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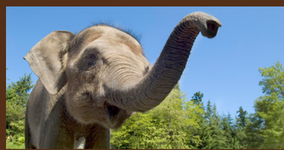
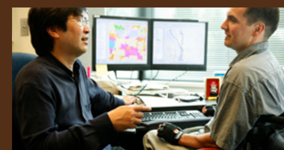
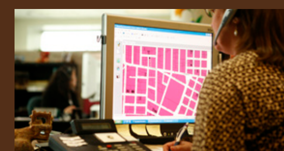






600 NE Grand Ave.
Portland, Oregon
97232-2736

CAFR

Comprehensive Annual Financial Report

For the year ended June 30, 2010

Metro | *Making a great place*

Metro | *Making a great place*

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 for the year ending June 30, 2010

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; Robert Liberty, District 6.

Auditor – Suzanne Flynn

www.oregon**metro.gov**

METRO

Suzanne Flynn
Metro Auditor
600 NE Grand Ave
Portland, OR 97232-2736
TEL 503 797 1892
FAX 503 797 1831

December 3, 2010

To the Metro Council and Residents 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 LLP 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, 2010. 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 the Schedule of Expenditures of Federal Awards for the year ended June 30, 2010 are included in the last section of this report, Audit Comments and Disclosures Required by State and Federal Regulations.

Respectfully submitted,

Suzanne Flynn
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, each major fund and the aggregate remaining fund information of Metro, as of and for the year ended June 30, 2010, 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 1.4% and .3%, respectively, of the assets and revenues of Metro. 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 the 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. The financial statements of the Oregon Zoo Foundation were not audited in accordance with *Government Auditing Standards*. 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, each major fund, and the aggregate remaining fund information of Metro, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2010 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, 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, budgetary comparison, and schedule of funding progress for other post employment benefits on pages 15 through 34, and 85 through 87 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 and the schedule of funding progress for other post employment benefits on pages 15 through 34, and page 87 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 85 and 86 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. Additionally, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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.

James C. Lagarotta

For Moss Adams LLP
Eugene, Oregon
December 2, 2010

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, 2010. 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 - 7 of this report. This information is based upon currently known facts, decisions or conditions.

FINANCIAL HIGHLIGHTS

- During fiscal year 2010, Metro acquired ownership of approximately 1,438 acres from willing sellers in nine different target areas and 12 separate land transactions from the proceeds of the Natural Areas general obligation bonds. The total capitalized cost for the property acquired and stabilized in the current fiscal year under this program was $10,211,922 and is reflected in governmental activities capital assets. This amount included the acquisition of the 1,143 acre Chehalem Ridge Natural Area, the largest single acquisition in the history of the program.
- The Construction Excise Tax (CET) collected $1,427,730 during the fiscal year ended June 30, 2010. The cumulative total of CET revenues raised since inception is $7,451,438 at the end of fiscal year 2010. Of the amount collected in fiscal year 2010, $162,536 was provided by agreement to other local governments for specified planning activities. Metro has obligated $6.3 million of the initial CET to local government planning activities, of which $4,490,742 has been paid out since the inception of the program. CET revenues above $6.3 million have not been awarded due to pending litigation.
- Metro's total debt decreased $33,260,404 during the current fiscal year. The key factors in this decrease were the scheduled payments of principal maturities on outstanding bonds, the early payment in full of the 2008 Series Oregon Zoo General Obligation Bond in June 2010 in advance of its December 2010 maturity date, and the early payoff of a local improvement district loan in the amount of $133,632.
- Metro's net assets total $485,991,350 at June 30, 2010, which reflects an increase of 2.0 percent or $9,320,284 over the prior year. Governmental activities' net assets increased by $25,919,539, while business-type activities' net assets decreased $16,599,255 as explained later in this analysis.
- Other liabilities of Metro's business-type activities increased 102.1 percent or $15,303,857 from June 30, 2009, primarily attributable to a change in estimate for landfill post-closure costs in Solid Waste operations as Metro continued implementing its closure plan for the closed St. Johns Landfill. The $13,634,086 increase in estimated costs through the end of the closure period in 2026 brought the total remaining liability to $14,988,898 at June 30, 2010 and reduced net assets accordingly.
- The General Fund reflected an increase of $1,476,244 in fund balance from its operations, to a total of $46,455,487 at June 30, 2010. Of this total fund balance, $8,789,267 is reserved for assets held for resale, $660,638 for long-term loans receivable of the Transit-Oriented Development (TOD) program, and $188,082 for prepaid items. Unreserved fund balance in the General Fund stood at $36,817,500 at June 30, 2010, representing 56.2 percent of total fund expenditures.

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 following table 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.

Major Features and Perspectives of Metro's Financial Statements

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

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

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

Each government-wide financial statement is 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 office, regional transportation and land use planning, regional parks and greenspaces, 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 2010 these activities consisted of the operation of the solid waste system and Metropolitan Exposition-Recreation Commission (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 Governmental Accounting Standards Board (GASB) Statement No. 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. 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 the comparative level of 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 understand better the long-term impact of Metro's near-term financing decisions. A reconciliation that follows the governmental funds statements explains the differences between the two statements.

  Metro maintains nine individual governmental funds, four of which are presented by Metro as "major funds" in accordance with professional standards: the General, General Obligation Bond Debt Service, Zoo Infrastructure and Animal Welfare, and Natural Areas funds. 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. Data from the other five governmental funds (Smith and Bybee Lakes, Rehabilitation and Enhancement, Open Spaces, Metro Capital and Cemetery Perpetual Care) are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

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) and one additional entire budgetary fund (General Renewal and Replacement Fund) are 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 remaining portion of the budgetary General Revenue Bond Fund is allocated to the MERC Fund for proprietary fund presentation noted below.

The governmental fund financial statements can be found on pages 41-46 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, including cash flows. The proprietary fund financial statements provide separate information for the Solid Waste Fund, MERC Fund, and Risk Management Fund, which are considered major funds of Metro.

The proprietary fund financial statements can be found on pages 47-53 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 55-82 of this report.

FINANCIAL ANALYSIS OF METRO AS A WHOLE

Net assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Metro's net assets total $485,991,350 at June 30, 2010, which reflects an increase of 2.0 percent or $9,320,284 over the prior year. The table on the following page reflects the condensed Government-wide Statement of Net Assets.

Metro's governmental activities now account for the most significant portion of total net assets – totaling $248,851,812 (51.2 percent), whereas business-type activities account for $237,139,538 (48.8 percent). Of Metro's total net assets, 69.8 percent of the total reflects its investment in capital assets, net of related debt, up from 67.3 percent of net assets in the prior year. Metro uses these capital assets to provide services to its citizens, 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 business-type activities, $193,123,523, includes capital assets for the MERC enterprise, specifically the Oregon Convention Center (OCC), that were financed through the issuance of general obligation bonds. The amount of debt related to OCC is reflected in unrestricted net assets in governmental activities as the amount of long-term debt outstanding on these bonds is a liability of the governmental activities in which repayment of the bonds occurs. The amount stated as the total for invested in capital assets net of related debt in the Total – Primary Government column, $339,047,164, brings this related debt together with those capital assets to reflect this net amount for Metro as a whole. Metro's investment in its headquarters offices, zoo exhibits, open spaces property and other significant assets is reflected in the governmental activities investment in capital assets, net of related debt. Overall, the increase in the amount invested in capital assets (net of related debt) for governmental activities reflects a net increase in capital assets of $18,415,022 associated primarily with Natural Areas acquisitions and construction of capital assets at the Oregon Zoo and a decrease in capital related long-term debt outstanding from principal payments on debt primarily 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, while related long-term debt declined due to payment of principal.

