

**METRO
FEDERAL GRANT PROGRAMS
INDEPENDENT AUDITOR'S REPORTS
AND
SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS**

JUNE 30, 2007

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Metro Council and Metro Auditor
Portland, Oregon

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Metro as of and for the year ended June 30, 2007, which collectively comprise Metro's basic financial statements and have issued our report thereon dated December 19, 2007. 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.

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 Metro's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over the financial reporting, 2007-01, 2007-02, 2007-03, 2007-04, 2007-05, 2007-06, and 2007-07.

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, and accordingly, would not necessarily disclose all significant deficiencies that are also considered material weaknesses. However, of the significant deficiencies described above we considered items 2007-01, 2007-02 and 2007-03 to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Metro's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Metro in a separate letter dated December 19, 2007.

This report is intended solely for the information and use of the audit committee; management; the Council; the Secretary of State, Divisions of Audits, of the State of Oregon; federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Moss Adams, LLP

Eugene, Oregon
December 19, 2007

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Metro Council and Metro Auditor
Portland, Oregon

COMPLIANCE

We have audited the compliance of Metro with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Metro's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Metro's management. Our responsibility is to express an opinion on Metro's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Metro's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Metro's compliance with those requirements.

In our opinion, Metro complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questions costs as items 2007-09 and 2007-10.

INTERNAL CONTROL OVER COMPLIANCE

The management of Metro is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Metro's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Metro's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in Metro's internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2007-08, 2007-09 and 2007-10 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Metro as of and for the year ended June 30, 2007, which collectively comprise Metro's basic financial statements and have issued our report thereon dated December 19, 2007. 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. Our audit was performed for the purpose of forming an opinion on

the financial statements that collectively comprise Metro's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee; management; Council; the Secretary of State, Divisions of Audits, of the State of Oregon; federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Moss Adams, LLP

Eugene, Oregon
January 29, 2008, except for
the Schedule of Expenditure of
Federal Awards, which is dated
December 19, 2007

METRO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

| <u>Grantor and program title</u> | <u>Federal CFDA number</u> | <u>Grant number</u> | <u>Federal Expenditures</u> |
|---|--------------------------------|-------------------------|---------------------------------|
| <u>U. S. Department of Agriculture</u> | | | |
| Direct Programs: | | | |
| Natural Resources Conservation Service- Wetlands Reserve Program-Lovejoy Restoration | 10.072 | 66-0436-3-026 | \$ 68,255 |
| Forest Service- UNO Program | 10.XXX | 06-CS-11062200-007 | 16,000 |
| Passed through the National Forest Foundation: | | | |
| Silverspot Butterfly 2006 Summer Interns | 10.6XX | 6-006-14-06 | 4,700 |
| Wildlife Habitat Incentives Program | 10.914 | 7204365C165 | 13,367 |
| Total U. S. Department of Agriculture | | | 102,322 |
| <u>U. S. Department of the Interior</u> | | | |
| Direct Programs: | | | |
| Bureau of Land Management- | | | |
| Federal Land Policy and Management Act (FLPMA) | 15.XXX | HAA059Q00 | 40,000 |
| Federal Land Policy and Management Act (FLPMA) | 15.XXX | HAP0614148 | 5,000 |
| Fish and Wildlife Service - | | | |
| Wildlife Restoration | 15.611 | 1448-13420-J251 | 2,500 |
| Passed through The Department of State Lands: | | | |
| Fish and Wildlife Service - | | | |
| Cooperative Endangered Species Conservation Fund | 15.615 | USFWS Sec 6 grant E6-30 | 21,000 |
| Cooperative Endangered Species Conservation Fund | 15.615 | USFWS Sec 6 grant E6-35 | 10,000 |
| Passed through Oregon State Marine Board: | | | |
| Fish and Wildlife Service - | | | |
| Clean Vessel Act Program | 15.616 | N/A | 900 |
| Total U. S. Department of the Interior | | | 79,400 |

METRO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

| <u>Grantor and program title</u> | <u>Federal CFDA number</u> | <u>Grant number</u> | <u>Federal Expenditures</u> |
|--|--------------------------------|---------------------|---------------------------------|
| <u>U. S. Department of Transportation</u> | | | |
| Federal Transit Administration | | | |
| Federal Highway Administration | | | |
| Highway Planning and Construction (Highway Planning and Construction Cluster): | | | |
| Direct programs | | | |
| FHWA - Transims II | 20.205 | DTFH61-02-X-0006 | 4,393 |
| Passed through Oregon Department of Transportation | | | |
| 2007 Planning Fund | 20.205 | ODOT # 23376 | 1,253,363 |
| 2005 STP Carryover funds | 20.205 | ODOT # 23376 | 532,192 |
| 2007 STP funds | 20.205 | ODOT # 23376 | 572,183 |
| 2007 STP Freight | 20.205 | ODOT # 23376 | 75,000 |
| TGM - Regional Freight Data Study | 20.205 | ODOT # 23569 | 74,901 |
| Transportation Options Mass Marketing Campaign | 20.205 | ODOT # 22211 | 729,957 |
| Passed through Washington Department of Transportation | | | |
| Columbia River Crossing | 20.205 | GCA-4843 | 112,781 |
| Passed through Multnomah County, Oregon | | | |
| Sellwood Bridge IGA | 20.205 | 4600006289 | 59,307 |
| Passed through Clackamas County, Oregon | | | |
| Sunrise Corridor EIS | 20.205 | Metro # 925507 | 64,978 |
| Subtotal Highway Planning and Construction | | | <u>3,479,055</u> |

METRO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

| <u>Grantor and program title</u> | <u>Federal CFDA number</u> | <u>Grant number</u> | <u>Federal Expenditures</u> |
|--|--------------------------------|---------------------|---------------------------------|
| <u>U. S. Department of Transportation (continued)</u> | | | |
| Federal Transit Administration (continued) | | | |
| Federal Highway Administration (continued) | | | |
| Federal Transit - Formula Grants (Federal Transit Cluster) | | | |
| Direct programs | | | |
| Federal Surface Transportation Program | | | |
| Lake Oswego to Portland Transit & Trail Alternative Anal | 20.507 | OR90-X134 | 574,383 |
| Milwaukie Light Rail EIS | 20.507 | OR95-X012 | 372,670 |
| Congestion Mitigation & Air Quality Improvement Program (CMAQ) | | | |
| Regional Travel Options | 20.507 | OR90-X124 | 623,353 |
| Passed through Tri-County Metropolitan District of Oregon (TriMet) - | | | |
| Congestion Mitigation & Air Quality Improvement Program (CMAQ) | | | |
| Regional Travel Options | 20.507 | Tri-Met No. 04-0815 | 8,723 |
| Subtotal Federal Transit Cluster | | | 1,579,129 |
| Federal Transit Metropolitan Planning Grants | | | |
| Passed through Oregon Department of Transportation - | | | |
| 2006 Tchnical Studies (Sec 5303) | 20.505 | ODOT # 22869 | 41,067 |
| 2007 Tchnical Studies (Sec 5303) | 20.505 | ODOT # 23390 | 192,746 |
| Subtotal Federal Transit Metropolitan Planning Grants | | | 233,813 |
| Alternative Analysis | | | |
| Direct program | | | |
| Streetcare/Eastside/LO-PDX (Sec 5339) | 20.522 | OR39-0002-00 | 577,949 |
| Total U.S. Department of Transportation | | | 5,869,946 |

METRO

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

| <u>Grantor and program title</u> | <u>Federal CFDA number</u> | <u>Grant number</u> | <u>Federal Expenditures</u> |
|---|--------------------------------|---------------------|---------------------------------|
| <u>Institute of Museum and Library Services</u> | | | |
| Direct program | | | |
| Museums for America | 45.301 | MA-02-05-0300-05 | 58,384 |
| Total Institute of Museum and Library Services | | | 58,384 |
| <u>U.S. Environmental Protection Agency</u> | | | |
| Direct Program | | | |
| Brownfields Assessment and Cleanup Cooperative Agreements | 66.818 | BF-96044701 | 29,336 |
| Passed through Oregon DEQ: | | | |
| Nonpoint Source Implementation Grants | 66.460 | C9-000451-05 | 66,942 |
| Total U.S. Environmental Protection Agency | | | 96,278 |
| <u>U.S. Department of Health & Human Services</u> | | | |
| National Institute of Health | | | |
| National Institute of Environmental Health Sciences (NIEHS) | | | |
| Passed through Oregon Research Institute | | | |
| Biometry and Risk Est Health Risks from Enviro Exposure | 93.115 | R01 ES014252 | 4,038 |
| Total U.S. Department of Health & Human Services | | | 4,038 |
| Total Expenditures of Federal Awards | | | \$ 6,210,368 |

METRO

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2007

NOTE 1 - ACCOUNTING POLICIES

General - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Metro. Metro's financial reporting entity is described in note 1 to Metro's basic financial statements. Financial assistance received directly from federal agencies as well as financial assistance passed through other government agencies is included in the accompanying schedule.

Basis of accounting - The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in note 3 to Metro's basic financial statements.

Relationship to basic financial statements - Financial assistance revenues are reported in Metro's basic financial statements included with revenues from federal and state sources, as described in note 3 to Metro's basic financial statements.

METRO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiencies(s) identified that are not considered to be material weaknesses? X yes none reported

Noncompliance material to financial statements noted?

 yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiencies (s) identified that are not considered to be material weaknesses? X yes none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

 X yes no

Identification of major programs:

CFDA Number(s)

20.507

20.522

Name of Federal Program or Cluster

Formula Grant (Urbanized Area Formula Program)

Alternative Analysis

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

 X yes no

METRO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Section II - Financial Statement Findings

Finding 2007-01 Understanding GAAP Requirements for Business-Type Entity Identification – Material Weakness

Criteria – GASB 14 specifies the conditions under which an entity can be reported as a component unit of a primary government.

Condition - 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.

Effect - 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.

Cause - Management had not reviewed MERC's status as a component unit since it became a part of Metro several years ago.

Recommendation: We recommend that Metro management review accounting policies annually to determine if those policies comply with generally accepted accounting policies (GAAP).

Finding 2007-02 Prior Period Adjustment for Earned Revenue – Material Weakness

Criteria - GASB 33 provides the guidance for when revenue is recognized.

Condition - While testing unearned revenue, it came to our attention that Metro was recording proceeds from an intergovernmental agreement 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.

Effect - This resulted in a prior period adjustment to recognize revenue received in prior periods.

