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on your bottom status bar for ease in viewing the tables.

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(expand/collapse with + & -) to access specific sections.

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MetroCAFR

Comprehensive Annual Financial Report

For the year ended June 30, 2004

METRO

PEOPLE PLACES
OPEN SPACES

Oregon

Metro
People places • open spaces

Clean air and clean water do not stop at city limits or county lines. Neither does the need for jobs, a thriving economy and good transportation choices for people and businesses in our region. Voters have asked Metro to help with the challenges that cross those lines and affect the 24 cities and three counties in the Portland metropolitan area.

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

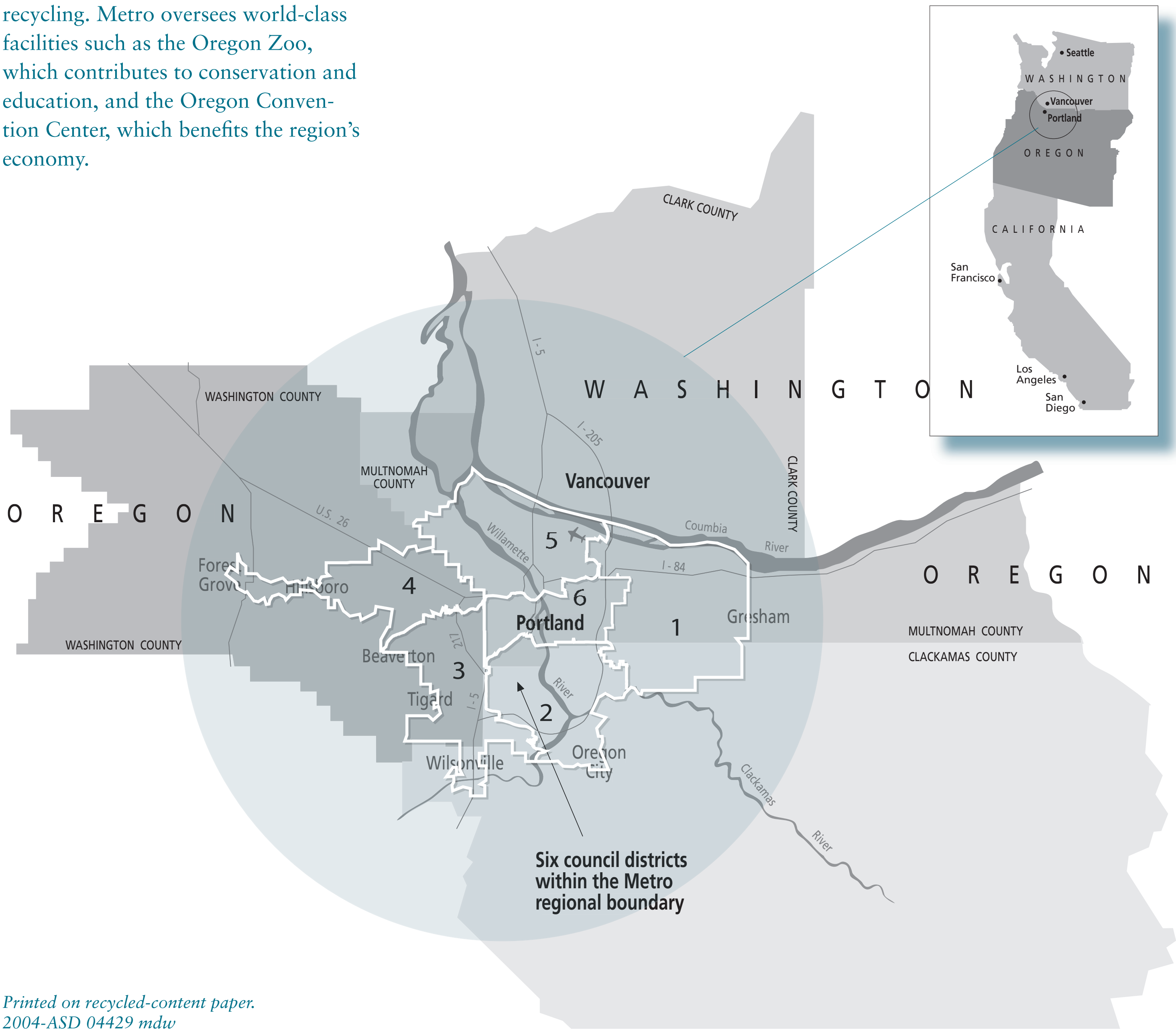
Your Metro representatives

Metro Council President
David Bragdon

Metro Councilors
Rod Park, District 1
Brian Newman, deputy council president, District 2
Carl Hosticka, District 3
Susan McLain, District 4
Rex Burkholder, District 5
Rod Monroe, District 6