Metro's Net Assets

		Governmental Activities		Business-type Activities		Total - Primary Government	
		2010	2009	2010	2009	2010	2009
Current and other assets	$	168,976,893	194,689,288	74,313,632	70,969,790	243,290,525	265,659,078
Capital assets		312,652,751	294,237,729	205,434,687	210,771,273	518,087,438	505,009,002
Total assets		481,629,644	488,927,017	279,748,319	292,676,766	761,377,963	770,668,080
Long-term debt outstanding		217,116,174	249,679,282	12,311,164	13,008,460	229,427,338	262,687,742
Other liabilities		15,661,658	16,315,462	30,297,617	14,993,810	45,959,275	31,309,272
Total liabilities	$	232,777,832	265,994,744	42,608,781	28,002,270	275,386,613	293,997,014
Net assets							
Invested in capital assets, net of related debt		161,033,641	142,681,077	193,123,523	197,896,445	339,047,164	320,942,522
Restricted		47,868,259	41,383,007	2,652,250	14,548,959	50,520,509	55,931,966
Unrestricted		39,949,912	38,868,189	41,363,765	41,293,389	96,423,677	99,796,578
Total net assets	$	248,851,812	222,932,273	237,139,538	253,738,793	485,991,350	476,671,066

In addition, 10.4 percent of net assets are restricted for specific purposes, including capital projects, community rehabilitation and enhancement, debt service, cemetery perpetual care and other purposes. This represents a decrease in restricted net assets of $5,411,457 (9.7 percent) from the amount at June 30, 2009. This decrease is the net effect of the removal of restrictions on net assets in the business-type activities due to the payoff of revenue bonds in the Solid Waste enterprise in the prior year (reducing restricted net assets by $13,151,704) and increases in restricted net assets for capital projects in governmental activities, totaling $6,023,815, funded by the Natural Areas and Zoo Infrastructure and Animal Welfare bond proceeds. The remaining $96,423,677 is unrestricted, with $39,949,912 of this amount attributable to Metro's governmental activities. Unrestricted net assets increased $1,081,723 (2.8 percent) in governmental activities and decreased $70,236 (0.2 percent) 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) decreased 8.4 percent or $22,368,553 on a government-wide basis. The decrease is attributed primarily to the spending for acquisitions and local share grants of the Natural Areas bond program, which accounted for a decrease of $19,233,439 in restricted cash and investments, as well as spending for the Zoo Infrastructure and Animal Welfare projects which decreased restricted cash and investments by $1,625,114, both reflected in governmental-activities restricted assets. Current and other assets increased $3,343,842 from the prior year in business-type activities with an increase of $2,894,465 attributable to MERC operations and a $706,448 decrease in Solid Waste operations, both net of internal balances for the consolidation of internal service fund (risk management) activities. MERC's increase was primarily attributable to restricted cash and investments provided by its concessions contractor upon the award of the contract which is to be used by MERC for purchase of concession related equipment ($1,669,225 remaining), as well as restricted cash and investments from local government shared revenues – primarily the transient lodging (hotel/motel) tax.

Long-term debt outstanding decreased 12.7 percent or $33,260,404. Governmental activity long-term debt decreased $32,563,108 or 13.0 percent as a result of scheduled debt payments, as well as payment of $5,000,000 of the 2008 Series Oregon Zoo General Obligation Bond in advance of its scheduled December 2010 maturity date. Business-type activity long-term debt decreased $697,296 or 5.4 percent from June 30, 2009 as Metro paid scheduled principal payments, as well as paying in full the remainder of a local improvement district loan in the amount of $133,632. A further discussion of the financing activities undertaken during the year is presented later in this analysis.

Other liabilities (consisting of accounts payable, accrued compensation, accrued interest payable, and other current liabilities) of Metro's business-type activities increased 102.1 percent or $15,303,857 from June 30, 2009, primarily attributable to a change in estimate for landfill post-closure costs in Solid Waste operations as Metro continued implementing its closure plan for the closed St. Johns Landfill. The $13,634,086 increase in estimated costs through the end of the closure period in 2026 brought the total remaining liability to $14,988,898 at June 30, 2010. In addition, unearned revenue in MERC operations was up $1,504,990 at June 30, 2010 due to advance ticket sales for several large events that played in later months, including the Broadway play *Lion King* and the artists Neil Young and Harry Connick, Jr.

Other liabilities in the governmental activities decreased $653,804 or 4.0 percent overall. The decrease in other liabilities is reflective of a decrease in accounts payable and a decrease in accrued interest payable, the later due to continued reduction in the amount of long-term debt principal outstanding.

Changes in net assets. As noted earlier, Metro's total net assets increased 2.0 percent over the prior year. Governmental activities' net assets increased by $25,919,539, while business-type activities' net assets decreased $16,599,255. The components of this change in net assets are reflected in the condensed information from Metro's Statement of Activities, which follows.

Program revenues generated directly from Metro's operations, which includes charges for services, decreased $2,331,890 or 1.8 percent from the prior year, while the share of total revenues derived from these sources decreased from the prior year, from 62.1 percent to 61.4 percent. This decrease is due to the significance in the prior year of a one-time donation of land to Metro's Natural Areas program that totaled $4,311,793 and was reflected in capital grants and contributions in governmental activities. A year to year comparison of program revenues net of this single prior year transaction shows an increase of $2,079,315 over the prior year.

A significant portion (51.4 percent) of Metro's revenues come from, or is based upon, its charges for services. Charges for services revenues include charges to customers for use of Metro facilities and services, such as solid waste fees and admission fees. Program revenues from business-type activities increased 2.9 percent, or $2,350,826. Governmental activities program revenue decreased 0.9 percent or $370,923 net of the prior year's one-time donation mentioned above, with the zoo accounting for a decrease of $862,727, whereas regional planning activities program revenues were up $531,531, with the increase due to higher revenues from operating grants and local government contributions on planning work, up $999,244. Charges for services revenues increased 2.1 percent or $492,934 in governmental activities and increased 0.1 percent or $69,392 in business-type activities. Operating grants and contributions increased over the prior year by $1,103,285 or 7.5 percent, primarily in regional planning, as noted earlier. Capital grants and contributions revenue dropped significantly due to the land donation noted earlier, as well as a large capital grant received in the prior year for the M. James Gleason Boat Ramp project that totaled $1,784,074 – both reflected in governmental activities. That reduction was offset to some extent by a $2,000,000 capital contribution to MERC by the concessions contractor which is reflected in business-type activities.

Changes in Metro's Net Assets

		Governmental Activities		Business-type Activities		Total - Primary Government	
		2010	2009	2010	2009	2010	2009
Revenues:							
Program revenues							
Charges for services	$	24,258,779	23,765,845	80,554,854	80,485,462	104,813,633	104,251,307
Operating grants and contributions		14,446,031	13,889,920	1,378,076	830,902	15,824,107	14,720,822
Capital grants and contributions		2,725,497	8,457,258	2,000,000	265,740	4,725,497	8,722,998
General revenues							
Property taxes		51,668,586	45,447,596	-	-	51,668,586	45,447,596
Excise taxes		14,373,427	14,710,735	-	-	14,373,427	14,710,735
Local government shared revenues		509,323	500,473	9,941,144	10,702,508	10,450,467	11,202,981
Other		1,658,426	5,020,438	537,995	1,714,787	2,196,421	6,735,225
Total revenues	$	109,640,069	111,792,265	94,412,069	93,999,399	204,052,138	205,791,664
Expenses:							
General government operations		12,779,417	14,198,441	-	-	12,779,417	14,198,441
Regional planning and development		14,978,447	13,023,497	-	-	14,978,447	13,023,497
Culture and recreation		17,316,051	13,350,232	-	-	17,316,051	13,350,232
Zoo		28,311,531	29,426,286	-	-	28,311,531	29,426,286
Interest on long-term debt		10,888,841	12,121,270	-	-	10,888,841	12,121,270
Solid Waste			-	64,228,318	52,014,903	64,228,318	52,014,903
MERC			-	46,229,249	46,239,579	46,229,249	46,239,579
Total expenses	$	84,274,287	82,119,726	110,457,567	98,254,482	194,731,854	180,374,208
Increase (decrease) in net assets before transfers	$	25,365,782	29,672,539	(16,045,498)	(4,255,083)	9,320,284	25,417,456
Transfers		553,757	120,655	(553,757)	(120,655)	-	-
Increase (decrease) in net assets	$	25,919,539	29,793,194	(16,599,255)	(4,375,738)	9,320,284	25,417,456
Net Assets, July 1		222,932,273	193,139,079	253,738,793	258,114,531	476,671,066	451,253,610
Net Assets, June 30	$	248,851,812	222,932,273	237,139,538	253,738,793	485,991,350	476,671,066