Cause – This particular intergovernmental agreement and related transactions were not being reviewed by someone with governmental accounting knowledge.

Recommendation: We recommend that all significant contracts, agreements, and related accounting transactions be reviewed by someone with governmental accounting knowledge.

METRO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Finding 2007-03 Internal Controls over Capital Assets – Material Weakness

Criteria – Capital assets should be recorded with enough detail that the client can identify specific assets on the capital asset list and calculate the appropriate depreciation for each asset.

Condition – 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.

Effect – 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.

Cause – Metro does not have an adequate set of internal controls for tracking capital assets.

Recommendation: We recommend that Metro management implement capital asset accounting software. In addition, the list used for reporting capital assets should be reviewed to determine that items on the list are still in use and owned by Metro; that descriptions are adequate to identify the specific asset; and that dates are sufficient for each item to calculate depreciation on the individual item. Metro management should develop controls to make sure disposals of capital assets are being reported to the central finance staff. Metro management should also reassess the depreciable lives on their capital assets.

Finding 2007-04 Internal Control over Identification of Balance Sheet Classifications – Significant Deficiency

Criteria – Long-term debt is not recorded on the fund financial statement balance sheets under the modified accrual basis of accounting applicable to governmental funds when reporting under GASB 34.

Condition – Metro finance staff identified an error in the prior financial statements in which 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.

Effect – Long-term debt was over-stated on the fund financial statements by \$450,000.

Cause - Although Metro staff identified the error this year, it does not appear that controls are in place to ensure that the governmental fund financial statements exclude long-term debt as applicable under the modified accrual basis of accounting and in accordance with GASB 34.

Recommendation: We recommend that Metro implement a review process and incorporate checklists to make sure financial statements are prepared in accordance with GAAP.

METRO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Finding 2007-05 Dating of Invoices within the Accounting Software System – Significant Deficiency

Criteria – Accounts Receivable should be aged appropriately, and revenue should be recorded in the proper accounting period.

Condition – With regard to Accounts Receivable, it came to our attention that in Metro's financial accounting software there are several dates associated with an invoice. These dates can be manually changed, making it difficult to determine if revenue has been recognized in the correct period and to properly age receivables.

Effect – Staff can not determine if revenue was recognized in the correct period, and past due notices are not always sent out timely.

Cause – Dates are not being tracked adequately for Accounts Receivable.

Recommendation: We recommend that invoice dates be tracked more closely to assist with past-due notices and determining revenue cutoff.

Finding 2007-06 Timely Reconciliation of Due To/Due From Accounts – Significant Deficiency

Criteria – Due to/due from accounts between funds should be routinely reconciled.

Condition – 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.

Effect – Lack of timely reconciliations can cause errors to go undetected.

Cause – In discussing this with Metro and MERC staff, it appears the failure to reconcile the accounts was due to the lack of effective communication.

Recommendation: We recommend that the *due to/due from* accounts be reconciled monthly and that both Metro and MERC review the reconciliation.

Finding 2007-07 Knowledge of Key Personnel in the Planning Department – Significant Deficiency

Criteria – Departmental accounting staff entering transactions in to the computer system should be trained in governmental accounting.

METRO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Condition – 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. Errors were noted in information that was provided by the Planning Department. Because of the wide variety of revenues received by that department, accounting personnel need to understand the proper recording of those various revenues.

Effect – 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.

Cause – Accounting personnel in the Planning Department are not well-trained in governmental accounting.

Recommendation: We recommend that departmental accounting staff receive additional training in governmental accounting standards, and that staff responsible for federal awards receive additional training regarding OMB circular A-133 and related circulars.

Section III - Federal Award Findings and Questioned Costs

Finding 2007-08 – Preparation of the Schedule of Expenditures of Federal Awards (SEFA) – Significant Deficiency in Internal Control

Federal Program: General—Schedule of Expenditures of Federal Awards

Federal Agency: U.S. Department of Transportation (DOT)—Cognizant Agency

Award Year: 2006-2007

Criteria: OMB Circular A-133, Section 300, requires a recipient of Federal awards to identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Additionally, Section 310 requires recipients to prepare a Schedule of Expenditures of Federal Awards for the period covered by the organization's financial statements.

Condition: Metro did not have procedures in place to ensure the completeness or accuracy of the SEFA. Moss Adams performed substantial inquiry to obtain accurate and complete data from different departments throughout the organization and determined the federal funds were materially correct on the SEFA. However, amounts received from pass-through entities were not readily determinable for the amount of Federal funds involved. Rather, Metro treated all funds received as Federal awards.

Questioned Costs: None

METRO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Context: It was noted that all awards were tracked the same and treated as Federal funds for SEFA presentation purposes. There was no process in place to ensure required SEFA information was appropriately identified for Federal grants.

Effect: Due to the absence of a thorough and complete process for preparing the SEFA, Metro did not have a mechanism for determining the correctness of the amounts reported on the SEFA. The treatment of all expenditures as Federal funds could overstate certain amounts reported on the SEFA. The lack of a complete reconciliation of Federal funds could under-state or over-state the amounts reported on the SEFA.

Cause: The absence of a thorough and complete process for preparing the SEFA appears to be due to personnel changes in key positions and organizational shifts in the responsibility for preparation of the SEFA.

Recommendation: Moss Adams recommends that Metro develop and implement policies to ensure the preparation of the SEFA is complete and thorough. Such a policy should include mechanisms for the timely and accurately identification of federal funds received from all sources. Additionally, responsibility for preparation of the SEFA should be considered from an organization-wide perspective, rather than on a department basis.

Finding 2007-09 – Reporting: Timeliness of Report Filing – Significant Deficiency in Internal Control and Instances of Noncompliance

Federal Program: Formula Grant (Urbanized Area Formula Program), 20.507
Alternative Analysis, 20.522

Federal Agency: U.S. Department of Transportation (DOT)—Cognizant Agency

Award Year: 2006-2007

Criteria: Title 49 CFR, Part 19.52, requires recipients to submit the SF-269 Financial Status Report or SF-269A Financial Status Report (Short Form) no later than 30 days after the end of each specified reporting period for quarterly and semi-annual reports, and 90 calendar days for annual and final reports. Extensions of reporting due dates may be approved by the Federal awarding agency upon request of the recipient.

Condition: Metro did not have procedures in place to ensure timely reporting of financial reports.

Questioned Costs: None

METRO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Context: From a sample of financial reports filed with Federal awarding agency, two out of thirteen financial reports were filed within 10 days after the due date. Additionally, two out of two Disadvantaged Business Enterprise (DBE) semi annual reporting forms tested were submitted late. No extensions for the reporting due dates were requested from the Federal awarding agency. Filing requirements are indicated either as a general requirement by the Federal awarding agency or specifically in the grant award document.

Effect: Late filing can jeopardize future federal funding.

Cause: The absence of a thorough and complete process for preparing timely financial reports appears to be due to personnel changes in key positions.

Recommendation: Moss Adams recommends Metro create a tickler system to ensure timely filing of required reports, with periodic review by grant and project managers.

Finding 2007-10 – Subrecipient Monitoring: Review of Subcontractor Audit Reports – Significant Deficiency in Internal Control and Instances of Noncompliance

Federal Program: Formula Grant (Urbanized Area Formula Program), 20.507
Alternative Analysis, 20.522

Federal Agency: U.S. Department of Transportation

Award Year: 2006-2007

Criteria: OMB Circular A-133, Section 400(d) outlines the responsibilities of recipients of Federal awards regarding funds passed-through to other organizations. Specifically, the pass-through entity is to: (1) monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contract or grant agreements and that performance goals are achieved; and (2) ensure that subrecipients, as qualified, meet the audit requirements of Circular A-133, and to review subrecipient audit findings and corrective action.

Condition: Metro receives the A-133 reports from entities that are required to provide them. There is no process to ensure that a responsible person is reviewing the results of the audit reports for any issues or deficiencies. As such, Metro is not aware of subrecipient audit findings and results of any required corrective action(s). Additionally, there are no compensating controls for the monitoring process.

Questioned Costs: None

METRO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Context: In our testing it was noted that one of Metro's subrecipients did have an audit finding in their 2006 A-133 audit which was applicable to FTA funds. The finding was not related to the particular grant funds Metro was providing to the subrecipient; however there was no evidence that Metro reviewed the finding and came to some sort of conclusion about the finding. Furthermore, there were no other policies in place to ensure adequate monitoring of a subrecipient's activities.

Effect: Monitoring of subcontractor performance, in terms of work performed and audit results, was either not effectively performed or was performed by personnel not skilled in the monitoring process. Accordingly, funds passed through to the associated subcontractors may not have been used in compliance with grant provisions or could be inappropriate for the services performed.

Cause: The absence of a thorough and complete process for monitoring subrecipients appears to be due to personnel changes in key positions. In addition, it appears there is a general lack of awareness for this requirement.

Recommendation: Moss Adams recommends that Metro develop and adhere to policies / procedures with respect to subrecipient monitoring that specifically addresses review of A-133 reports, includes verification of corrective action for audit findings, and additional monitoring for subrecipients that have audit findings.

