of current levy
1998	$ 26,103,411	$ 24,848,112	95.2 %	$ 720,013	$ 25,568,125	97.9 %	$ 1,286,146	4.9 %
1999	26,225,874	24,710,874	94.2	798,788	25,509,662	97.3	1,403,421	5.4
2000	25,039,223	23,514,268	93.9	798,873	24,313,141	97.1	1,469,184	5.9
2001	27,612,647	25,936,657	93.9	716,457	26,653,114	96.5	1,559,461	5.6
2002	28,067,559	26,357,614	93.9	863,115	27,220,729	97.0	1,589,819	5.7
2003	25,461,547	23,932,994	94.0	891,558	24,824,552	97.5	1,397,706	5.5
2004	26,872,963	25,350,559	94.3	743,803	26,094,362	97.1	1,310,504	4.9
2005	27,379,364	25,852,468	94.4	713,792	26,566,260	97.0	1,170,866	4.3
2006	28,618,145	27,115,918	94.8	668,916	27,784,834	97.1	1,100,030	3.8
2007	29,415,279	27,895,188	94.8	650,052	28,545,240	97.0	1,140,509	3.9

(1) Property tax levies provide additional operating revenue for the Oregon Zoo and debt service for Metro's general obligation bonds.

METRO

Assessed and Real Market Value of Taxable Property

Last Ten Fiscal Years

Unaudited

Fiscal year ended June 30,	Real property: Assessed value	Real property: Real market value	Personal property: Assessed value	Personal property: Real market value
1998	$ 60,387,931,053	$ 80,283,641,966	$ 3,675,943,675	$ 3,974,916,593
1999	64,954,925,132	86,686,731,219	4,015,295,303	4,218,503,324
2000	68,119,873,420	96,442,637,972	4,599,178,731	4,855,164,356
2001	72,324,619,679	103,550,908,925	4,778,797,938	5,014,856,997
2002	76,887,078,626	113,257,470,348	5,241,574,117	5,332,826,767
2003	80,537,735,166	119,083,633,530	5,171,288,194	5,260,708,472
2004	83,831,528,669	129,455,074,198	4,953,228,970	5,027,676,572
2005	87,594,182,912	137,358,990,439	4,844,569,951	4,933,679,306
2006	91,988,728,939	147,912,179,454	4,818,026,408	4,927,283,069
2007	96,689,252,140	172,711,048,668	4,957,074,851	5,044,779,069

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

Public utility property				Total				Ratio of total assessed to total real market value
	Assessed value		Real market value		Assessed value		Real market value	
$	2,647,959,728	$	3,061,987,922	$	66,711,834,456	$	87,320,546,481	76.4 %
	2,965,312,065		3,252,510,350		71,935,532,500		94,157,744,893	76.4
	3,539,158,652		3,849,648,489		76,258,210,803		105,147,450,817	72.5
	3,906,448,496		4,445,298,672		81,009,866,113		113,011,064,594	71.7
	4,360,911,274		4,460,651,523		86,489,564,017		123,050,948,638	70.3
	4,128,896,729		4,198,202,328		89,837,920,089		128,542,544,330	69.9
	3,953,101,838		3,972,319,417		92,737,859,477		138,455,070,187	67.0
	4,047,402,277		4,068,059,926		96,486,155,140		146,360,729,671	65.9
	3,796,815,443		3,826,766,276		100,603,570,790		156,666,228,799	64.2
	3,968,232,130		4,031,419,788		105,614,559,121		181,787,247,525	58.1

METRO

Principal Property Tax Taxpayers Within the District by County
(amounts expressed in thousands)