General revenues are used by Metro to fund expenses not covered by program revenues. The most significant general revenue, property taxes, accounts for 47.1 percent of all governmental activities revenues, up from 40.7 percent in the prior fiscal year due primarily to the increase in assessments necessary for debt service payments on Metro's outstanding bonds. Property taxes are dedicated to repayment of general obligation bond debt or allocated by the Council in support of General Fund operations ($40,225,036 and $11,232,026 respectively). The bonds were originally issued to finance construction of the OCC, construction of the Great Northwest project and the initial phase of the Zoo Infrastructure and Animal Welfare program at the Oregon Zoo, and for acquisition of open spaces and natural areas in the region.

The excise tax – a tax Metro assesses on users of its goods and services at a flat rate per ton on solid waste activities ($9.83, which is up from $8.97 in the prior year) and as a percentage (7.5 percent) of revenues on all other authorized revenues – is used to fund primarily general government and planning functions. As part of the budget process, the Council applies excise tax as general revenue to support Regional Parks operations, general renewal and replacement and to fund the Tourism Opportunity and Competitiveness Account which is designed to enhance the OCC's pursuit of conventions from outside the region and bring new dollars into the region. The excise tax provided $12,945,697 in general revenue, down $30,459 or 0.2 percent from the prior year. This decrease is reflective of the net impact of the change in the tax rates noted earlier and on lower revenues from Metro facilities upon which the tax is assessed. Excise taxes from Metro non-solid waste facilities accounted for $1,853,667 of revenue, a decrease of $471,155 from the prior year which is primarily attributable to the exemption of Zoo revenues from the tax for the first time in fiscal year 2010. Excise taxes from revenue associated with solid waste tonnage increased over the prior year, with $4,755,700 raised at Metro operated facilities (up $182,044) and $6,336,330 raised from privately owned facilities (up $258,652).

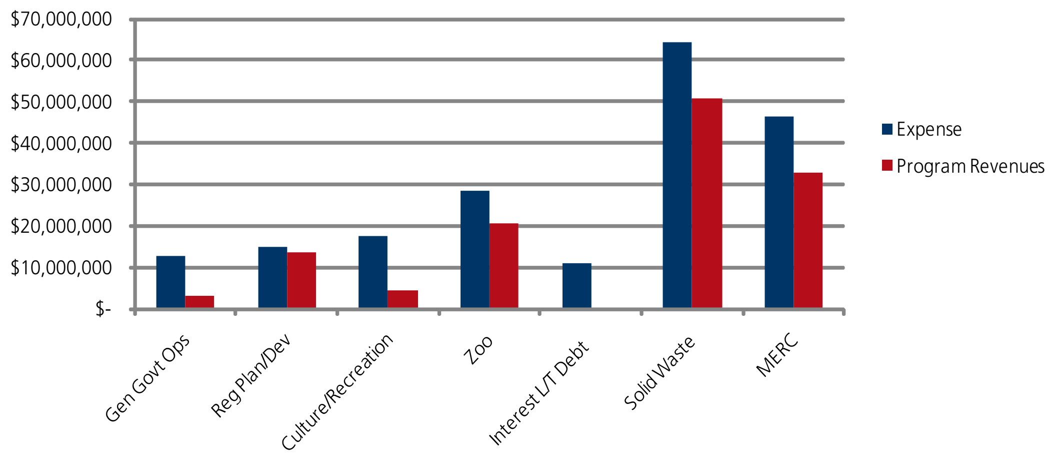
Beginning July 1, 2006, Metro imposed the CET, which collected $1,427,730 during the fiscal year ended June 30, 2010, down $306,849, reflective of the impact of the deep recession on construction activity. This tax is imposed on new construction within the region, with limited exceptions, and is intended to provide funds to local governments for planning of future expansion areas, future urban reserves and planning that enables redevelopment of centers, corridors and employment areas within the existing Urban Growth Boundary. The Council extended the CET to September 30, 2014. The cumulative total of CET revenues raised since inception is $7,451,438 at the end of fiscal year 2010. Of the amount collected in fiscal year 2010, $162,536 was provided by agreement to other local governments for specified planning activities and resulted in lower expenses, down $959,339 from the prior year in general government operations expenses. This brings the cumulative total of CET funds provided to local governments since the inception of the program to $4,490,742.

Local government shared revenues were down $752,514 or 6.7 percent reflective of the economy and its impacts on lodging taxes received in support of MERC operations, with lodging down 4.1 percent and car rental revenues down 8 percent. Investment revenues were down $4,540,306 (67.7 percent) due to continued spending of bond proceeds and because the average yield earned on Metro's pooled cash investments declined with the market in fiscal year 2010, from a high of 1.61 percent in July 2009 to a low of 0.75 percent in June 2010. The average yield for the fiscal year was 1.15 percent compared to 2.59 percent in the prior year.

The total cost of all programs and services decreased 8.0 percent or $14,357,646 from the prior year to a total of $194,731,854. Business-type activities, consisting of Solid Waste and MERC programs, represent 56.7 percent of this total, compared to 54.5 percent in the prior year. General government operations reflected 6.6 percent of total costs, compared to 7.9 percent in the prior year. Regional planning and development and culture and recreation (primarily regional parks programs) accounted for 7.7 percent and 8.9 percent of total costs, respectively. The zoo program represented 14.5 percent of total costs for the year. The remainder was primarily interest on long-term debt, which decreased by $1,232,429 or 10.2 percent from the prior year and totaled $10,888,841 or 5.6 percent of total costs, down from 6.7 percent in the prior year as a result of scheduled principal payments on bonded debt.

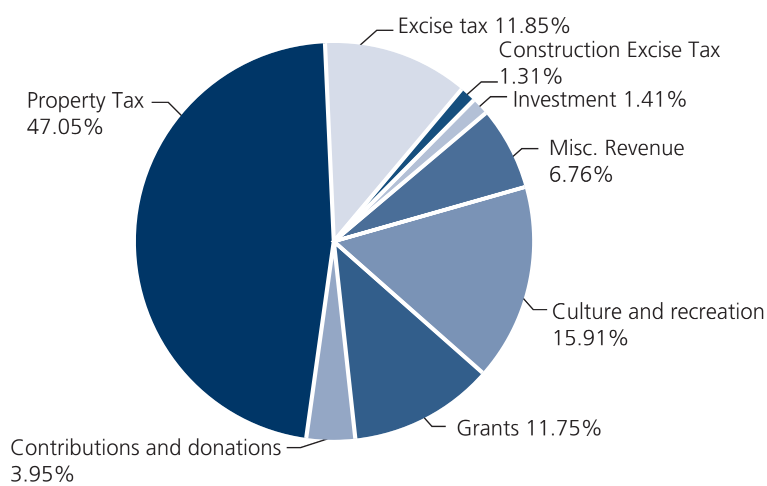
As reflected in the chart at the top of following page, program revenues in each of the functional and program areas did not cover all costs during the fiscal year. General revenues fund this difference as shown in the Statement of Activities. Each of these areas is described separately in the narrative that follows.