MetroCART

Comprehensive Annual Financial Report

For the year ended June 30, 2007



METRO
PEOPLE PLACES
OPEN SPACES

Oregon

Metro

People places • open spaces

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

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

Your Metro representatives

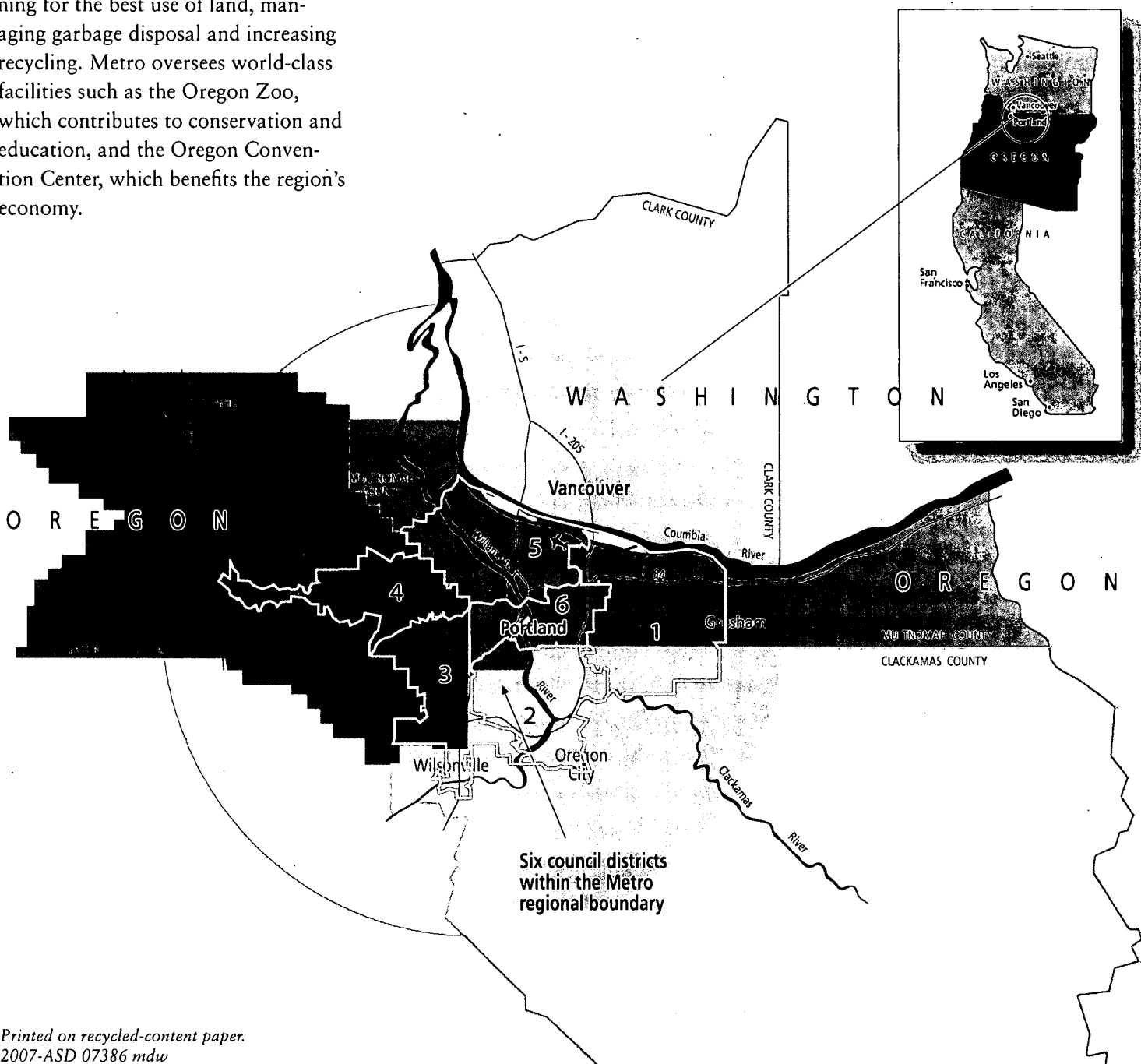
Metro Council President –
David Bragdon

Metro Councilors – Rod Park, District 1; Carlotta Collette, District 2; Carl Hosticka, District 3; Kathryn Harrington, District 4; Rex Burkholder, District 5; Deputy Council President, Robert Liberty, District 6.

Auditor – Suzanne Flynn, CIA

Metro's web site:

www.metro-region.org



MetroCAFR

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
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METRO

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

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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.

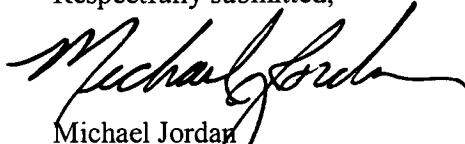
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

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.



Chloe S. Cox

President

Jeffrey R. Emmer

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.

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

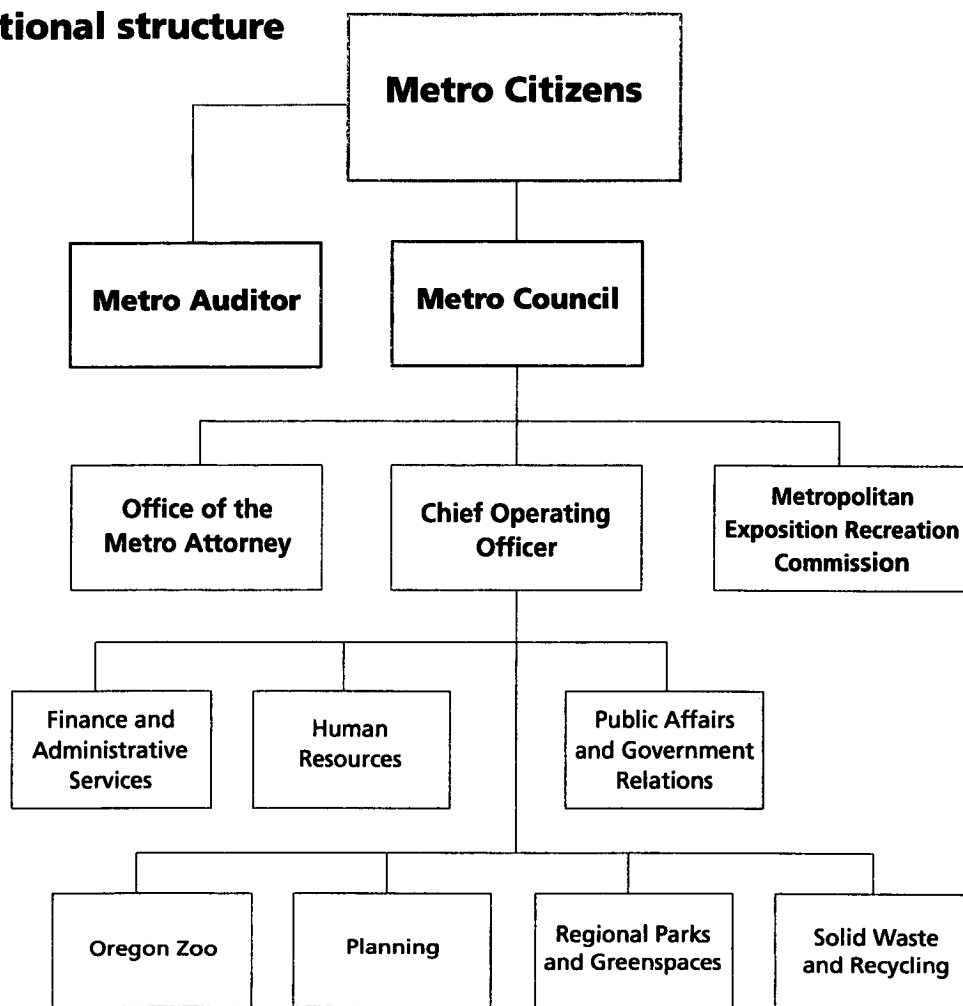
Registered Agent

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

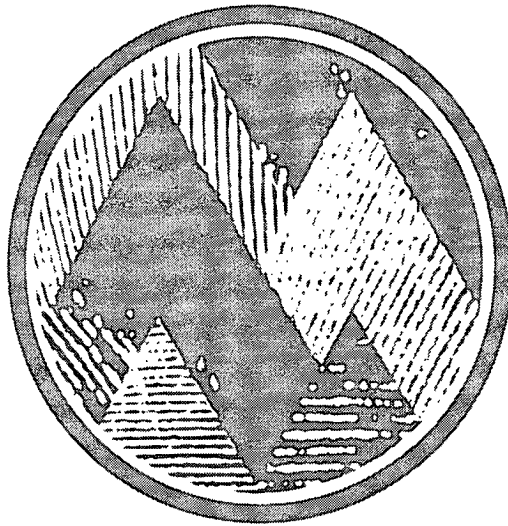
Oregon Zoo: Conservation and education, visitor services, animal and facility management.

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.







METRO

Suzanne Flynn
Metro Auditor

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Portland, OR
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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



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.



For Moss Adams LLP
Eugene, Oregon
December 19, 2007



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

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Management's Discussion and Analysis, Continued

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.

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Management's Discussion and Analysis, Continued

| Statement Element | Government-Wide Financial Statements | Fund Financial Statements | |
|---|--|--|---|
| | | Governmental Funds | Proprietary Funds |
| <i>Scope</i> | 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 - <ul style="list-style-type: none"> ▪ Solid Waste ▪ MERC |
| <i>Required financial statements</i> | <ul style="list-style-type: none"> ▪ Statement of net assets ▪ Statement of activities | <ul style="list-style-type: none"> ▪ Balance sheet ▪ Statement of revenues, expenditures and changes in fund balances | <ul style="list-style-type: none"> ▪ Statement of net assets ▪ Statement of revenues, expenses, changes in fund net assets ▪ Statement of cash flows |
| <i>Accounting basis and measurement focus</i> | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus |
| <i>Type of asset/liability information</i> | 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 |
| <i>Type of inflow/outflow information</i> | 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.

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Management's Discussion and Analysis, Continued

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

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Management's Discussion and Analysis, Continued

"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

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Management's Discussion and Analysis, Continued

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.

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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

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Management's Discussion and Analysis, Continued

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 provide additional funding in fiscal year 2007 for budgetary reasons.

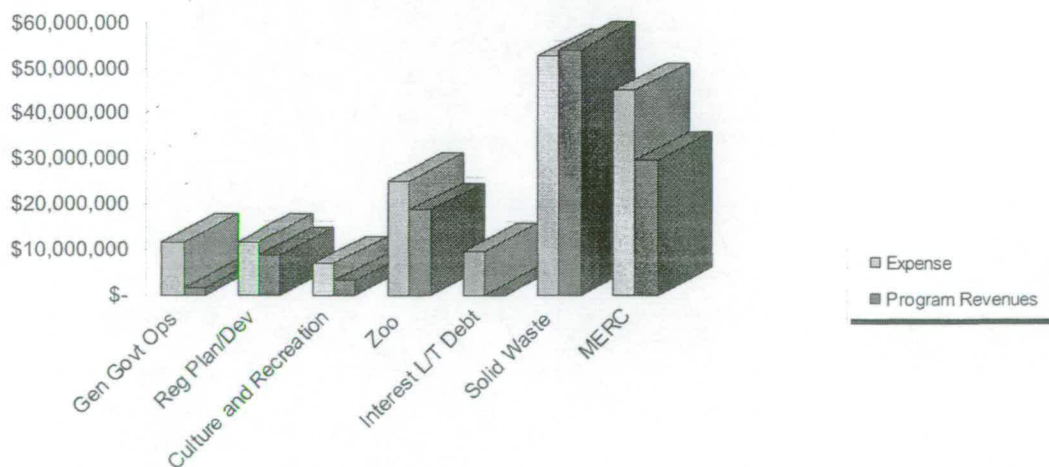
METRO

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.