June 30, 2007

Unaudited

Taxpayer account	Type of business	Assessed valuation	Percent of total valuation
Multnomah County:			
Portland General Electric Co.	Electric utility	$ 333,404	0.70 %
Port of Portland	Marine and aviation facilities	308,375	0.65
Qwest Wireless	Telephone utility	297,211	0.62
Pacificorp (PP&L)	Electric utility	239,977	0.50
Boeing Company	Aircraft manufacturing	174,307	0.37
Oregon Steel Mills, Inc.	Steel products	163,511	0.34
Northwest Natural Gas Co.	Natural gas utility	153,345	0.32
LC Portland LLC	Commercial rental partnership	143,836	0.30
United Airlines, Inc.	Air travel	132,003	0.28
Freightliner LLC	Commercial vehicle manufacturing	128,001	0.27
All other taxpayers	-	45,525,856	95.65
	Total	$ 47,599,826	100.00 %
Washington County:			
Intel Corporation	Computer electronics	$ 1,043,165	2.87 %
Nike, Inc.	Athletic apparel	333,402	0.92
Verizon Northwest, Inc.	Telecommunications	323,742	0.89
Portland General Electric Co.	Electric utility	251,957	0.69
Pacific Realty Associates	Real estate	245,937	0.68
Northwest Natural Gas Co.	Natural gas utility	206,607	0.57
Maxim Integrated Products, Inc.	Semiconductor manufacturing	152,395	0.42
Tektronix, Inc.	Computer electronics	135,416	0.37
ERP Operating LP	Real estate	108,788	0.30
Novellus Systems Inc.	Semiconductor production equipment manufacturing	105,491	0.29
All other taxpayers	-	33,451,079	92.00
	Total	$ 36,357,979	100.00 %
Clackamas County:			
Portland General Electric Co.	Electric utility	$ 162,014	0.75 %
Fred Meyer, Inc.	Retailer	138,881	0.64
General Growth Properties, Inc.	Real estate	125,736	0.58
Northwest Natural Gas Co.	Natural gas utility	111,874	0.52
PCC Structurals, Inc.	Metal castings and machining	73,981	0.34
Xerox Corporation	Document management	66,073	0.31
Qwest Corporation	Telephone utility	62,380	0.29
Safeway Stores, Inc.	Retail grocer	51,100	0.24
Warn Belleview, Inc.	Manufacturing	49,909	0.23
Mentor Graphics Corp.	Electronics	47,798	0.22
All other taxpayers	-	20,767,008	95.88
	Total	$ 21,656,754	100.00 %

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

AUDIT COMMENTS AND DISCLOSURES
REQUIRED BY STATE REGULATIONS

Oregon Administrative Rules 162-010-0000 through 162-010-0330 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.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *OREGON AUDITING STANDARDS*

Metro Council and Metro Auditor
Portland, Oregon

We have audited the basic financial statements of Metro as of and for the year ended June 30, 2007 and have issued our report thereon dated December 19, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

Compliance

As part of obtaining reasonable assurance about whether Metro's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grants, including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules OAR 162-10-000 to 162-10-330, as set forth below, noncompliance with which could have a direct and material effect on the determination of financial statement amounts:

- The accounting records and related internal control structure.
- The amount and adequacy of collateral pledged by depositories to secure the deposit of public funds.
- The requirements relating to debt.
- The requirements relating to the preparation, adoption and execution of the annual budgets for fiscal years 2007 and 2008.
- The requirements relating to insurance and fidelity bond coverage.
- The appropriate laws, rules and regulations pertaining to programs funded wholly or partially by other governmental agencies.
- The statutory requirements pertaining to the investment of public funds.
- The requirements pertaining to the awarding of public contracts and the construction of public improvements.

However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance that are required to be reported under Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State, except those noted below.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Metro's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Metro's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Metro's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However the following material weaknesses were identified during our audit of the June 30, 2007 financial statements.

When documenting our understanding of the reporting entity, it came to our attention that the Metropolitan Exposition Recreation Commission (MERC) might not be a separate legal entity as defined in GASB 14. Management reviewed the status of MERC and determined it was not a separate legal entity. As management had been reporting MERC as a component unit, this resulted in a prior period adjustment in order to move MERC from the component unit column into the Business-type Activities column on the government-wide financial statements, and to create a fund financial statement in the Proprietary Fund Statements. Management had not reviewed MERC's status as a component unit since it became a part of Metro several years ago.

While testing unearned revenue, it came to our attention that Metro was recording proceeds from an intergovernmental agreement with TriMet as unearned revenue. When brought to its attention, management reviewed the intergovernmental agreement and determined that the proceeds were earned when received in accordance with GASB 33. This resulted in a prior period adjustment to recognize revenue received in prior periods.

During our audit of capital assets, we noted several deficiencies in internal controls. As we were testing beginning balances, we noted that descriptions of assets were not detailed sufficiently to identify the specific asset. In addition, multiple assets were combined into one description, and multiple years of purchases were aggregated into one item. This method of aggregating assets and years led to some assets being over-depreciated. In addition, it appears that there are items on the capital asset list that Metro no longer owns. Although this testing did not lead to a material adjustment, we believe the deficiencies could lead to a material misstatement if they are not corrected. In addition, we noted that there are fully-depreciated items on the capital asset listing that are still in use. Metro should reassess the depreciable lives on their capital assets.