Auditor – Alexis Dow, CPA

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



Six council districts within the Metro regional boundary

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MetroCAFR

Comprehensive Annual Financial Report

For the year ended June 30, 2004

Finance and Administrative Services
Department

Chief Financial Officer
William Stringer

Prepared by
Accounting Services Division

Accounting Manager
Donald R. Cox Jr., CPA

Financial Reporting Supervisor
Karla J. Lenox, CPA

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OPEN SPACES

Oregon

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For the Year Ended June 30, 2004

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STATISTICAL SECTION (UNAUDITED):

AUDIT COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS:

REGIONAL SERVICES

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

METRO

November 15, 2004

To the Council and Citizens of the Metro Region:

In accordance with ORS 297.425, Metro's Finance and Administrative Services Department, Accounting Services Division is pleased to submit the Comprehensive Annual Financial Report of Metro, for the fiscal year ended June 30, 2004, together with the report thereon of Metro's independent auditors.

The Comprehensive Annual Financial Report (CAFR) presents the financial position of Metro as of June 30, 2004, and the results of its operations as well as cash flows for its proprietary fund types for the year then ended. The financial statements and supporting schedules have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and meet the requirements of the standards as prescribed by the Secretary of State, State of Oregon.

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

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

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

The **Statistical Section** includes ten years of summary financial data, debt computations and a variety of other data that may be useful in assessing Metro's financial performance.

Following the Statistical Section you will find additional reports of our independent certified public accountants required by Oregon Administrative Rules. These rules are incorporated in the Minimum Standards for Audits of Municipal Corporations, as prescribed by the Secretary of State.

Internal Controls. The CAFR consists of management's representations concerning the finances of Metro. Metro management is responsible for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, Metro's management has established a comprehensive internal control framework. This framework is designed to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, and that accounting transactions are executed in accordance with management's authorization and properly recorded, so that the financial statements can be prepared in conformity with GAAP. The design and operation of internal controls also ensures that federal and state financial assistance funds are expended in compliance with applicable laws and regulations related to those programs. Because the cost of internal controls should not outweigh their benefits, Metro's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Independent Audit. In accordance with Oregon law, Metro's financial statements have been audited by Grant Thornton LLP. The objective of the audit was to provide reasonable assurance that the financial statements of Metro, for the fiscal year ended June 30, 2004, are free of material misstatement. Such audit is conducted in accordance with auditing standards generally accepted in the United States of America and Minimum Standards for Audits of Oregon Municipal Corporations as prescribed by the Secretary of State. The auditor's report on these financial statements is located in the Financial Section of the report on pages 15 -16. The independent audit of the financial statements was part of a broader, federally mandated "Single Audit." The "Single Audit" standards require the independent auditor to express an opinion on whether the entity complied with laws, regulations, and with the provisions of contracts or grant agreements that could have a direct and material effect on each major program. These reports are available in Metro's separately issued *Schedule of Expenditures of Federal Awards and Reports of Independent Certified Public Accountants*.

GAAP require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. Metro's MD&A begins on page 17, immediately following the report of the independent auditors.

Profile of Metro

Metro covers approximately 460 square miles of the urban portions of Clackamas, Multnomah and Washington counties in northwestern Oregon. There are 24 cities in the Metro region; Portland, Gresham, Hillsboro, Beaverton, Tigard, Lake Oswego and Oregon City are the largest.

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

History. In 1979, voters approved the merger of a council of governments (Columbia Region Association of Governments) that had land-use and transportation planning responsibilities, with the Metropolitan Service District, which had been created to provide regional services that included the solid waste management plan and operation of a metropolitan zoo (now named the Oregon Zoo). The merged District was governed by an elected council and an elected Executive

Officer and had the combined authority of the two predecessor agencies and other potential additional powers. The District was organized under a grant of authority by the Oregon Legislature and the Oregon Revised Statutes. The District's powers were limited to those expressly granted by the Legislature, and any extension of those powers had to first be approved by the Legislature.