Metro Government-Wide Revenues and Expenses, Fiscal Year 2010



Governmental activities. Revenues for Metro's governmental activities decreased $366,744 (0.3 percent) to a total of $109,640,069 with 47.1 percent of this revenue, $51,668,586, coming from property taxes. Property taxes funded interest expense as noted above and the remainder was used to pay bond principal, reducing outstanding bond liabilities, and to support General Fund operations.

Metro Governmental Activities Sources of Revenue, Fiscal Year 2010

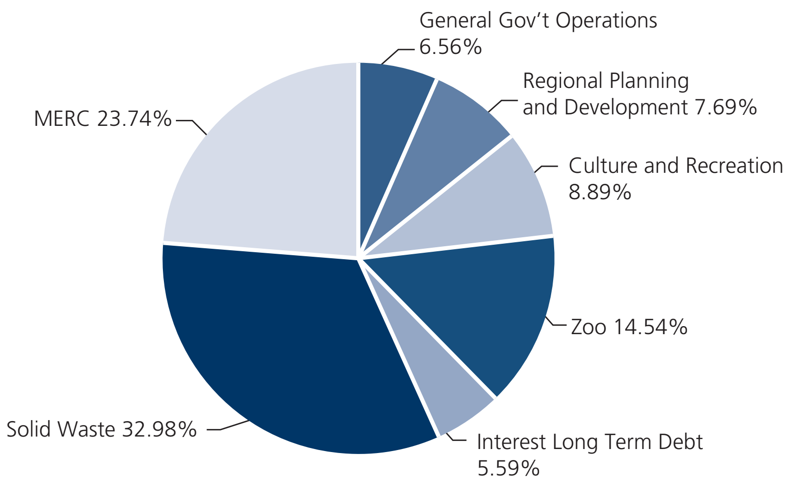


Metro's general government operations accounted for 6.6 percent or $12,779,417 of Metro's total expenses for governmental activities, which was a decrease of $1,419,024 from that reported in the prior year. Reported expenses decreased primarily due to a reduction in amounts expensed for CET funding of local governments for their concept planning work as noted earlier. Charges for services revenues increased $347,155 over the prior year, due primarily to increased direct and indirect charges to other programs for services provided, which totaled $808,865 in fiscal year 2010, up $427,022 from the prior year. General government operations rely significantly on general revenues, primarily excise taxes and transfers, to offset its net expense of $9,553,985.

Metro's regional planning and development activities had total costs of $14,978,447 for the fiscal year ending June 30, 2010, up $1,954,950 (15.0 percent) from the prior year. Revenues that fund planning activities are primarily from operating grants and contributions, totaling $12,198,260, which increased 8.9 percent or $999,244 from the prior year. Overall, regional planning and development is project driven, relying heavily on grant awards. The level of grants received also affects the level of work and expenditures incurred, and both were up. Contract work got fully under way on the Milwaukie Light Rail final environmental impact statement (FEIS), increasing expenses by $910,956 which are grant funded. Increased efforts on the Lake Oswego Streetcar, Street Car Methods and Regional Travel Options projects resulted in higher amounts for both revenues and expenses. The total amount expended for TOD program purchases was nearly the same as the prior year, while funding from Tri-Met declined $500,000. A few additional purchases of TOD assets held for resale were made in the current fiscal year, increasing the amount of property assets held for resale to $8,789,267 (consisting of seven properties) at June 30, 2010. The net expense for regional planning and development of $1,565,764 - an increase in net expense of $1,423,419 from the prior year - is covered by general revenues such as excise taxes and property taxes.

Culture and recreation activities, which include operation of Metro's regional parks and management of natural areas, accounted for total expenses of $17,316,051, up $3,965,819 or 29.7 percent from the prior year. The increase is due, in part, to increased expenses for the local share and capital grant projects funded by the Natural Areas bond program, which totaled $5,934,819, an increase of $1,239,111 over the prior year. Metro reorganized departments, consolidating the former Solid Waste and Regional Parks departments into the Parks and Environmental Services Department. As a result of this change, expenses in the culture and recreation program in governmental activities increased by $1,334,845 for work formerly reflected only in business-type activities (Solid Waste operations). The expenses are reimbursed to the governmental activities from Solid Waste and are reflected as additional charges for services revenue. Depreciation expense increased $183,408 as additional parks facilities came into operation. Program revenues from charges for services (e.g., admission fees, rentals, etc.) totaled $3,696,310, up 4.0 percent or $1,047,446 primarily due to internal charges for services revenues received from the Solid Waste fund for the services provided and noted above that totaled $1,226,518. This increase was offset by a decrease from the prior year in park admission fees, concession revenues and Glendoveer Golf fees which were affected by the weakened economy and very wet spring weather. Additional support was provided from operating grants and contributions in the amount of $506,914, a decrease of $660,443 from the prior year. There was a decline in capital grants and contributions in the current fiscal year, primarily due to the donation of Natural Areas land in the prior year as noted earlier. The remaining net expense of Metro's culture and recreation program, $13,112,827, was funded from general revenues, including local government shared revenues (e.g., marine fuel taxes and recreational vehicle fees from the State of Oregon), excise taxes and interest – as well as the drawing down of net assets provided from the Natural Areas bonds.

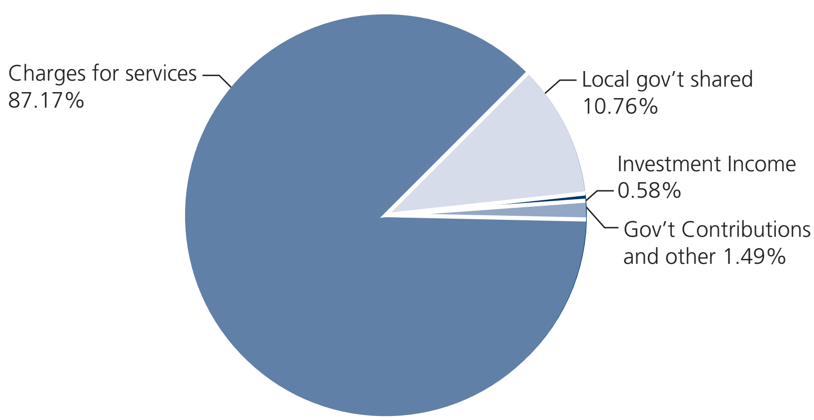
Metro Function/Program Expenses, Fiscal Year 2010



Operations of the Oregon Zoo reflected program revenues of $20,588,968, a decrease of $862,727 or 4.0 percent from the prior year. Charges for services revenues (e.g., admission fees, food and retail sales) accounted for 85.5 percent of program revenues, which decreased $433,954 or 2.4 percent. While the zoo reached the highest attendance year in its history (1,634,978 people, up 13,411 or 0.8 percent from the prior year) and experienced higher revenues from admission fees (up $245,823), spending by zoo visitors on food and retail items declined $753,008 from the prior year ($10.68 per capita in fiscal year 2010 compared to $11.05 per capita in the prior year) due to effects of the prolonged recession which softened zoo catering, restaurant and concession food sales, and retail sales were soft due to the lack of a strong exhibit similar to the dinosaur exhibit of the prior year. The zoo experienced a 12.1 percent drop in attendance for the zoo's 2009 summer concert season, with premium concert attendance up 1.4 percent and Wednesday concerts down 24.2 percent, which overall negatively affected sales. The overall strong zoo attendance was driven by the popularity of the new *Predators of the Serengeti* exhibit which opened in fall of 2009, record numbers for the zoo's winter ZooLights display and the charismatic elephant calf, Samudra, who has stolen the heart of zoo visitors. Total expenses for zoo operations totaled $28,311,531, a decrease of $1,114,755 or 3.8 percent from the prior year. In addition to the expense declines in food and retail cost of goods (down $161,484) which follow the decline in food and retail revenues, management recognized that zoo revenues were down and identified opportunities to cut costs across most other areas, while still providing a positive guest experience and maintaining programs. The resulting net expense of $7,722,563 (a decrease of $252,028 or 3.2 percent from the prior year) is financed from general revenues, such as excise taxes, property taxes and investment earnings.