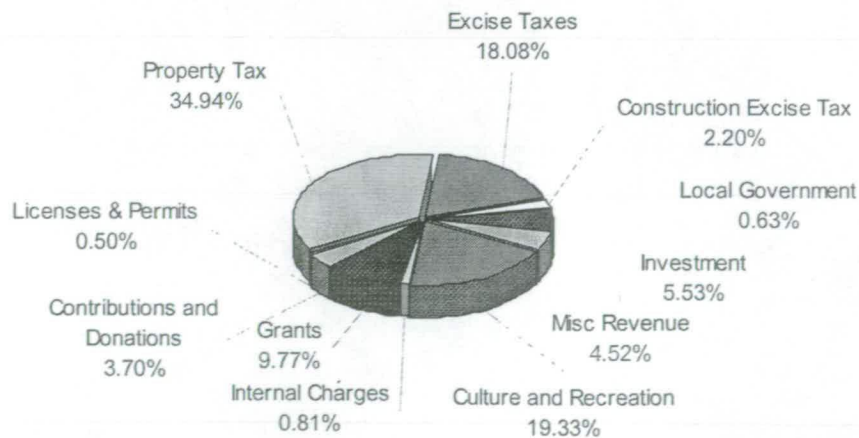
METRO

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 Streetcar 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

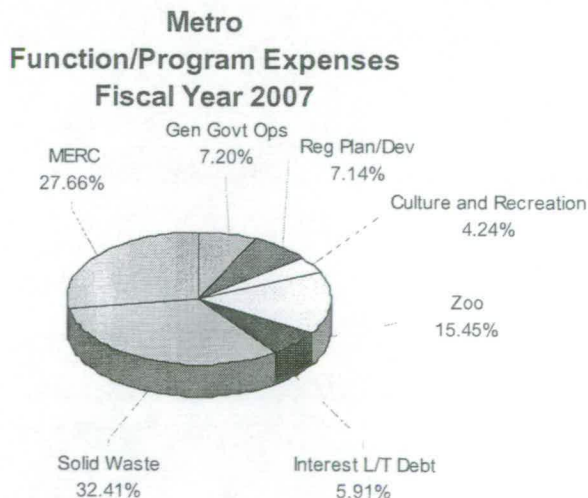


METRO

Management's Discussion and Analysis, Continued

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.



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)

METRO

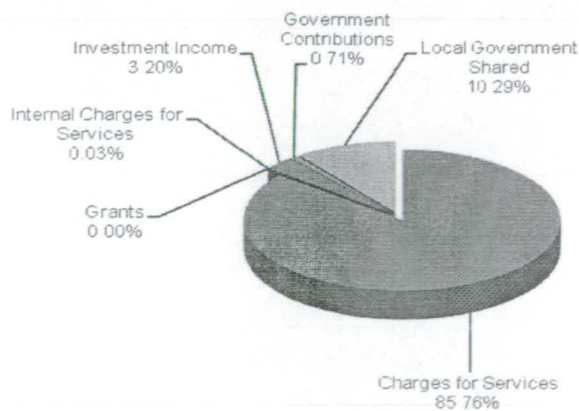
Management's Discussion and Analysis, Continued

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**



METRO

Management's Discussion and Analysis, Continued

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

METRO

Management's Discussion and Analysis, Continued

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

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Management's Discussion and Analysis, Continued

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

METRO

Management's Discussion and Analysis, Continued

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

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Management's Discussion and Analysis, Continued

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 |

METRO

Management's Discussion and Analysis, Continued

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 | <u>\$ 296,057,014</u> | <u>177,934,753</u> | <u>19,566,442</u> | <u>21,657,021</u> | <u>315,623,456</u> | <u>199,591,774</u> |

Metro's total debt increased \$116,031,742 (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.

METRO

Management's Discussion and Analysis, Continued

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 the 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

METRO

Management's Discussion and Analysis, Continued

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.

METRO

Management's Discussion and Analysis, Continued

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.





Basic Financial Statements

METRO

Statement of Net Assets

June 30, 2007

| | Primary Government | | | Component |
|--|--------------------|-------------------|--------------|--|
| | Governmental | Business-type | Total | Unit |
| | <u>Activities</u> | <u>Activities</u> | <u>Total</u> | <u>Oregon Zoo</u> <u>Foundation</u> |
| <u>Assets</u> | | | | |
| 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 |
| <u>Liabilities</u> | | | | |
| 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)

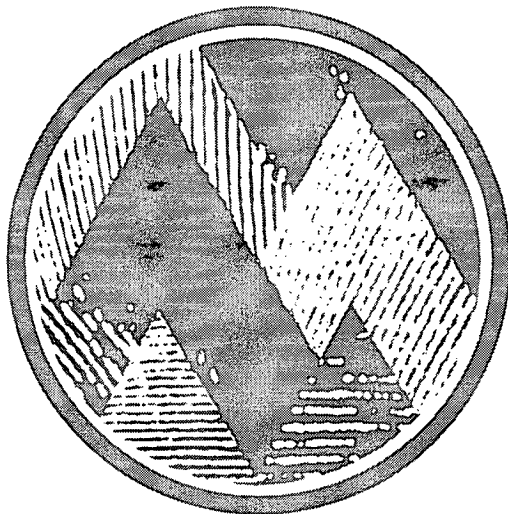
METRO

Statement of Net Assets

June 30, 2007

| | Primary Government | | | Component |
|---|--------------------|-------------------|--------------|--|
| | Governmental | Business-type | | Unit |
| | <u>Activities</u> | <u>Activities</u> | <u>Total</u> | <u>Oregon Zoo</u> <u>Foundation</u> |
| <u>Liabilities, Continued</u> | | | | |
| 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 |
| <u>Net Assets</u> | | | | |
| 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 | | |
|-----------------------------------|-----------------------|--------------------|---|---|
| | | Charges for | Operating | Capital |
| | <u>Expenses</u> | <u>Services</u> | <u>Grants and</u> <u>Contributions</u> | <u>Grants and</u> <u>Contributions</u> |
| 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 | <u>65,057,917</u> | <u>20,603,231</u> | <u>9,674,387</u> | <u>1,378,075</u> |
| 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 | <u>97,874,234</u> | <u>83,172,102</u> | <u>692,146</u> | <u>-</u> |
| Total primary government | <u>\$ 162,932,151</u> | <u>103,775,333</u> | <u>10,366,533</u> | <u>1,378,075</u> |
| Component Unit: | | | | |
| Oregon Zoo Foundation | <u>\$ 5,275,150</u> | <u>3,825,404</u> | <u>1,552,162</u> | <u>-</u> |

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 |
| <u>Assets</u> | | | |
| 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 |
| <u>Liabilities and Fund Balances</u> | | | |
| 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.

Deferred 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.

| <u>Debt Service</u> | <u>Capital Projects</u> | | | <u>Permanent</u> | <u>Total Governmental Funds</u> |
|---------------------|-------------------------|--------------------------|--------------------------|------------------------------------|---|
| | <u>Open Spaces</u> | <u>Natural Areas</u> | <u>Metro Capital</u> | <u>Cemetery Perpetual Care</u> | |
| 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 |
| <u>12,715,216</u> | <u>402,076</u> | <u>122,639,615</u> | <u>8,773,964</u> | <u>222,452</u> | <u>199,684,151</u> |
| - | 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 |
| <u>632,786</u> | <u>1,687</u> | <u>340,148</u> | <u>300,803</u> | <u>-</u> | <u>7,193,172</u> |
| - | - | - | - | - | 8,518,324 |
| 12,082,430 | - | - | - | - | 12,082,430 |
| - | 400,389 | 122,299,467 | 8,473,161 | 222,452 | 171,890,225 |
| <u>12,082,430</u> | <u>400,389</u> | <u>122,299,467</u> | <u>8,473,161</u> | <u>222,452</u> | <u>192,490,979</u> |
| <u>12,715,216</u> | <u>402,076</u> | <u>122,639,615</u> | <u>8,773,964</u> | <u>222,452</u> | |
| | | | | | 233,213,363 |
| | | | | | 22,569,880 |
| | | | | | 960,693 |
| | | | | | 5,677,584 |
| | | | | | (302,524,287) |
| | | | | | <u>\$ 152,388,212</u> |

METRO

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

For the year ended June 30, 2007

| | | Special Revenue | |
|--|---------------|--------------------------|-----------------------------------|
| | General | Smith and Bybee Lakes | 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.

| <u>Debt Service</u> | <u>Capital Projects</u> | | | <u>Permanent</u> | <u>Total</u> <u>Governmental</u> <u>Funds</u> |
|---------------------|------------------------------|--------------------------------|--------------------------------|--|---|
| | <u>Open</u> <u>Spaces</u> | <u>Natural</u> <u>Areas</u> | <u>Metro</u> <u>Capital</u> | <u>Cemetery</u> <u>Perpetual Care</u> | |
| 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 | <u>(3,896,934)</u> | 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 | <u>18,105</u> | 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 | <u>27,412</u> | (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 | <u>(1,294,164)</u> | <u>(2,450,151)</u> |

| | |
|---|----------------------|
| Change in net assets of governmental activities | \$ <u>17,133,286</u> |
|---|----------------------|

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

| | <u>Business-type Activities- Enterprise Funds</u> | | | <u>Governmental Activities- Internal Service Fund Risk Management</u> |
|---|---|-------------|--------------|---|
| <u>Assets</u> | <u>Solid Waste</u> | <u>MERC</u> | <u>Total</u> | |
| 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 |
| <u>Liabilities</u> | | | | |
| 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

| | <u>Business-type Activities- Enterprise Funds</u> | | | <u>Governmental Activities- Internal Service Fund Risk Management</u> |
|--|---|--------------------|-----------------------|---|
| <u>Liabilities, continued</u> | <u>Solid Waste</u> | <u>MERC</u> | <u>Total</u> | |
| 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 | <u>7,769,197</u> | <u>13,683,808</u> | <u>21,453,005</u> | <u>5,225,000</u> |
| Total liabilities | <u>13,336,204</u> | <u>22,479,982</u> | <u>35,816,186</u> | <u>7,427,871</u> |
| <u>Net Assets</u> | | | | |
| 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 | <u>27,021,607</u> | <u>21,544,095</u> | <u>48,565,702</u> | <u>1,101,136</u> |
| Total net assets | <u>\$ 66,622,634</u> | <u>193,816,310</u> | <u>260,438,944</u> | <u>1,101,136</u> |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds | | | <u>(4,576,448)</u> | |
| Net assets of business-type activities | | | <u>\$ 255,862,496</u> | |