In 1990, the Legislature referred a constitutional amendment to the voters to allow the creation of a home-rule regional government in the Portland metropolitan area. Voters approved the amendment and subsequently approved the Charter in 1992. The agency thereby achieved the distinction of not only being the nation's only elected regional government, but also the only one organized under a home-rule charter approved by voters. At this time, the District's name was officially changed to Metro. An elected Auditor position was also created under this charter, with the first elected auditor taking office in 1995.

In November 2000, the citizens of the region overwhelmingly approved a charter amendment that changed the structure of the Metro elected leadership to consist of a regionally elected Council President and six Councilors elected by district. This change was effective January 2003.

In the early 1980's, the District was assigned the responsibility for regional solid waste disposal, taking over operation of the one existing publicly owned regional landfill (since closed) and began construction of a transfer station. In November 1986, voters approved general obligation bond funding for the Oregon Convention Center, which was financed, built and is now operated by Metro. In January 1990, under terms of an intergovernmental agreement with the City of Portland, the District assumed management responsibility for the Portland Center for the Performing Arts, Portland Civic Stadium and the Memorial Coliseum (though management of both the Stadium and Coliseum were returned to the City in subsequent years). Finally, in 1994, Metro assumed management responsibility for the Multnomah County parks system and Expo Center. Ownership of these facilities was transferred to Metro on July 1, 1996.

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

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

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

Reporting Entity

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

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which Metro operates.

Local economy. Metro serves more than 1.3 million residents in the Portland metropolitan area. The area is the financial, trade, transportation and service center for Oregon, southwest Washington state and the Columbia River basin.

The State of Oregon lies at the end of the Oregon Trail, the longest overland route used in the westward expansion of the United States. Two major rivers help define Oregon's boundaries with its neighbor states of Washington and Idaho - the Columbia River to the north and the Snake River to the east. The Columbia River Gorge is the only sea-level route through the Cascade Mountain Range and is considered by many to be the best place in the world for windsurfing.

In 2003, Food and Wine magazine said of the Portland area, "This gateway to Oregon's wine country is a wine destination in its own right." Travel and Leisure readers rate Portland as the No. 3 urban destination for summer travel in the United States and No. 1 for both ease of getting around and for general safety. "...A downright wonderful city to visit" according to Travel America and one of the "five cities of the future" per the Guardian newspaper, London. Portland's compact, vibrant café-filled downtown and its light-rail system are draws for visitors. Both result from the city's early decisions "...about our urban-growth boundary, to honor the pedestrian over the automobile, and to plan out growth and transportation as a region," according to Mayor Vera Katz.

The good quality of life has continued to attract people to Oregon, and to the Portland area. Since 2000 the Portland, Oregon – Vancouver, Washington Metropolitan Statistical Area has grown by 4.7 percent per year. This in-migration occurred despite Oregon's unemployment rate being higher than the U.S. average during this period. The Asian financial crisis and the national recession hit Oregon especially hard because of the state's reliance on such durable goods manufacturing industries as high technology, transportation equipment, and metals.

For some time the State of Oregon's overriding economic goal has been to increase and maintain high-wage jobs that support families and maintain strong communities. To that end the Oregon Business Plan was developed to create more quality jobs. Leaders from businesses, business associations, and public agencies have developed a plan to create an economic climate with the right "mix of education and workforce capabilities, an attractive quality of life, reasonable business costs, and an innovative entrepreneurial spirit."

Plan participants work continually to improve public education, pioneer innovation, stabilize public finance, and to improve transportation infrastructure.

When the U.S. economy enters a sustained period of job growth, Oregon will benefit. According to the State of Oregon's Office of Economic Analysis, Oregon will be pulled along with a stronger U.S. economy, but cautions "Oregon's slower growth may try the patience of those who desire much faster relief to the unemployment situation."

The same Office of Economic Analysis predicts the following as some of the major risks to an improving Oregon economy:

- The falling U.S. Dollar. As the dollar depreciates against foreign currencies, U.S. exports are promoted. Oregon's manufacturing sector has a large dependency on international markets. If the U.S. dollar falls too quickly, this could harm Oregon's trading partners, weakening their economies and lowering their demand for Oregon products.

- Rising regional energy prices. Oil prices remain above $50 per barrel and natural gas prices have risen. Rising regional energy prices would tend to slow production of goods.