Business-type activities. Revenues of Metro's business-type activities (Solid Waste and MERC operations) totaled $94,412,069, up 0.4 percent or $412,670. Total expenses increased $12,203,085 to a total of $110,457,567, primarily as a result of the landfill post-closure expenses noted earlier. As a result, operations of business-type activities reflected a decrease in net assets of $16,599,255 for the fiscal year ended June 30, 2010, compared to a decrease of $4,375,738 in the prior year.

Metro Business-Type Activities Sources of Revenue, Fiscal Year 2010



Solid waste tonnage brought to Metro facilities was down significantly (6.1 percent) from two factors related to economic conditions: the evaporation of construction and demolition debris from both commercial and self haul traffic, and the diversion of waste by integrated haulers to their own facilities as the general decline freed up capacity at those facilities. The decrease in tonnage was offset by an increase in rates charged (Disposal Fees rose to $51.65 per ton, compared to $49.00 per ton in the prior year and the Regional System Fee rose to $17.53 per ton from $16.04 per ton) resulting in an overall increase of $425,710 in charges for services revenues. Metro's share of total regional tonnage declined from 43.2 percent to 42.5 percent. Expenses were up $12,213,415, or 23.5 percent, primarily as a result of the landfill post-closure expense noted above. Although tonnage delivered to Metro's transfer stations decreased from the prior year, higher expenses were experienced due to contract cost of living adjustments and higher costs under two new contracts for transfer station operations that became effective April 1, 2010. Waste transport costs were lower than the prior year primarily due to the decreased tonnage. The resulting net expense for the Solid Waste activity was $13,279,688 for the fiscal year, up from a net expense of $1,508,497 in the prior year.

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). MERC program revenues totaled $32,984,300 in fiscal year 2010, up $1,908,602 or 6.1 percent from the prior year. The increase was primarily due to capital grants and contributions received in the amount of $2,000,000, provided to MERC by its concessions contractor to be used for acquisition of concession related equipment. Charges for services revenues were relatively unchanged, down $356,318 (1.2 percent). Revenue decreases were experienced at Expo due to lower attendance at consumer shows and fewer rentals of exhibitor space. While OCC experienced similar declines for consumer shows, that was offset by a strong year in national conventions (41 total), with three of those being considered "super" events. PCPA revenues decreased due to 9 weeks of Broadway series performances compared to 14.5 weeks in the prior year.

Total expenses for MERC were $46,229,249 down $10,330 or less than 0.1 percent. This slight decrease in expenses was due to a reduction in payroll and fringe benefit costs, down $782,619 or 4.5 percent from the prior year which more than offset other expense increases. The largest increase was reflected in food and beverage expense, up $563,023 or 5.8 percent. The resulting net expense of MERC operations was $13,244,949 for the fiscal year ended June 30, 2010, compared to $15,163,881 in the prior year, an improvement in performance of $1,918,932 or 12.7 percent. General revenues used to support this net expense include local government shared revenues (transient lodging taxes) of $9,941,144. Investment earnings provided an additional $170,896 towards covering net expense, down $386,258 from the prior year.

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.

Metro completed the fiscal year with its governmental funds reporting combined fund balances of $126,696,861. This is down considerably from the prior year, due mainly to natural area property purchases and local share and capital grants reflected in the Natural Areas Capital Project Fund. These expenditures contributed to a $20,316,600 decrease in fund balance in that fund, to $56,792,607 at June 30, 2010. As noted earlier in this analysis, in accordance with GASB Statement 34, Metro reports certain non-major funds in the Other Governmental Funds column. Total fund balances in these funds declined $2,578,670, primarily from the expenditures on capital projects.

The General Fund expended $11,575,042 for general government operations. These operational expenditures included the general government share of costs for the Council Office, Metro Auditor, Office of Metro Attorney, Communications, Human Resources, Finance and Regulatory Services, and Information Services, as well as special appropriations of $902,069, which included expenditures of $353,099 for the Nature in Neighborhoods program, election costs of $116,067 and the CET funding provided to local governments noted earlier. The General Fund also expended $1,515,000 for principal payments and $1,862,007 for the related interest on long-term debt associated with the Metro Regional Center office building.

The General Fund expenditures for regional planning and development totaled $14,909,242 during fiscal year 2010, up $1,934,725 or 14.9 percent from the prior year. As noted earlier, the work of this program is primarily funded by federal grants; expenditures were higher in relation to the increased revenues on those projects. Contracted and professional services reflected an increase of $983,554 or 31.5 percent, primarily related to the work for the Milwaukie

Light Rail project which began the FEIS work noted earlier. Payments to other agencies were up a total of $751,114, due primarily to the beginning of a two-year cycle for issuing grants to local agencies for Regional Travel Options projects. Program purchases in the TOD program decreased as noted earlier in this analysis.

The General Fund's culture and recreation expenditures totaled $8,137,045 during the fiscal year ending June 30, 2010. This was $1,223,171 higher (17.7 percent) than the prior year, primarily due to reorganizing the former Solid Waste and Regional Parks departments into the Parks and Environmental Services Department as part of Metro's Strategic Metro Initiative (SMI) and incurring expenditures for certain solid waste functions, such as financial management, in the General Fund for the first time. These solid waste related expenditures are reimbursed by the Solid Waste Fund and reflected as internal charges for services revenues in the General Fund.

As noted earlier, the General Fund's Oregon Zoo had its highest attendance in its 120-year history. Strong attendance and a $0.75 increase in admission fees helped earn enterprise revenues of $17,461,932, down $452,742 or 2.5 percent. Admissions revenue was higher by $245,823 or 3.6 percent. Food service and retail sales revenues were down $309,853 (5.8 percent) and $77,745 (3.4 percent), respectively. Exhibit show revenues dropped $289,510 (55.4 percent) from the prior year due to underperformance of two temporary exhibits early in the year compared to the previous summer's dinosaur exhibit. Zoo related expenditures totaled $24,623,138, down $1,488,986 or 5.7 percent from the prior year, primarily in materials and services expenditures as expenses for food and retail items followed the decline in revenues and management controlled costs in other areas, such as maintenance, purchased services and utilities.

In summary, the General Fund reflected an increase of $1,476,244 in fund balance from its operations, to a total of $46,455,487 at June 30, 2010. Of this total fund balance, $8,789,267 is reserved for assets held for resale, $660,638 for long-term loans receivable of the TOD program, and $188,082 for prepaid items. Unreserved fund balance in the General Fund stood at $36,817,500 at June 30, 2010, representing 56.2 percent of total fund expenditures.

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 $40,225,036, up $6,083,587 from the prior year due to higher assessments required for repayment of the outstanding general obligation bonds. Interest payments on all general obligation bonds totaled $9,791,481, which was $1,044,702 lower than the prior year reflecting the decrease in outstanding principal noted above. An additional $30,688,540 was expended on principal payments, leaving $13,041,458 in fund balance at fiscal year end which is reserved for future debt service.

The Natural Areas Fund reflected capital outlay expenditures of $15,681,741, including the acquisition of approximately 1,438 acres from willing sellers in nine different target areas and 12 separate land transactions. Additional expenditures of $5,934,819 were incurred to fund various local share projects, including staffing and materials to conduct all the projects accounted for in this fund.

