

PDF User's Guide

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Viewing the CAFR

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

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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.

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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.

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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

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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

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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.

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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

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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.

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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.

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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.

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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)
	<hr/>	<hr/>	<hr/>
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>

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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:

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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.

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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) Federal Home Loan Mortgage Corporation (FHLMC)	28.6%	40.0%	-	-
Federal Farm Credit Bank (FFCB)	20.7%	40.0%	45.9%	26.0%
Federal National Mortgage Association (FNMA)	9.8%	40.0%	-	-
Commercial paper	20.1%	40.0%	-	-
Bankers' Acceptances	4.9%	35.0%	-	-
	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:

<u>Property Name</u>	<u>Address</u>	<u>Amount</u>
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	5,850
		<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

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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	-	300,000
			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	<u>19,329,786</u>	<u>1,151,118</u>	<u>-</u>	<u>-</u>	<u>20,480,904</u>
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	<u>303,337,343</u>	<u>1,698,294</u>	<u>-</u>	<u>-</u>	<u>305,035,637</u>
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	<u>(96,473,213)</u>	<u>(10,446,323)</u>	<u>-</u>	<u>-</u>	<u>(106,919,536)</u>
Total capital assets, depreciable, net	<u>206,864,130</u>	<u>(8,748,029)</u>	<u>-</u>	<u>-</u>	<u>198,116,101</u>
Business-type activities capital assets, net	<u>\$ 226,193,916</u>	<u>(7,596,911)</u>	<u>-</u>	<u>-</u>	<u>218,597,005</u>

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:

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

8. COMMITMENTS

Columbia Ridge Landfill

Metro has a waste disposal services contract expiring December 31, 2019 with the owner and operator of the Columbia Ridge Landfill in Arlington, Oregon for disposal of solid waste from the Metro region. For fiscal year 2007, the contract required a per ton unit price of \$24.77 for the first 550,000 tons and a declining incremental price scale for each ton of waste in excess of 550,000 tons. The per ton rate is adjusted annually on July 1 to reflect changes in the Consumer Price Index (CPI).

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 <u>June 30:</u>	<u>Columbia Ridge Landfill</u> Variable payment <u>based on tons</u>	<u>Waste Transport</u> Variable payment <u>based on loads</u>	<u>Metro South</u> Variable payment <u>based on tons</u>	<u>Metro Central</u> Variable payment <u>based on tons</u>
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>
	<u>\$988,256</u>	<u>1,012,744</u>

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	18,524,881
Unamortized costs/premium	5,264,672	
Deferred amount on refunding	<u>(3,527,234)</u>	
Per statement of net assets	<u>\$75,077,438</u>	

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	6,008,078	
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	<u>6,767,645</u>
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	-	-	<u>2,320,000</u>	<u>29,000</u>
	1,070,000	-	4,740,000	<u>222,994</u>
Unamortized costs/discount			(58,867)	
Deferred amount on refunding	-		<u>(276,039)</u>	
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 (OECDD) Special Public Works Fund loan that in fiscal year 2000 funded the construction of a new building to replace the existing Hall D at the Expo Center. The net proceeds of the issue were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to pay in full on December 1, 2007 the amount due on the refunded loan. At June 30, 2007, \$13,586,698 of the refunded loan was outstanding.

As a result of these actions, the 2000 loan is considered defeased and the liability for the loan has been removed from the government-wide statement of net assets.

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

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

<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>
	14,570,000	<u>6,726,672</u>
Unamortized costs/discount	116,826	
Deferred amount on refunding	<u>(749,669)</u>	
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	Governmental Activities						Business-type Activities	
	Energy Loan Payable		TOD Property Loans Payable				LID Payable	
	Principal	Interest	2005 Loan Principal	2005 Loan Interest	2007 Loan Principal	2007 Loan Interest	Principal	Interest
June 30:								
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>

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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 <u>July 1, 2006</u>	Additions	Reductions	Balance <u>June 30, 2007</u>	Due Within <u>One Year</u>
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	<u>(7,247,925)</u>	-	670,041	<u>(6,577,884)</u>	-
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	<u>1,894,799</u>	<u>2,112,338</u>	<u>(1,894,799)</u>	<u>2,112,338</u>	<u>1,427,970</u>
 Governmental activity Long-term liabilities	 <u>\$ 185,054,552</u>	 <u>133,087,318</u>	 <u>(14,747,518)</u>	 <u>303,394,352</u>	 <u>25,639,294</u>
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	<u>(1,206,769)</u>	-	181,061	<u>(1,025,708)</u>	-
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	<u>1,019,503</u>	<u>1,079,006</u>	<u>(1,019,503)</u>	<u>1,079,006</u>	<u>869,116</u>
 Business-type activity Long-term liabilities	 <u>\$ 26,194,286</u>	 <u>1,079,006</u>	 <u>(3,413,744)</u>	 <u>23,859,548</u>	 <u>3,497,395</u>

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.

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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>

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Notes to the Financial Statements, Continued

Interfund transfers for the fiscal year by fund were:

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

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

16. INSURED RISKS

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

- General liability, bodily injury to or property damage of third parties resulting from the negligence of Metro or its employees and errors and omissions risks: these risks are fully covered by the Risk Management Fund. Metro is protected by ORS Chapter 30, the Oregon Tort Claims Act, which limits public entities' liability to \$100,000 per person and \$500,000 per occurrence for the acts of Metro, its employees and agents. Possible liability outside the Oregon Tort Claims Act is covered by an excess liability policy with a \$1,000,000 deductible.
- Property damage to Metro-owned facilities: this risk is covered with a commercial property insurance policy. The property coverage is in the amount of \$504,531,000 with a \$500,000 deductible.

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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 Estimates	Claim Payments	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

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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.