- Initiatives, referendums, and referrals. Oregon voters approved on November 2, 2004 an initiative to restrict land use regulations or require compensation for property owners in certain circumstances. This action could greatly influence both public and private sectors.

- Oregon Public Employees Retirement System (PERS). Legislative reforms to PERS could be overturned in the courts. Should this happen, State and local governments may need to increase taxes, reduce services, and/or increase bond financing to cover potential unfunded liabilities for PERS. Increases in unfunded liabilities could lead to increased tax rates and to cutbacks in education and public infrastructure.

Long-term financial planning. Metro prepares a five-year Capital Improvement Plan (CIP) with annual updates as part of its financial planning responsibilities. For purposes of this plan, capital projects are defined as any physical asset acquired or constructed by Metro with a total capital cost of $50,000 or more and a useful life of at least five years. This definition includes significant capital maintenance activities. The adopted CIP for fiscal year 2004-05 through fiscal year 2008-2009 includes 96 capital projects at an estimated total cost of $49.6 million.

No single project dominates the current CIP. In prior years, the CIP has been dominated by three large projects that are now winding down – the Oregon Zoo's Great Northwest Project, Open Spaces' land acquisition, and the expansion of the Oregon Convention Center. Of the 96 projects in the current plan, 57% are new construction or acquisition, 5% are expansion or remodeling projects, and 38 % are replacement projects.

The majority of capital project expenditures are from three Metro departments: Regional Parks and Greenspaces at 33.9%, Solid Waste and Recycling at 28.0%, and the Oregon Zoo at 22.3%.

The financing sources for these capital projects vary by project and by department. The Solid Waste and Recycling Department generally relies on fund balance or capital reserve accounts and funding is included in the solid waste disposal rate-setting process. Zoo and MERC projects have typically been funded from fund balance. In the current CIP, MERC is funding many of the projects at the Portland Center for Performing Arts from "naming rights" sales. The Zoo has active fundraising support in OZF and is relying on their efforts for almost 71% of their capital project funding needs. Regional Parks and Greenspaces anticipates expending renewal and replacement funds set aside from a "dollar per ton" dedicated excise tax and developing new parks from an additional dedicated excise tax of $1.50 per ton on solid waste disposal. Metro has no current plans for additional significant debt financing.

The CIP also contains a projection from each department of the net impact on operating costs resulting from each capital project, reflected in 2003 dollars for the first full year of operation after project completion. On a Metro-wide basis, the overall gross cumulative operating cost impact of almost $40 million is somewhat offset by the projected growth in revenue sources of $37 million. MERC's one project that increases resources does not completely cover the new cost of two other projects. The Oregon Zoo's two projects that increase revenues do not absorb the additional net operating costs of the California Condor Project. Regional Parks and Greenspaces projects are all a net cost to the department's operations, as is Solid Waste and Recycling's Leachate Pretreatment project. Metro, overall, will have an additional cost of $299,000 to $840,000 per year from these projects.

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

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

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

Metro established fund balance reserves during the course of the fiscal year ended June 30, 2004 to fund potential future increases in PERS costs. An amount equivalent to 6.65% of regular salaries has been set aside in this PERS reserve. The rate of employer contributions to PERS is determined periodically by PERS based upon actuarial valuations performed at least every two years. The PERS board has also decided to implement updated actuarial equivalency factors and tables (such as life expectancy tables) that will assist governments by reducing increasing contribution rate pressures. These new factors and tables were implemented on January 1, 2004. In addition, the Oregon Legislature passed several measures that are aimed at reducing employer costs, which are effective in subsequent years. These measures are currently the subject of court challenges. The PERS reserve is designed to help fund potential future liabilities resulting from these court challenges.

Metro plans to carry forward $59 million in fiscal year 2006 in addition to the planned carry-over of fund balance at the end of fiscal year 2005. Primary among the planned funds to be carried forward are reserves for specific purposes (self-insurance, solid waste activities, and debt reserves) which are generally required by law or formal operating agreement.

Cash management policies provide that Metro maintain an investment policy in the Metro Code, which shall be subject to annual review and re-adoption. This policy must in turn conform to the requirements of Oregon Revised Statutes. The policy was readopted by Council in June 2003 and is scheduled for consideration again in Fall 2004. Metro pools most funds for investment purposes to obtain maximum return on investments while minimizing the risk of loss of principal due to credit and market risk. The Investment Policy regulates Metro's investment objectives, diversification, limitations and reporting requirements. Metro uses an independent Investment Advisory Board to review and advise Metro on its investment plan and investment performance. Quarterly investment reports are presented to the Investment Advisory Board and forwarded to the Metro Council.