Metro's Zoo Infrastructure and Animal Welfare Fund accounts for the proceeds of the $125 million in general obligation bonds approved by the voters in fall 2008. During fiscal year 2010, Metro used the initial bond proceeds of $5,000,000 received in the prior year to work on the earliest phases of the approved projects, primarily the design of the zoo's veterinary hospital and quarantine facility. Capital outlay expenditures of $1,468,970 were incurred for these projects during the year and resulted in fund balance of $2,806,954 at June 30, 2010.

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 $53,781,330 at year-end, down 21.4 percent or $14,616,794. Of this amount in net assets, $20,745,742 is unrestricted, down 1.8 percent, and represents 32.7 percent of operating expenses. 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 $13,057,353 from the prior year, due primarily to the landfill post-closure expenses incurred for the change in estimate made in fiscal year 2010. Without this change, operating expenses totaled $49,749,442, a decrease of $576,733 or 1.1 percent. Payroll and fringe benefits decreased 15.7 percent ($1,443,720) due to Metro's SMI reorganization that transferred certain solid waste functions to the General Fund. This decrease in payroll and fringe expenses is offset by the increase in charges for services expenses of $1,968,050, which includes amounts paid for direct costs by the Solid Waste Fund to the General Fund for those internal services. Administrative expenses, which are indirect overhead charges to the Solid Waste fund, increased $695,571 (20.0 percent) over the prior year primarily due to SMI reorganization as solid waste records management staff were transferred to Information Services and became an allocated cost charged to Solid Waste by the General Fund and reducing the direct payroll and fringe expense above by approximately $80,000, as well as increases in the amount of costs allocated to Solid Waste by the Office of Metro Attorney. Facility operating expenses for Metro's two solid waste transfer stations decreased $18,299 or 0.2 percent. Waste disposal fees paid for waste disposal at the Columbia Ridge Landfill in Gilliam County, remained unchanged from the prior year, down by a fraction of a percent ($731), reflective of the net effect of lower tonnage and cost of living contractual adjustments, as noted earlier. Waste transport costs decreased 4.6 percent ($449,575), on reduced tonnage as well as the expiration of the former waste transport contract which included, in the prior year, $194,123 of final amortization of the related prepaid amount. The Council's prior action to repeal recycling credits took effect on July 1, 2009, resulting in a reduction of $436,974 from the prior year. The operating loss was $12,479,528 in fiscal year 2010. Net of the landfill closure change in estimate and resulting expense, fiscal year 2010 would have reflected an operating income of $1,154,558, compared to operating income of $152,115 in the prior year.

Net assets for MERC totaled $186,130,152 at June 30, 2010, down $3,138,286 or 1.7 percent from the prior year, with 86.0 percent of net assets invested in capital assets, net of related debt. Of the remaining net assets for MERC, $23,389,967 is unrestricted, and represents 51.5 percent of annual operating expenses.

MERC operating revenue includes charges for services of $29,650,854 and government contributions of $766,100. Charges for services revenue declined $351,575 or 1.2 percent from the prior year. This revenue drop is due primarily to those factors noted earlier in the government-wide business-type activities discussion. While attendance at Expo showed some gains, food and beverage sales continued to lag due to the economic climate, down 12.8 percent ($236,952) from the prior year. As noted earlier, OCC had 41 national conventions and three "super" conventions which contributed to a 15.5 percent or $1,211,761 increase in food and beverage revenues over the prior year. PCPA's operating revenues were off 17.4 percent or $1,276,218 from the prior year due primarily to the lower number of Broadway series shows.

Payroll and fringe benefit costs decreased $782,619 or 4.5 percent as management instituted a salary freeze, suspension of merit-based pay increases and held several vacant positions open all in an effort to hold down costs, as well as decreases resulting from the event schedule that impacts event staffing costs. Facility operating costs remained relatively flat, declining only $107,902 or 1.5 percent, reflecting the level of activity at MERC facilities. Food and beverage costs increased $563,023 or 5.8 percent, with the MERC-wide margin between this expense and related food and beverage revenues being 16.9 percent compared to 15.5 percent in the prior year (OCC, 16.8 percent; Expo, 20.3 percent; PCPA, 14.5 percent). The operating loss for MERC totaled $15,020,199 in fiscal year 2010, an additional loss of $36,654 or 0.2 percent compared to the prior year. Transient lodging taxes, included in local government shared revenue on the Statement of Revenues, Expenses and Changes in Fund Net Assets, are used to help cover operating losses and totaled $9,941,144 during fiscal year 2010, down $761,364 or 7.1 percent and reflected the economic impacts felt in the lodging industry.

The Risk Management Fund, an internal service fund that is incorporated in governmental activities for government-wide reporting, had net assets of $7,998,239 at June 30, 2010. Total assets were $8,916,373, primarily in equity in Metro's internal cash and investment pool, totaling $8,866,762. Both of these amounts were relatively unchanged from the prior year. Significant liabilities included the actuarially determined accrued self-insurance claims of $709,370, down $95,249 from the prior year. Risk Management Fund total net assets decreased $302,933 from the prior year as expenses (primarily insurance and claims expenses) exceeded operating revenue, primarily internal charges for services, by $457,693. The operating loss could not be offset by investment income as it declined with the market, dropping $193,559 to a total of $87,473.

GENERAL FUND BUDGETARY HIGHLIGHTS

As noted earlier, Metro's General Fund is used to account for general government operations and the programs of Planning, Parks and Environmental Services, and the Oregon Zoo.

Of the eight total budget amendments made during fiscal year 2010, six involved the General Fund, resulting in an additional $48,583 in appropriations between the adopted and amended budget. The largest amendment, Ordinance 09-1227, authorized the realignment of program staff to better implement program goals. The Regional Travel Options manager position was transferred to the Communications Department from the Planning and Development Department to provide one position with oversight for agency marketing and communication efforts related to Metro facilities and shifted the RTO work to the Regional Transportation Plan manager. The amendment also returned one position from Planning and Development to the Sustainability Center for the Nature in Neighborhoods program that had been previously been moved under the SMI reorganization. The amendment transferred $142,245 and 1.0 FTE from Planning and Development to Communications and $177,119 and 1.0 FTE from Planning and Development to Sustainability Center, resulting in no increase in overall General Fund appropriations.

Other larger amendments during the fiscal year included Ordinance 09-1225, which moved $128,000 from General Fund contingency to permit the transfer of funds to the Renewal and Replacement Fund to complete a remodel of the third floor at Metro Regional Center, involving the reconfiguration of offices and creation of a new conference room for the use of the Metro Council, that had begun in the prior year. Ordinance 10-1242 amended the budget in the Metro Capital Fund to halt the Blue Lake Nature and Golf Learning Center project and return the project manager to the General Fund's Parks and Environmental Services Department. The appropriations for the department were increased $40,951, which was offset by a reduction in transfers to the Metro Capital Fund and accompanied by an increase in General Fund contingency, resulting in a net increase in appropriations of $3,583.

Other amendments in the General Fund included moving $91,600 from contingency to Parks and Environmental Services appropriations to fund completion of master planning and design of a memorial for Chinese immigrants at Lone Fir Cemetery (ordinance 09-1226). Another amendment created a limited duration position to manage the Regional Indicators Project, transferring $78,520 from interfund transfers appropriation authority to the Research Center and placing an additional $55,580 in unappropriated fund balance in reserve for work in the following year, with no net effect on total General Fund requirements.

The General Fund is appropriated by department with separate designations within the fund for debt service, interfund transfers and contingency. Appropriated departments include Council Office, Communications, Finance and Regulatory Services, Human Resources, Information Services, Metro Auditor, Office of Metro Attorney, Oregon Zoo, Parks and Environmental Services, Planning and Development, Research Center and Sustainability Center, in addition to non-departmental expenditures (including a debt service expenditure category). There were no expenditures in excess of appropriations in the General Fund for the fiscal year ended June 30, 2010.