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 Risk Management |
|---|---|---------------------|---------------------|---|
| | Solid Waste | MERC | Total | |
| 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 | <u>54,108,083</u> | <u>29,753,101</u> | <u>83,861,184</u> | <u>7,240,899</u> |
| 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 | <u>51,364,886</u> | <u>43,875,507</u> | <u>95,240,393</u> | <u>7,396,137</u> |
| Operating income (loss) | <u>2,743,197</u> | <u>(14,122,406)</u> | <u>(11,379,209)</u> | <u>(155,238)</u> |
| 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) | <u>650,118</u> | <u>9,857,358</u> | <u>10,507,476</u> | <u>441,955</u> |
| Income (loss) before transfers | <u>3,393,315</u> | <u>(4,265,048)</u> | <u>(871,733)</u> | <u>286,717</u> |
| Transfers in | - | 1,324,462 | 1,324,462 | 475,000 |
| Transfers out | <u>(737,768)</u> | <u>(297,277)</u> | <u>(1,035,045)</u> | <u>(3,132)</u> |
| Change in net assets | <u>2,655,547</u> | <u>(3,237,863)</u> | <u>(582,316)</u> | <u>758,585</u> |
| 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 | <u>63,967,087</u> | <u>197,054,173</u> | | <u>342,551</u> |
| Total net assets - June 30, 2007 | <u>\$ 66,622,634</u> | <u>193,816,310</u> | | <u>1,101,136</u> |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds | | | (56,706) | |
| Change in net assets of business-type activities | | | <u>\$ (639,022)</u> | |

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 Risk Management |
|--|---|--------------------|--------------------|---|
| | <u>Solid Waste</u> | <u>MERC</u> | <u>Total</u> | |
| 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 | <u>5,747,614</u> | <u>(5,155,537)</u> | <u>592,077</u> | <u>637,396</u> |
| 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 | <u>(1,779,725)</u> | <u>11,003,739</u> | <u>9,224,014</u> | <u>505,975</u> |
| 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 | <u>(3,439,856)</u> | <u>(3,024,133)</u> | <u>(6,463,989)</u> | <u>-</u> |
| 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 | <u>1,889,551</u> | <u>1,010,632</u> | <u>2,900,183</u> | <u>715,888</u> |
| 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 | <u>36,441,585</u> | <u>19,310,019</u> | <u>55,751,604</u> | <u>6,594,641</u> |
| Cash at end of year including restricted amounts | <u>\$ 38,859,169</u> | <u>23,144,720</u> | <u>62,003,889</u> | <u>8,453,900</u> |
| 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 |
| | <u>\$ 38,859,169</u> | <u>23,144,720</u> | <u>62,003,889</u> | <u>8,453,900</u> |

(Continued)

METRO

Statement of Cash Flows, Continued Proprietary Funds

For the year ended June 30, 2007

| | Business-type Activities- Enterprise Funds | | | Governmental Activities- Internal Service Fund Risk Management |
|--|---|--------------|--------------|---|
| | <u>Solid Waste</u> | <u>MERC</u> | <u>Total</u> | |
| 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 |

Acquisition 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.

METRO

Notes to the Financial Statements, Continued

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

Notes to the Financial Statements, Continued

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

METRO

Notes to the Financial Statements, Continued

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

METRO

Notes to the Financial Statements, Continued

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

Notes to the Financial Statements, Continued

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

METRO

Notes to the Financial Statements, Continued

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.

METRO

Notes to the Financial Statements, Continued

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.

METRO

Notes to the Financial Statements, Continued

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:

| <u>Asset</u> | <u>Years</u> |
|----------------------------|--------------|
| 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:

| | <u>Capital assets</u> | <u>Other long-term assets</u> | <u>Long-term liabilities</u> |
|---|-----------------------|-------------------------------|------------------------------|
| 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 | <u>\$ 233,213,363</u> | <u>22,569,880</u> | <u>(302,524,287)</u> |

METRO

Notes to the Financial Statements, Continued

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

| Investment Type | Held by | | Fair Value | Investment Maturities (in months) | | |
|------------------------------------|------------------|---------------|-------------|-----------------------------------|-------------|-------|
| | Individual funds | Internal pool | | 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:

| <u>Maturity</u> | <u>Minimum to mature</u> |
|-----------------|--------------------------|
| 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.

METRO

Notes to the Financial Statements, Continued

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:

| Issuer | Percentage of Total Investments (Total Entity Concentration) | Policy Allowed Maximum | Fund Concentrations Exceeding Total Entity Concentration | |
|---|--|------------------------------|--|--------------------------|
| | | | 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 15 th , 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 | <u>5,850</u> |
| | | <u>\$8,518,324</u> |

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

METRO

Notes to the Financial Statements, Continued

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 | - | <u>300,000</u> |
| | | | Total | <u>\$402,179</u> |

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 | <u>143,979,130</u> | <u>11,661,538</u> | <u>-</u> | <u>-</u> | <u>155,640,668</u> |
| 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 | <u>123,019,214</u> | <u>2,042,064</u> | <u>-</u> | <u>-</u> | <u>125,061,278</u> |
| 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 | <u>(43,591,649)</u> | <u>(4,075,265)</u> | <u>178,331</u> | <u>-</u> | <u>(47,488,583)</u> |
| Total capital assets, depreciable, net | <u>79,427,565</u> | <u>(2,033,201)</u> | <u>178,331</u> | <u>-</u> | <u>77,572,695</u> |
| Governmental activities capital assets, net | <u>\$ 223,406,695</u> | <u>9,628,337</u> | <u>178,331</u> | <u>-</u> | <u>233,213,363</u> |

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 | <u>2,160,457</u> |
| Total depreciation expense - governmental activities | <u>\$ 3,896,934</u> |
| Business-type activities: | |
| Solid Waste | \$ 1,817,501 |
| MERC | <u>8,628,822</u> |
| Total depreciation expense - business-type activities | <u>\$ 10,446,323</u> |

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:

| | <u>Deferred</u> | <u>Unearned</u> |
|---|------------------|-----------------|
| 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 | <u>-</u> | <u>134,415</u> |
| | <u>\$960,693</u> | <u>563,764</u> |

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.

METRO

Notes to the Financial Statements, Continued

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

Notes to the Financial Statements, Continued

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:

| <u>Fiscal year ended June 30:</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|---|--|--|-----------------------------------|
| 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).

METRO

Notes to the Financial Statements, Continued

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: | <u>Columbia Ridge Landfill</u> Variable payment based on tons | <u>Waste Transport</u> Variable payment based on loads | <u>Metro South</u> Variable payment based on tons | <u>Metro Central</u> 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 | <u>100,411,842</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$155,433,052</u> | <u>19,766,649</u> | <u>9,521,799</u> | <u>11,623,468</u> |

METRO

Notes to the Financial Statements, Continued

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:

| <u>Fiscal year</u> <u>ending June 30:</u> | | <u>Fiscal year</u> <u>ending June 30:</u> | | <u>Fiscal year</u> <u>ending June 30:</u> | |
|--|-----------|--|-----------|--|---------------------|
| 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 | <u>178,952</u> |
| 2018-22 | 671,070 | 2053-57 | 671,070 | | |
| | | | | Total | <u>\$10,245,002</u> |

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

Notes to the Financial Statements, Continued

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:

| <u>Fiscal year ending June 30:</u> | <u>Principal</u> | <u>Interest</u> |
|------------------------------------|------------------|-----------------|
| 2008 | \$271,585 | 228,415 |
| 2009 | 254,775 | 245,225 |
| 2010 | 238,540 | 261,460 |
| 2011 | <u>223,356</u> | <u>277,644</u> |
| | \$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:

| <u>Fiscal year ending June 30:</u> | <u>Principal</u> | <u>Interest</u> |
|------------------------------------|--------------------|-------------------|
| 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 | <u>37,615,000</u> | <u>4,066,944</u> |
| | 73,340,000 | <u>18,524,881</u> |
| Unamortized costs/premium | 5,264,672 | |
| Deferred amount on refunding | <u>(3,527,234)</u> | |
| Per statement of net assets | \$75,077,438 | |

METRO

Notes to the Financial Statements, Continued

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:

| <u>Fiscal year ending June 30:</u> | <u>Principal</u> | <u>Interest</u> |
|------------------------------------|---------------------|------------------|
| 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 | <u>5,290,000</u> | <u>264,500</u> |
| | <u>\$27,970,000</u> | <u>4,801,314</u> |

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

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

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:

| <u>Fiscal year ending June 30:</u> | <u>Principal</u> | <u>Interest</u> |
|------------------------------------|----------------------|-------------------|
| 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 | <u>29,200,000</u> | <u>3,357,450</u> |
| | 124,295,000 | <u>57,489,571</u> |
| Unamortized costs/premium | <u>6,008,078</u> | |
| Per statement of net assets | <u>\$130,303,078</u> | |

METRO

Notes to the Financial Statements, Continued

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 (OECD) 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:

| <u>Fiscal year ending June 30:</u> | <u>Principal</u> | <u>Interest</u> |
|------------------------------------|---------------------|-----------------|
| 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 | <u>1,475,000</u> | <u>32,450</u> |
| | 21,155,000 | 6,767,645 |
| Unamortized costs/discount | (144,519) | |
| Deferred amount on refunding | <u>(2,357,842)</u> | |
| Per statement of net assets | <u>\$18,652,639</u> | |

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

| <u>Fiscal year ending June 30:</u> | <u>Principal</u> | <u>Interest</u> |
|------------------------------------|---------------------|-------------------|
| 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 | <u>1,405,000</u> | <u>70,306</u> |
| | 24,290,000 | <u>17,651,953</u> |
| Unamortized costs/premium | <u>(245,361)</u> | |
| Per statement of net assets | <u>\$24,044,639</u> | |

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:

METRO

Notes to the Financial Statements, Continued

| <u>Fiscal year ending June 30:</u> | <u>1990 Series A</u> | | <u>2003 Series Refunding</u> | |
|------------------------------------|----------------------|-----------------|------------------------------|-----------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2008 | \$1,070,000 | - | 155,000 | 110,513 |
| 2009 | - | - | 2,265,000 | 83,481 |
| 2010 | - | - | 2,320,000 | 29,000 |
| | <u>1,070,000</u> | <u>-</u> | <u>4,740,000</u> | <u>222,994</u> |
| Unamortized costs/discount | | | (58,867) | |
| Deferred amount on refunding | - | | (276,039) | |
| Per statement of net assets | <u>\$1,070,000</u> | | <u>4,405,094</u> | |

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 (OECD) 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:

| <u>Fiscal year ending June 30:</u> | <u>Principal</u> | <u>Interest</u> |
|------------------------------------|---------------------|------------------|
| 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 | <u>3,300,000</u> | <u>226,732</u> |
| | <u>14,570,000</u> | <u>6,726,672</u> |
| Unamortized costs/discount | 116,826 | |
| Deferred amount on refunding | (749,669) | |
| Per statement of net assets | <u>\$13,937,157</u> | |

METRO

Notes to the Financial Statements, Continued

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:

| Fiscal year ending June 30: | Governmental Activities | | | | | | Business-type Activities | |
|-----------------------------------|-------------------------|--------------|----------------------------|---------------|------------------------|----------------|--------------------------|---------------|
| | Energy Loan Payable | | TOD Property Loans Payable | | | | LID Payable | |
| | Principal | Interest | 2005 Loan Principal | Interest | 2007 Loan 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 |
| | <u>\$ 29,739</u> | <u>1,015</u> | <u>450,000</u> | <u>29,250</u> | <u>592,500</u> | <u>115,539</u> | <u>154,191</u> | <u>63,663</u> |

METRO

Notes to the Financial Statements, Continued

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.