Cash not required for current operations was invested in the State of Oregon Local Government Investment Pool, U.S. Treasury securities, federal agency securities and bankers acceptances. The average yield earned on Metro's pooled cash investments varied with the market in fiscal year 2004, from a low of 1.19% in December 2003 to a high of 1.358% in June 2004. The average yield for the fiscal year was 1.241% compared to 1.917% in the prior year. The pooled cash portfolio does not include bond related investments, which are restricted in terms of maturity and yield.

Debt management policies provide that Metro shall issue long-term debt only to finance capital improvements (including land acquisition) that cannot be readily financed from current revenues, or to reduce the cost of long-term financial obligations. Metro will not use short-term borrowing to finance operating needs unless specifically authorized by Council. Further, Metro will repay all debt issued within a period not to exceed the expected useful life of the improvements financed by the debt. Metro conformed to these policies during the fiscal year ended June 30, 2004, as the proceeds of the one debt issue completed during the year were used to reduce the cost of long-term borrowing. This is discussed further in MD&A later in this report.

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

A further detailed discussion of Metro's financial policies and plans for the future can be found in *Metro's 2004-05 Adopted Budget.*

Major initiatives. As Metro looks ahead to the next fiscal year, three major initiatives have been identified: Maintain fiscal discipline, optimize public services and leverage public investments. To maintain fiscal discipline, the fiscal year 2004-05 Adopted Budget keeps spending in line with revenues and reflects increased efficiencies that have somewhat mitigated increases in risk management, health care and other costs.

To optimize public services, the Solid Waste and Recycling Department evaluated its existing programs and has taken actions to reduce non-operational contract spending and dropped certain programs that did not reflect the department's core mission. These actions are expected to save a total of $1.2 million and lead to greater optimization of public services – more value per dollar of public spending.

The fiscal year 2004-05 Adopted Budget includes two new initiatives to leverage public investments and create significant new value for popular, voter-approved capital assets. The first is an investment in maintaining some of the lands acquired under the 1995 Open Spaces bond measure, and creating four new regional parks before 2010. The expected costs of these projects and improved maintenance of existing assets are estimated to be about $1.8 million per year. The second initiative is designed to ensure the financial success, economic impact and ongoing national and international competitiveness of the recently expanded Oregon Convention Center (OCC). The fiscal year 2004-05 adopted budget includes an investment of over $500,000 in a Tourism Opportunity and Competitiveness Account. To fund these two initiatives, the excise tax on solid waste was increased $2.00 per ton: $1.50 for parks and $0.50 for the OCC, effective September 1, 2004.

Awards

The Government Finance Officer's Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Metro for its comprehensive annual financial report for the fiscal year ended June 30, 2003. This was the twelfth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

In addition, the government also received the GFOA's Distinguished Budget Presentation Award for its annual budget document for the fiscal year beginning July 1, 2003. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and as a communications device. This was the eighth consecutive year that Metro received this award.

Acknowledgements

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

Respectfully submitted,

Michael Jordan
Chief Operating Officer

William Stringer
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Metro, Oregon