The General Fund's central service (administrative) support areas expended less than budgeted primarily to due position vacancies in a number of areas (Human Resources, Office of Metro Attorney, Office of the Auditor, Finance and Regulatory Services and Information Services). In addition, various materials and services categories of spending were less than budgeted due to the carry forward of project work on a Learning Management System, as well as work on the business continuity plan in Information Services, both having budget carry forward into fiscal year 2011. The General Fund's zoo operations expended less than budget primarily in food, utilities and other purchased services, for reasons noted earlier. Parks and Environmental Services also experienced position vacancies resulting in underspending. In addition, the parks program and the Sustainability Center had approximately $300,000 in underspending as grant funded projects in the Science and Stewardship program were not completed due to contract and weather related planting delays, two Regional Trail Program projects were delayed (including regional system planning for Intertwine), and one trail project was declared infeasible (Lake Oswego to Milwaukie Bridge). The Planning and Development department budget included $4,990,000, the maximum amount of funds available to pursue new TOD projects, but new projects resulted in spending of only $556,294. In addition, the budget amount for Regional Housing Choice of $785,000 was not expended as the work was put out to bid for a loan manager/coordinator, Metro did not receive any offers resulting in the project not moving forward.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Metro's investment in capital assets for its governmental and business type activities amounts to $518,087,438 (net of accumulated depreciation) as of June 30, 2010. 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 was $13,078,436 or 2.6 percent, net of accumulated depreciation. Metro reflects an increase of $18,415,022 or 6.3 percent in capital assets attributable to governmental activities and a decrease of $5,336,586 or 2.5 percent in business-type activity capital assets (additional capital assets, less increases in accumulated depreciation).

Metro's Capital Assets
(net of accumulated depreciation)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Land	$209,278,199	196,594,041	19,329,786	19,329,786	228,607,985	215,923,827
Intangible - easements	1,041,412	-	-	-	1,041,412	-
Artwork	271,595	255,873	-	-	271,595	255,873
Buildings and Exhibits	64,625,503	66,078,934	176,665,132	182,131,170	241,290,635	248,210,104
Improvements	14,386,992	13,922,915	1,599,899	1,797,630	15,986,891	15,720,545
Equipment and Vehicles	3,209,227	3,280,887	6,658,670	6,413,548	9,867,897	9,694,435
Intangible - software	434,146	-	230,356	-	664,502	-
Office furniture/equip	496,071	1,000,055	203,943	1,027,411	700,014	2,027,466
Railroad equip/facilities	6,882	7,941	-	-	6,882	7,941
Construction in Progress	18,902,724	13,097,083	746,901	71,728	19,649,625	13,168,811
Total	$312,652,751	294,237,729	205,434,687	210,771,273	518,087,438	505,009,002

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

- Identifying and reclassifying into separate capital asset categories Metro's intangible assets that include computer software and easements as part of implementing GASB Statement No. 51, *Accounting and Financial Reporting of Intangible Assets*. These assets were formerly reflected in land and office equipment categories and the transfer to its own category accounts for a large component of the decrease in the office equipment category in the table above.
- Metro acquired ownership of approximately 1,438 acres from willing sellers in nine different target areas and 12 separate land transactions from the proceeds of the Natural Areas general obligation bonds. The total capitalized cost for the property acquired and stabilized in the current fiscal year under this program was $10,211,922 and is reflected in governmental activities capital assets. This amount included the acquisition of the 1,143 acre Chehalem Ridge Natural Area, the largest single acquisition in the history of the program.

- The zoo opened the *Predators of the Serengeti* exhibit in September 2009 and substantially completed the *Red Ape Reserve* by the end of fiscal year 2010. This project constructed a new indoor exhibit, new holding/shift rooms, and renovated existing outdoor exhibits for the zoo's orangutans. This project continues the zoo's sustainability efforts by reusing existing structures, rather than demolishing otherwise sound buildings. Also in line with sustainability goals, the zoo acquired eleven electric powered maintenance carts to replace gas powered models. The zoo also completed all phases of design and received bids for the Veterinary Medical Center. Design work was completed on the Penguin Water Filtration Upgrade project and design work for the Zoo Water Main Pressure Reducing/ Double Check Assembly replacement project is nearly completed. The last three projects are all funded by the Zoo Infrastructure and Animal Welfare bond proceeds.
- Parks and Environmental Services capitalized work on several projects accounted for in the Metro Capital Fund, including the M. James Gleason Boat Ramp attenuator project, $2,664,173, and the Blue Lake Nature and Golf Learning Center design and engineering, $128,575. The later project was halted due to economic conditions.
- Solid Waste delayed capital projects at its transfer stations to allow for discussion of operations of the stations under new operating agreements which became effective April 1, 2010.
- MERC undertook various capital projects and those with amounts over $100,000 were all at OCC and included a dishwasher/scrapper table of $212,407, remodel of the former Kinko's retail space into the Stir Lounge for $309,847, a moveable air wall retrofit for $252,299 and food and beverage small wares, $112,893.

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 $229,427,338 net of discounts and deferred amounts on refunding. Of this amount, $178,115,055 comprises debt backed by *ad valorem* property tax assessments and the remainder, $51,312,283, represents bonds secured by a broad pledge of Metro revenues, including property taxes used to support operations, and excise taxes levied on users of certain Metro services.

The following table provides a summary of Metro's debt activity. Bonds are reflected net of premiums, discounts and deferred amounts on refunding as disclosed in the notes to the financial statements:

Metro's Outstanding Debt

	Governmental Activities		Business-type Activities		Total - Primary Government	
	2010	2009	2010	2009	2010	2009
Gen. obligation bonds	$178,115,055	209,351,110	-	-	178,115,055	209,351,110
Full Faith & Credit/Revenue	39,001,119	40,328,172	12,311,164	12,874,828	51,312,283	53,203,000
Loans	-	-	-	133,632	-	133,632
Total	$217,116,174	249,679,282	12,311,164	13,008,460	229,427,338	262,687,742

Metro's total debt decreased $33,260,404 (12.7 percent) during the current fiscal year. The key factors in this decrease were the scheduled payments of principal maturities on outstanding bonds, payment in full of the 2008 Series Oregon Zoo General Obligation Bond in June 2010 in advance of its December 2010 maturity date, and the early payoff of a local improvement district loan in the amount of $133,632.

Subsequent to fiscal year end, Metro issued $15,000,000 2010 Oregon Zoo General Obligation Bonds on August 5, 2010 in a private placement, carrying an interest rate of 1.31 percent and maturing in December 2012. Additional issues under the voter authorized Zoo Infrastructure and Animal Welfare bonds will be made as overall project planning and permitting progresses in future years on these zoo projects.

Metro also has $103,105,000 in remaining voter approved general obligation bond authorization for acquisition of natural areas, parks and streams to protect open spaces and water quality, enhance the region's network of trials, and provide greater access to nature.

Metro's 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 Metro Full Faith and Credit Refunding Bonds, 2003 Series have been rated "AA+" and "Aa2" by Standard & Poor's and Moody's, respectively. Finally, the Metro Full Faith and Credit Refunding Bonds, 2006 Series have an underlying rating of "A2" and the issue was insured to receive an "Aaa" rating from Moody's.

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 $20,812,352,097, which is significantly in excess of Metro's outstanding general obligation debt.