METRO

Notes to the Financial Statements, Continued

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:

| <u>Receivable Entity</u> | <u>Payable Entity</u> | <u>Amount</u> |
|--------------------------|--------------------------|--------------------|
| Governmental activities | Business-type activities | <u>\$4,576,448</u> |

METRO

Notes to the Financial Statements, Continued

Interfund transfers for the fiscal year by fund were:

| <i>Transfers out</i> | <i>Transfers in</i> | | | | | <i>Total</i> |
|----------------------|---------------------|-----------------------------|--------------------------|------------------|----------------------|------------------|
| | <i>General</i> | <i>Rehab./ Enhance.</i> | <i>Metro Capital</i> | <i>MERC</i> | <i>Risk Mgmt</i> | |
| 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 | <u>\$537,599</u> | <u>396,216</u> | <u>1,999,927</u> | <u>1,324,462</u> | <u>475,000</u> | <u>4,733,204</u> |

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

METRO

Notes to the Financial Statements, Continued

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.

Supplementary Information

Required Supplementary Information

General Fund and Major Special Revenue Funds

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

General Fund

Special Revenue Funds

Smith and Bybee Lakes Fund

Rehabilitation and Enhancement Fund

METRO

General Fund

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

For the year ended June 30, 2007

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | Variance with final budget positive (negative) |
|--|-------------------------|-------------------|-------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Amounts</u> | |
| 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 | <u>71,273,921</u> | <u>71,382,315</u> | <u>59,481,245</u> | <u>(11,901,070)</u> |
| Expenditures: | | | | |
| Council office: | | | | |
| Operating expenses | <u>1,756,095</u> | <u>1,775,095</u> | <u>1,643,207</u> | <u>131,888</u> |
| Finance and administrative services: | | | | |
| Operating expenses | 7,352,501 | 7,374,001 | 6,502,880 | 871,121 |
| Capital outlay | <u>5,000</u> | <u>205,150</u> | <u>198,915</u> | <u>6,235</u> |
| Total finance and administrative services | <u>7,357,501</u> | <u>7,579,151</u> | <u>6,701,795</u> | <u>877,356</u> |

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

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

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 | | Actual | Variance with |
|---|------------------|--------------|--------------|--|
| | Original | Final | Amounts | 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

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with</u> |
|--|-------------------------|--------------|----------------|----------------------|
| | <u>Original</u> | <u>Final</u> | <u>Amounts</u> | <u>final budget</u> |
| | | | | <u>positive</u> |
| | | | | <u>(negative)</u> |
| 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

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | Variance with |
|--|-------------------------|--------------|----------------|--|
| | <u>Original</u> | <u>Final</u> | <u>Amounts</u> | final budget positive (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

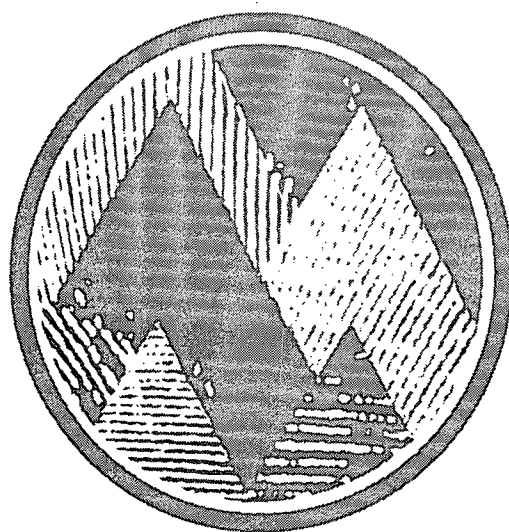
Oregon Local Budget Law, as adopted by Metro, requires accounting for certain transactions to be on a basis other than GAAP. The Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Basis of Budgeting) for each fund as presented in supplementary information is 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 supplementary 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

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

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

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with</u> |
|--|-------------------------|------------------|------------------|----------------------|
| | <u>Original</u> | <u>Final</u> | <u>Amounts</u> | <u>final budget</u> |
| | | | | <u>positive</u> |
| | | | | <u>(negative)</u> |
| 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 | <u>337,470</u> | <u>337,470</u> | <u>72,479</u> | <u>(264,991)</u> |
| 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 | <u>1,974,619</u> | <u>1,974,619</u> | <u>1,482,912</u> | <u>491,707</u> |
| 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 | <u>2,101,946</u> | <u>2,101,946</u> | <u>2,112,538</u> | <u>10,592</u> |
| Unappropriated ending fund balance - June 30, 2007 | \$ <u>-</u> | <u>-</u> | <u>400,389</u> | <u>400,389</u> |

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

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | Variance with final budget positive (negative) |
|--|-------------------------|--------------|----------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Amounts</u> | |
| 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

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with</u> |
|---|-------------------------|--------------------|------------------|----------------------|
| | <u>Original</u> | <u>Final</u> | <u>Amounts</u> | <u>final budget</u> |
| | | | | <u>positive</u> |
| | | | | <u>(negative)</u> |
| 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 | <u>6,341,358</u> | <u>6,341,358</u> | <u>1,961,319</u> | <u>(4,380,039)</u> |
| 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 | <u>14,306,591</u> | <u>14,435,865</u> | <u>2,527,218</u> | <u>11,908,647</u> |
| Revenues under expenditures | <u>(7,965,233)</u> | <u>(8,094,507)</u> | <u>(565,899)</u> | <u>7,528,608</u> |
| 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) | <u>1,991,601</u> | <u>2,120,875</u> | <u>1,999,927</u> | <u>(120,948)</u> |
| Revenues and other sources over (under) expenditures and other uses | <u>(5,973,632)</u> | <u>(5,973,632)</u> | <u>1,434,028</u> | <u>7,407,660</u> |
| Beginning fund balance available for appropriation - July 1, 2006 | <u>6,851,970</u> | <u>6,851,970</u> | <u>7,039,133</u> | <u>187,163</u> |
| Unappropriated ending fund balance - June 30, 2007 | <u>\$ 878,338</u> | <u>878,338</u> | <u>8,473,161</u> | <u>7,594,823</u> |

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

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

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

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | Variance with |
|-------------------------------------|-------------------------|--------------|----------------|--|
| | <u>Original</u> | <u>Final</u> | <u>Amounts</u> | 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

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with</u> |
|---|-------------------------|--------------|----------------|----------------------|
| | <u>Original</u> | <u>Final</u> | <u>Amounts</u> | <u>final budget</u> |
| | | | | <u>positive</u> |
| | | | | <u>(negative)</u> |
| 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

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | Variance with |
|--|-------------------------|--------------------|--------------------|--|
| | <u>Original</u> | <u>Final</u> | <u>Amounts</u> | 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 | <u>36,045,461</u> | <u>37,571,353</u> | <u>39,885,279</u> | <u>2,313,926</u> |
| 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 | <u>33,251,291</u> | <u>33,746,146</u> | <u>33,013,647</u> | <u>732,499</u> |
| Revenues over expenditures | 2,794,170 | 3,825,207 | 6,871,632 | 3,046,425 |
| Other financing uses: | | | | |
| Transfers out | <u>(6,083,731)</u> | <u>(5,588,876)</u> | <u>(3,404,922)</u> | <u>2,183,954</u> |
| 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 | <u>13,194,318</u> | <u>13,194,318</u> | <u>15,120,074</u> | <u>1,925,756</u> |
| Unappropriated ending fund balance - June 30, 2007 | <u>\$ 9,904,757</u> | <u>11,430,649</u> | <u>18,586,784</u> | <u>7,156,135</u> |

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

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

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

| | <u>Solid Waste</u> | <u>MERC</u> | <u>Total</u> |
|--|---------------------|--------------------|------------------|
| 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 | <u>\$ 2,655,547</u> | <u>(3,237,863)</u> | <u>(582,316)</u> |

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

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with</u> |
|--|-------------------------|------------------|------------------|----------------------|
| | <u>Original</u> | <u>Final</u> | <u>Amounts</u> | <u>final budget</u> |
| | | | | <u>positive</u> |
| | | | | <u>(negative)</u> |
| 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 | <u>6,941,997</u> | <u>6,941,997</u> | <u>6,354,853</u> | <u>(587,144)</u> |
| Expenditures: | | | | |
| Operating expenses | 8,823,986 | 8,823,986 | 7,399,269 | 1,424,717 |
| Contingency | 128,323 | 128,323 | - | 128,323 |
| Total expenditures | <u>8,952,309</u> | <u>8,952,309</u> | <u>7,399,269</u> | <u>1,553,040</u> |
| 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) | <u>1,765,401</u> | <u>1,765,401</u> | <u>1,803,001</u> | <u>37,600</u> |
| 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 | <u>244,911</u> | <u>244,911</u> | <u>342,551</u> | <u>97,640</u> |
| Unappropriated ending fund balance - June 30, 2007 | \$ <u>-</u> | <u>-</u> | <u>1,101,136</u> | <u>1,101,136</u> |