In addition to the material weaknesses outlined above, the following significant deficiencies were identified during our audit of the June 30, 2007:

Metro finance staff identified an error in the prior financial statements. Long-term debt was recorded on the General Fund Balance Sheet. Although the amount was not material to the financial statements, it was corrected through a prior-period adjustment to remove the long-term debt from the Balance Sheet in compliance with GASB 34. Although Metro staff identified the error this year, it does not appear that controls are in place to prevent this from occurring again in the future.

While testing various accounts receivable, it came to our attention that past-due notices were not being sent out on a timely basis. Past-due notices are a crucial part of an effective internal control process to identify potential theft of payments and to catch errors when payments are posted to the wrong accounts. In addition, timely past-due notices generally increase collectibility of outstanding receivables. Metro staff said past-due notices have decreased in frequency because of cutbacks in the accounting department.

Also, in Metro's financial accounting software, there are several dates associated with an invoice. These dates can be manually changed. Because of this, staff does not know the date that invoices are actually sent out. This can complicate the past-due and revenue cutoff process.

It came to our attention during audit testing that the due to/due from accounts between Metro and MERC were not reconciled on a timely basis. Lack of timely reconciliations can cause errors to go undetected. In discussing this with Metro and MERC staff, it appears the failure to reconcile the accounts was due to the lack of effective communication.

Accounting personnel in the Planning Department do not appear to be well-versed in accounting principles generally accepted in the United States for governmental entities, and some elements of the reporting of federal awards required to be audited under OMB circular A-133. Because the central accounting staff that prepare the financial statements rely on departmental information, there is the possibility that a more than insignificant error could go undetected.

This report is intended solely for the information of the Metro Council and Metro Auditor, management, and the State of Oregon and is not intended to be and should not be used by anyone other than those specified parties.

James C. Lazarotti

For Moss Adams LLP
Eugene, Oregon
December 19, 2007

METRO AUDITOR STAFF REPORT

IN CONSIDERATION OF RESOLUTION NO. 08-3904 FOR THE PURPOSE OF THE METRO COUNCIL'S ACCEPTANCE OF THE RESULTS OF THE INDEPENDENT AUDIT REPORT FOR FINANCIAL ACTIVITY DURING FISCAL YEAR 2006-2007.

Date: January 23, 2008 Prepared by: Suzanne Flynn, Metro Auditor

BACKGROUND

State ORS provision 297.465 requires an annual independent audit of Metro's financial statements. The current contract was awarded to Moss Adams LLP for audit services and is effective May 18, 2007 through June 30, 2010.

Metro Code Chapter 2.15 specifies at Section 2.15.80 that the Auditor shall appoint external certified public accountants to conduct certified financial statement audits. The Metro Charter Section 18 also specifies that the auditor shall be responsible for financial auditing of all aspects of Metro's operations.

The Comprehensive Annual Financial Report (CAFR) has been completed by the Department of Financial and Administrative Services. Moss Adams LLP has audited the financial statements and issued an opinion that these statements fairly represent Metro's financial position as of June 30, 2007. Moss Adams also compiled a separate letter to management with recommendations, referred to as "Exhibit A." The Department of Financial and Administrative Services has responded to the recommendations. The results have been reviewed by the Metro Auditor and Metro Audit Committee members.

ANALYSIS/INFORMATION

1. **Known Opposition**
   None.

2. **Legal Antecedents**
   State ORS provision 297.465 requires an annual independent audit of Metro's financial statements. The Metro contract No. 927943 with Moss Adams LLP for audit services will expire on June 30, 2010.

   Metro Code Chapter 2.15 specifies at Section 2.15.80 that the Auditor shall appoint external certified public accountants to conduct certified financial statement audits. The Metro Charter Section 18 also specifies that the auditor shall be responsible for financial auditing of all aspects of Metro's operations.

3. **Anticipated Effects**
   Recommendations made by Moss Adams shall be noted and implemented by Financial and Administrative Services management and staff.

4. **Budget Impacts**
   None known at this time.

METRO AUDITOR RECOMMENDATION

The Metro Auditor recommends approval of Resolution No. 08-3904.