Additional information on Metro's long-term debt can be found in Notes 11 through 13 in the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Like many metropolitan areas across the nation, the Portland area has seen employment tumble in recent years. In 2009 the annual unemployment rate in the region was 10.6 percent compared to statewide and national rates of 11.1 and 9.3 percent, respectively. Since February 2009 the Portland metropolitan area has seen double-digit unemployment, reaching a high of 11.4 percent in March 2010. In the second quarter of 2010, employment was down 2.3 percent or 19,200 jobs from the prior year. The June 2010 preliminary unemployment rate for the combined five-county Portland area was 9.7 percent. The area saw one of the largest declines in unemployment over the year as the rate was down 1.3 percentage points from June 2009, with much of the decline coming from unemployed individuals dropping out of the labor force. Metro's Research Center forecasts regional nonfarm employment to rebound in 2010, but overall economic growth is expected to remain sluggish through the first quarter of 2011. The recovery will be uneven across industry sectors. Manufacturing, construction and retail sectors, hardest hit during this recession, will take longer to rebound. Generally, the service sectors will define the shape of the recovery.

According to the State of Oregon's Office of Economic Analysis (OEA), in July 2010, the six month percentage change in the Oregon Index of Leading Indicators was 0.0 percent as the Index was flat relative to January, following a revised 2.7 percent increase the prior month. Industrial production, withholding and air freight are three positive indicators, while the semi-conductor book-to-bill ratio shows no change. OEA forecasts a decline of 0.8 percent in total employment in the third quarter of 2010 and a mild increase of 0.2 percent in the fourth quarter. The second quarter of 2011 will see improving job growth approaching 2.0 percent, according to OEA's forecast.

The population outlook for the region calls for growth to exceed national and statewide rates for the foreseeable future, fueling the growth expected in the service sector and other non-manufacturing industries. The construction and finance industries, however, will lag behind, due to the nature of the downturn, according to the Research Center.

The Metro fiscal year 2011 budget tops $430 million in requirements, about 5 percent higher than the prior year. The budget was adopted during a time of unprecedented economic stress with the challenge to maintain focus, preserve core services and keep momentum as the Metro region grinds through the economic downturn and looks forward to recovery. This is the essence of Metro's mission, to preserve and enhance the quality of life and the environment for ourselves and future generations.

The sharp decline in solid waste tonnage the past two fiscal years appears to have arrested and leveled, but the forecast remains at this low level throughout most of fiscal year 2011. Attendance remains at record high levels at the Oregon Zoo, but guests are spending less on food services and other concessions. The number of convention and event bookings remains steady, but many events are offered for fewer days, and event promoters are selecting more modest food and beverage packages. Excise tax collections mirror these activities, and Metro continues to watch property tax collections carefully.

Metro's fiscal year 2011 budget is based upon a 6.4 percent increase in fees charged for solid waste disposal, driven in part by expanded latex paint recycling services offered to meet new statewide recycling requirements. Tonnage related disposal fees are anticipated to increase about 3.5 percent. Regional park revenues are projected to remain flat for fiscal year 2011.

Metro expects to receive $48.5 million in property tax revenues in fiscal year 2011. This includes current year tax receipts to the General Fund directed towards operations of $11 million and debt service levies for outstanding general obligation bond issues, $36.4 million. The remainder, approximately $1 million, will be received in the form of delinquent property taxes, levied in prior years but received in fiscal year 2011, and interest and penalties on those late payments.

The excise tax rate will remain at 7.5 percent on revenues other than solid waste. For solid waste related revenues, the rate is set at a $10.94 flat rate per ton. With the forecast for tonnage to remain flat and the revenue forecasts in other Metro areas, the excise tax is projected to raise $14.9 million in fiscal year 2011. The Construction Excise Tax, a 0.12 percent tax levied on building permit values of new construction to provide funding for planning of future expansion areas, future urban reserves and planning that enables redevelopment of centers, corridors and employment areas within the existing Urban Growth Boundary, is expected to generate $1.3 million in the coming year.

Grants are anticipated to provide $14.8 million, primarily for the planning functions of Metro. The delay in the federal reauthorization of transportation funding has placed a portion of these grant funds at risk. However, new funding from the State of Oregon related to the study of greenhouse gas emissions is expected to provide substitute or bridge funding until such time as the federal funding is reauthorized.

Investment earnings are projected at $1.6 million using an estimated earnings rate of 1.0 percent.

As part of a Community Investment Strategy, Metro plans to expend $929,000 to help local communities and neighborhoods choose high priority actions needed to maintain and improve important public structures. The strategy is aimed at capitalizing on our region's past investments by maintaining existing roads, bridges, parks and other public structures and at supporting targeted new investments to create good jobs and vibrant downtowns, to protect farms and forests and to reduce greenhouse gas pollution. The strategy will integrate Metro's ongoing work to advance local aspirations, active and high capacity transportation, The Intertwine (a network of integrated parks, trails, and natural areas), Climate Prosperity, natural area acquisition, waste prevention, and education.

Metro's Research Center will also be supporting and complementing the Community Investment Strategy initiative by integrating its Oregon House Bill (HB) 2001 greenhouse gas research and model enhancement work with the strategy. Data collection, spatial analysis, mapping and visualization, requirements of the HB 2001 scenario planning, are dependent upon reaching a final program and funding agreement with the State of Oregon. The Research Center will also complete the regional indicators report, a collaborative effort with Portland State University and local partners.

Metro's Sustainability Center, following the opening of Graham Oaks Park, will shift to longer-range financial needs for Metro's growing land base and The Intertwine System. The budget includes resources to complete the Glendoveer Golf Course master plan in anticipation of the current operating contract concluding in 2012. The Sustainability Center will also transfer in five positions from Parks and Environmental Services and merge the natural areas maintenance staff to align all elements of Metro's natural areas program in one center. Environmental education for The Intertwine Project will be managed from this center and integrate existing youth education programs at all Metro facilities including the Oregon Zoo.

Planning and Development's Corridor Planning work program may proceed at a slower pace due to the previously mentioned delays in federal reauthorization. Metro will not be able to embark on subsequent phases unless or until there is solid funding commitments from local, state and federal partners. These funding uncertainties will slow the pace of local implementation of the newly adopted Regional Transportation Plan for up to three years, dropping the cooperative project development program with Oregon's Department of Transportation and moving from a two-year update cycle to a four-year cycle for the Metropolitan Transportation Improvement Program.

With the new Graham Oaks Park opening comes new operating expenses in the Parks and Environmental Services (PES) budget. Natural areas technicians, currently in PES, who provide day-to-day support, will be shifted to the Sustainability Center to provide a more cohesive management of all natural areas and allow a smoother transition from stabilization to restoration and operation of newly acquired properties.

PES will also manage the transition to new transfer station operating contracts and embark on being the primary vendor for receiving and processing paint under the new state program mandating paint recovery.

The adopted budget for fiscal year 2011 transfers $5,225,000 to the Solid Waste Fund from the Risk Management Fund, an amount originally assessed for environmental liabilities in fiscal year 2004. With the implementation in fiscal year 2009 of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, Metro began reporting the environmental liabilities within the fund where the liability originated.

The budget for the Oregon Zoo focuses on maximizing existing programs and staff resources. Technical construction staff associated with the *Predators of the Serengeti* and *Red Ape Reserve* projects is eliminated with the conclusion of those projects, and Construction and Maintenance Division staff associated with those projects is redirected as a facilities maintenance group.

MERC operations will reflect the elimination of two positions at OCC and 12 positions in MERC office. The reorganization of Metro's primary venues including the three MERC facilities and the Oregon Zoo under a single management group is just beginning and is not reflected in the budget, but will be considered for the fiscal year 2012 budget as to whether any change in budgetary structure is needed to reflect this integration. A Metro-MERC Business Practices Study now underway may introduce additional changes in fiscal year 2011.

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 Director of Finance and Regulatory Services, Metro, 600 NE Grand Avenue, Portland, Oregon, 97232-2736.