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

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with</u> |
|---|-------------------------|--------------|----------------|----------------------|
| | <u>Original</u> | <u>Final</u> | <u>Amounts</u> | <u>final budget</u> |
| | | | | <u>positive</u> |
| | | | | <u>(negative)</u> |
| 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: | | |
|---|----------------|-------------|--------------|
| | <u>General</u> | <u>MERC</u> | <u>Total</u> |
| 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 | <u>2,337,620</u> |

| | |
|---|-----------------------|
| Total governmental funds capital assets | <u>\$ 280,701,946</u> |
|---|-----------------------|

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 | <u>58,702,582</u> |

| | |
|---|-----------------------|
| Total governmental funds capital assets | <u>\$ 280,701,946</u> |
|---|-----------------------|

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

METRO

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

June 30, 2007

| <u>Function and Activity</u> | <u>Land</u> | <u>Construction in progress</u> | <u>Buildings</u> | <u>Improvements</u> | <u>Equipment</u> | <u>Office furniture/ equipment</u> | <u>Railroad equipment/ facilities</u> | <u>Total</u> |
|-----------------------------------|-----------------------|-------------------------------------|--------------------|---------------------|------------------|--|---|--------------------|
| 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 | <u>2,573,449</u> | <u>67,564</u> | <u>76,408,053</u> | <u>3,594,897</u> | <u>2,850,221</u> | <u>169,685</u> | <u>2,337,620</u> | <u>88,001,489</u> |
| Total | \$ <u>154,446,228</u> | <u>1,194,440</u> | <u>101,997,122</u> | <u>11,831,637</u> | <u>4,627,596</u> | <u>4,267,303</u> | <u>2,337,620</u> | <u>280,701,946</u> |

(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

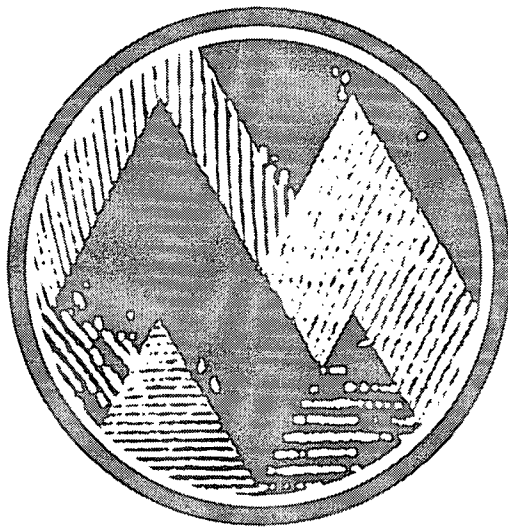
Capital Assets Used in the Operation of Governmental Funds Schedule of Changes by Function and Activity (1)

For the year ended June 30, 2007

| <u>Function and Activity</u> | Governmental Funds Capital Assets <u>July 1, 2006</u> | <u>Additions</u> | <u>Deductions</u> | Governmental Funds Capital Assets <u>June 30, 2007</u> |
|-----------------------------------|--|-------------------|-------------------|---|
| 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 | <u>86,174,303</u> | <u>1,827,186</u> | <u>-</u> | <u>88,001,489</u> |
| Total additions | \$ <u>266,998,344</u> | <u>13,703,602</u> | <u>-</u> | <u>280,701,946</u> |

(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

| <u>Fiscal Year</u> | Original levy or balance of receivable <u>July 1, 2006</u> | <u>Add (deduct)</u> | | | | Property taxes receivable <u>June 30, 2007</u> |
|--------------------|---|---------------------|--------------------|-----------------|---------------------|---|
| | | <u>Discounts</u> | <u>Adjustments</u> | <u>Interest</u> | <u>Collections</u> | |
| 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 |
| | <u>\$ 30,515,309</u> | <u>(727,947)</u> | <u>(123,531)</u> | <u>21,918</u> | <u>(28,545,240)</u> | <u>1,140,509</u> |

| Reconciliation to property tax revenue presented in the Statement of Activities: | <u>Governmental Activities</u> |
|---|------------------------------------|
| 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 | <u>960,693</u> |
| Property tax revenue per Statement of Activities | <u>\$ 28,686,523</u> |

METRO

Schedule of Future Bonded Debt Service Requirements General Obligation Bonds

June 30, 2007

| Year of maturity | 1995 Series B Open Spaces Program General Obligation Bonds | | 2002 Series General Obligation Refunding Bonds | | 2001 Series A General Obligation Refunding Bonds | |
|------------------|--|------------------|--|-------------------|--|------------------|
| | 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 | \$ <u>988,256</u> | <u>1,012,744</u> | <u>73,340,000</u> | <u>18,524,881</u> | <u>27,970,000</u> | <u>4,801,314</u> |

(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 | |
|--|------------------|--|-------------------|----------------------|-------------------|
| <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | <u>Principal (1)</u> | <u>Interest</u> |
| 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 |
| <u>17,785,000</u> | <u>4,930,575</u> | <u>124,295,000</u> | <u>57,489,571</u> | <u>244,378,256</u> | <u>86,759,085</u> |

METRO

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

June 30, 2007

| <u>Year of maturity</u> | <u>Revenue Bonds</u> | | | |
|-------------------------|---|-----------------|--|-----------------|
| | <u>Metro Central Transfer Station 1990 Series A</u> | | <u>Waste Disposal System Refunding Revenue Bonds 2003 Series</u> | |
| | <u>Principal (1)</u> | <u>Interest</u> | <u>Principal (1)</u> | <u>Interest</u> |
| 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 | \$ <u>1,070,000</u> | <u>-</u> | <u>4,740,000</u> | <u>222,994</u> |

- (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 | | Oregon Local Governments | | Metro Limited Tax Pension | |
| 2003 Series | | 2006 Series | | 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 |
| <u>21,155,000</u> | <u>6,767,645</u> | <u>14,570,000</u> | <u>6,726,672</u> | <u>24,290,000</u> | <u>17,651,953</u> |

METRO

Schedule of Long-term Bonded Debt Transactions General Obligation Bonds

For the year ended June 30, 2007

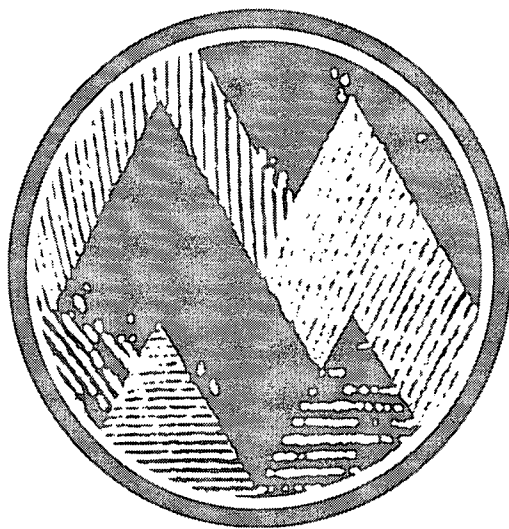
| | Principal | | | | |
|--|---------------------------------------|---------------------------------|--|--|--------------------------------|
| | Outstanding July 1, <u>2006</u> | Issued During <u>Year</u> | Matured and Paid During <u>Year</u> | Outstanding June 30, <u>2007</u> | Interest <u>Expenditure</u> |
| 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: | | | | | |
| <u>Full Faith and Credit</u> | | | | | |
| 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 |
| <u>Pension Obligation</u> | | | | | |
| 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: | | | | | |
| <u>Revenue Bonds</u> | | | | | |
| 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: | | | | | |
| <u>Full Faith and Credit</u> | | | | | |
| 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 |



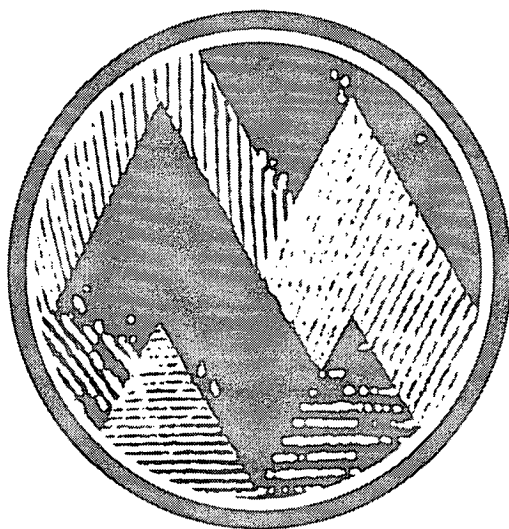


Statistical Section

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:

| | <u>Page</u> |
|---|-------------|
| 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 | | | | | |
|--|-----------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
| 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 | <u>9,479,810</u> | <u>9,400,821</u> | <u>9,811,543</u> | <u>16,612,577</u> | <u>35,400,215</u> | <u>57,456,789</u> |
| Total governmental activities net assets | <u>\$ 2,990,702</u> | <u>10,426,851</u> | <u>21,599,539</u> | <u>38,092,398</u> | <u>128,700,182</u> | <u>152,388,212</u> |
| 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 | <u>50,741,261</u> | <u>44,996,393</u> | <u>42,589,111</u> | <u>48,598,316</u> | <u>39,548,688</u> | <u>43,989,254</u> |
| Total business-type activities net assets | <u>\$ 340,746,701</u> | <u>333,705,961</u> | <u>323,935,595</u> | <u>324,821,162</u> | <u>256,501,518</u> | <u>255,862,496</u> |
| 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 | <u>60,221,071</u> | <u>54,397,214</u> | <u>52,400,654</u> | <u>65,210,893</u> | <u>74,948,903</u> | <u>101,446,043</u> |
| Total primary government net assets | <u>\$ 343,737,403</u> | <u>344,132,812</u> | <u>345,535,134</u> | <u>362,913,560</u> | <u>385,201,700</u> | <u>408,250,708</u> |

(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 | | | | | |
|---|------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
| 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 | \$ <u>35,474,724</u> | <u>30,706,588</u> | <u>29,244,583</u> | <u>30,788,278</u> | <u>58,805,836</u> | <u>65,057,917</u> |
| 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 | \$ <u>102,835,916</u> | <u>111,190,930</u> | <u>119,423,015</u> | <u>113,218,995</u> | <u>93,364,951</u> | <u>97,874,234</u> |
| Total primary government expenses | \$ <u><u>138,310,640</u></u> | <u><u>141,897,518</u></u> | <u><u>148,667,598</u></u> | <u><u>144,007,273</u></u> | <u><u>152,170,787</u></u> | <u><u>162,932,151</u></u> |
| 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 | \$ <u>13,977,641</u> | <u>10,637,621</u> | <u>11,507,167</u> | <u>12,470,082</u> | <u>32,886,307</u> | <u>31,655,693</u> |
| 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 | \$ <u>78,533,830</u> | <u>85,831,821</u> | <u>92,469,935</u> | <u>96,588,918</u> | <u>81,095,557</u> | <u>83,864,248</u> |
| Total primary government program revenues | \$ <u><u>92,511,471</u></u> | <u><u>96,469,442</u></u> | <u><u>103,977,102</u></u> | <u><u>109,059,000</u></u> | <u><u>113,981,864</u></u> | <u><u>115,519,941</u></u> |

(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 | | | | | |
|------------------------------------|----------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
| General Fund (1) | | | | | | |
| Reserved | \$ - | - | - | - | 7,333,324 | 8,518,324 |
| Unreserved | <u>1,288,482</u> | <u>1,648,753</u> | <u>2,561,919</u> | <u>4,443,897</u> | <u>25,630,402</u> | <u>34,564,077</u> |
| Total general fund | <u>\$ 1,288,482</u> | <u>1,648,753</u> | <u>2,561,919</u> | <u>4,443,897</u> | <u>32,963,726</u> | <u>43,082,401</u> |
| 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 | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>178,943</u> | <u>222,452</u> |
| Total all other governmental funds | <u>\$ 38,165,005</u> | <u>31,256,855</u> | <u>26,492,980</u> | <u>27,161,452</u> | <u>25,690,490</u> | <u>149,408,578</u> |

(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 | | | | | |
|--|------------------------|--------------------|--------------------|-------------------|-------------------|--------------------|
| | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
| 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 | \$ <u>43,086,290</u> | <u>38,126,544</u> | <u>40,439,879</u> | <u>44,917,597</u> | <u>77,638,530</u> | <u>82,058,418</u> |
| 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 | <u>10,426,457</u> | <u>4,407,455</u> | <u>3,861,065</u> | <u>2,425,758</u> | <u>5,210,036</u> | <u>12,320,285</u> |
| Total expenditures | \$ <u>56,004,739</u> | <u>45,086,755</u> | <u>44,247,833</u> | <u>44,852,253</u> | <u>72,656,969</u> | <u>85,735,983</u> |
| Excess of revenues over (under) expenditures | \$ <u>(12,918,449)</u> | <u>(6,960,211)</u> | <u>(3,807,954)</u> | <u>65,344</u> | <u>4,981,561</u> | <u>(3,677,565)</u> |

(Continued)

METRO

Changes in Fund Balances, Governmental Funds, Continued

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

| | Fiscal Year | | | | | |
|--|------------------------|--------------------|--------------------|---------------------|--------------------|--------------------|
| | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
| 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 | <u>(5,528,185)</u> | <u>(6,869,687)</u> | <u>(7,099,034)</u> | <u>(10,000,066)</u> | <u>(3,752,514)</u> | <u>(3,695,027)</u> |
| Total other financing sources (uses) | \$ <u>1,349,437</u> | <u>412,332</u> | <u>(42,755)</u> | <u>508,913</u> | <u>24,849,206</u> | <u>130,509,584</u> |
| Special item | \$ - | - | - | - | (24,022,369) | - |
| Net change in fund balances | \$ <u>(11,569,012)</u> | <u>(6,547,879)</u> | <u>(3,850,709)</u> | <u>574,257</u> | <u>5,808,398</u> | <u>126,832,019</u> |
| Prior period adjustment | \$ <u>-</u> | <u>-</u> | <u>-</u> | <u>1,976,193</u> | <u>4,613,707</u> | <u>7,004,744</u> |
| 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) | Regional Total All Waste Types |
|-------------------------------------|-------------------------------|--------------------------|-----------------------------------|--------------------------|-------------------------------|-----------------------------------|-----------------------------------|
| | Metro- Owned Facilities | Total Per Ton Rate | Privately- Owned Facilities | Total Per Ton Rate | Metro- Owned Facilities | Privately- Owned Facilities | |
| 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 |
| <u>Metro Facilities</u> | | | | | | | | | | |
| 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) | \$ <u>70.00</u> | <u>62.50</u> | <u>62.50</u> | <u>62.50</u> | <u>62.50</u> | <u>66.23</u> | <u>67.18</u> | <u>70.96</u> | <u>71.41</u> | <u>69.86</u> |
| Transaction fee-scalehouse | \$ <u>-</u> | <u>5.00</u> | <u>5.00</u> | <u>5.00</u> | <u>5.00</u> | <u>6.00</u> | <u>6.00</u> | <u>7.50</u> | <u>7.50</u> | <u>8.50</u> |
| Transaction fee-automated | \$ <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>3.00</u> |
| <u>Privately-Owned Facilities</u> | | | | | | | | | | |
| 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) | \$ <u>15.00</u> | <u>14.00</u> | <u>14.00</u> | <u>17.58</u> | <u>17.94</u> | <u>21.39</u> | <u>22.89</u> | <u>23.67</u> | <u>22.87</u> | <u>21.92</u> |

(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

| Customer/Payer | 2007 | | | 2002 | | |
|-----------------------------------|----------------------|------|---|----------------------|------|---|
| | 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 | <u>\$ 24,966,182</u> | | <u>48.04 %</u> | <u>\$ 20,095,950</u> | | <u>44.66 %</u> |

(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

| Fiscal year ended June 30, | Governmental Activities | | | | | |
|-------------------------------------|--------------------------------|--|--|--------------------------------|------------------|-------------------|
| | 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 | | | | | |
|--------------------------|--|--------------------------|---|--|---------------------------|
| <u>Revenue Bonds</u> | <u>Full Faith and Credit Refunding Bonds</u> | <u>Loans Payable</u> | <u>Total Primary Government</u> | <u>Percentage of Personal Income (3)</u> | <u>Per Capita (3)</u> |
| \$ 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 | | | Real Market Value (1) | Percentage of Actual Real Market Value of Property | Per Capita (2) |
|-------------------------------------|---------------------------------|--|----------------------------|--------------------------|--|-------------------|
| | General Obligation Bonds | Less: Amounts Restricted to Repaying Principal | Net General Bonded Debt | | | |
| 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

| <u>Overlapping government</u> | Percent within District | <u>Overlapping</u> | |
|--|----------------------------|---|---|
| | | <u>Gross property tax backed debt</u> | <u>Net property tax backed debt</u> |
| 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

| <u>Overlapping government</u> | Percent within District | Overlapping | |
|--|----------------------------|-----------------------------------|---------------------------------|
| | | Gross property tax backed debt | 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 | | <u>\$ 5,096,258,270</u> | <u>\$ 2,192,411,054</u> |

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 | | <u>244,378,256</u> |
| Legal debt margin | | <u>\$ 17,934,346,497</u> |

Fiscal Year

| | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2001</u> |
|---|-------------------------|----------------------|-----------------------|-----------------------|
| Debt limit | \$ 8,732,054,648 | 9,415,774,489 | 10,514,745,082 | 11,301,106,459 |
| Total net debt applicable to limit | <u>211,002,003</u> | <u>203,377,953</u> | <u>195,329,198</u> | <u>186,845,998</u> |
| Legal debt margin | <u>\$ 8,521,052,645</u> | <u>9,212,396,536</u> | <u>10,319,415,884</u> | <u>11,114,260,461</u> |
| 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 | | | | | |
|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
| 12,305,094,864 | 12,854,254,433 | 13,845,507,019 | 14,636,072,967 | 15,666,622,880 | 18,178,724,753 |
| <u>177,847,373</u> | <u>165,364,313</u> | <u>153,820,393</u> | <u>143,000,238</u> | <u>131,647,201</u> | <u>244,378,256</u> |
| <u>12,127,247,491</u> | <u>12,688,890,120</u> | <u>13,691,686,626</u> | <u>14,493,072,729</u> | <u>15,534,975,679</u> | <u>17,934,346,497</u> |
| 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) | | Coverage |
| | | | | Principal | Interest | |
| 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

| <u>Fiscal year ended June 30,</u> | <u>Population (1)</u> | <u>Total Personal income (in thousands) (2)</u> | <u>Per capita personal income (2)</u> | <u>Portland metropolitan unemployment rate (2)</u> |
|---|-----------------------|---|---|--|
| 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

| Employer | 2007 | | | 1998 | | |
|---|----------------|------|--|---------------|------|--|
| | 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 | <u>130,427</u> | | <u>12.74 %</u> | <u>99,507</u> | | <u>10.66 %</u> |

(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 |
| <u>Functions/Programs</u> | | | | | | | | | | |
| Primary Government: | | | | | | | | | | |
| <i>Governmental activities:</i> | | | | | | | | | | |
| 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 |
| <i>Business-type activities:</i> | | | | | | | | | | |
| 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 | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
| <u>Functions/Programs</u> | | | | | | |
| Primary Government: | | | | | | |
| <i>Governmental activities:</i> | | | | | | |
| 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% |
| <i>Business-type activities:</i> | | | | | | |
| 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 | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
| 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 Recycling 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 |
| <u>Functions/Programs</u> | | | | | | |
| Primary Government: | | | | | | |
| <i>Governmental activities:</i> | | | | | | |
| 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 |
| <i>Business-type activities:</i> | | | | | | |
| 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 <u>June 30,</u> | Taxes levied by <u>assessor</u> | Current tax <u>collections</u> | Current tax collections as percent of current <u>levy</u> | Delinquent tax <u>collections</u> | Total tax <u>collections</u> | Total collections as percent of current <u>levy</u> | Uncollected <u>taxes</u> | Uncollected taxes as percent of current <u>levy</u> |
|--|---------------------------------------|--------------------------------------|---|---|------------------------------------|---|-----------------------------|---|
| 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 <u>June 30,</u> | <u>Real property</u> | | <u>Personal property</u> | |
|--|---------------------------|------------------------------|---------------------------|------------------------------|
| | <u>Assessed value</u> | <u>Real market value</u> | <u>Assessed value</u> | <u>Real market value</u> |
| 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.

| <u>Public utility property</u> | | <u>Total</u> | | <u>Ratio of total assessed to total real market value</u> |
|--------------------------------|------------------------------|---------------------------|------------------------------|---|
| <u>Assessed value</u> | <u>Real market value</u> | <u>Assessed value</u> | <u>Real market value</u> | |
| \$ 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

| <u>Taxpayer account</u> | <u>Type of business</u> | <u>Assessed valuation</u> | <u>Percent of total valuation</u> |
|---------------------------------|--|---------------------------|-----------------------------------|
| 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 Structural, 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.



For Moss Adams LLP
Eugene, Oregon
December 19, 2007