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

GFOA award

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June 30, 2004

Elected Officials

Council President

David Bragdon
Term expires January 2007

Auditor

Alexis Dow, CPA
Term expires January 2007

Councilors

Rod Park
District 1
Term expires January 2007

Deputy Council President
Brian Newman
District 2
Term expires January 2007

Carl Hosticka
District 3
Term expires January 2005

Susan McLain
District 4
Term expires January 2007

Rex Burkholder
District 5
Term expires January 2005

Rod Monroe
District 6
Term expires January 2005

Appointed Officials

Michael Jordan
Chief Operating Officer

William Stringer
Chief Financial Officer

Daniel B. Cooper
Metro Attorney

Andrew Cotugno
Planning Department Director

Tony Vecchio
Oregon Zoo Director

Michael Hoglund
Solid Waste and Recycling
Department Director

James Desmond
Regional Parks and Greenspaces
Department Director

Mark Williams
Metropolitan Exposition Recreation
Commission General Manager

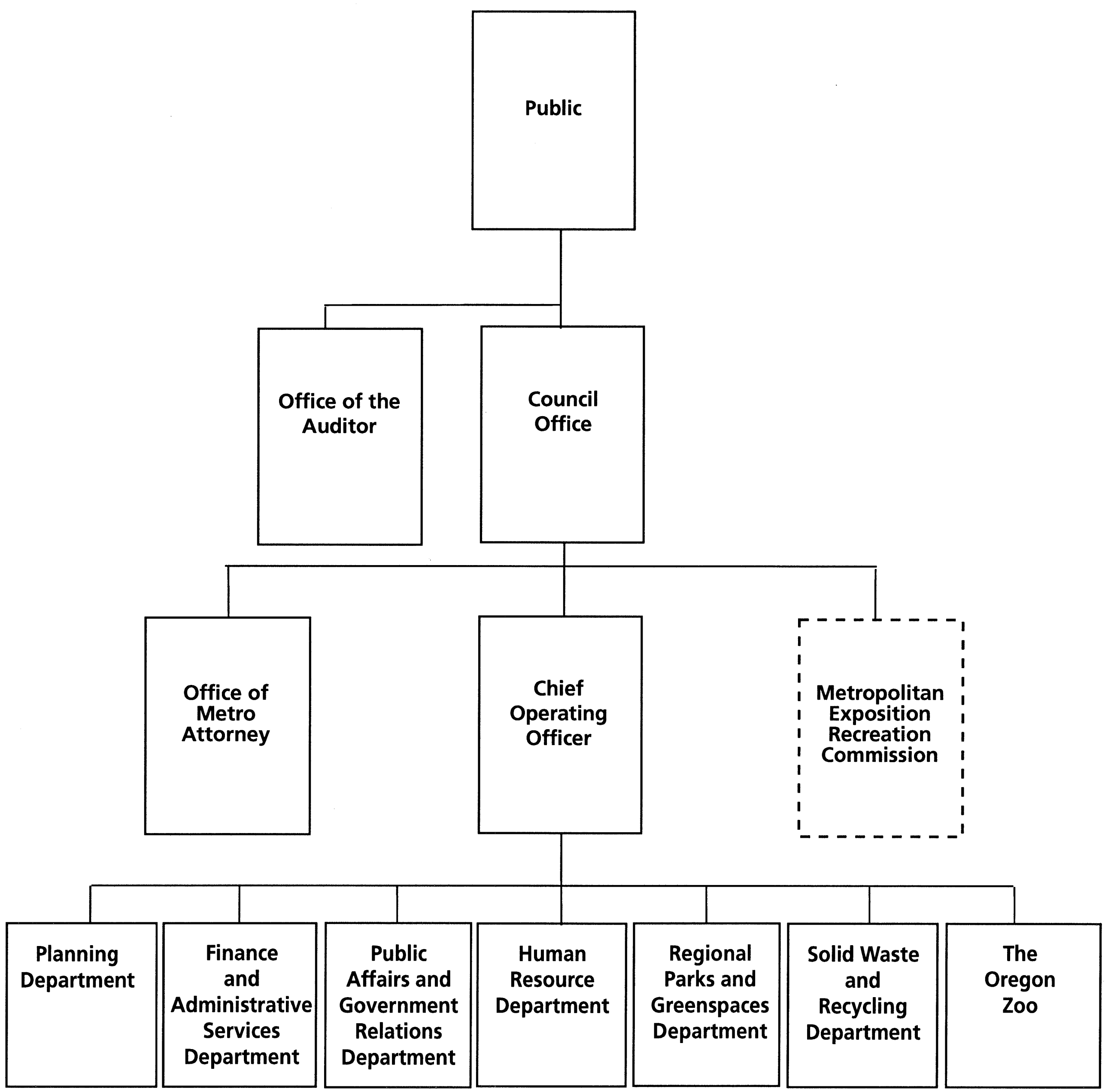
Registered Agent

Christina Billington

Address of Registered and Administrative Office

600 NE Grand Ave.
Portland, OR 97232-2736

Metro Organization Structure



REGIONAL SERVICES

600 NORTHEAST GRAND AVENUE | PORTLAND, OREGON 97232 2736
TEL 503 797 1891 | FAX 503 797 1831

METRO

OFFICE OF THE AUDITOR

November 15, 2004

To the Metro Council and Citizens of the Metro Region:

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

Presented at page 15 is the unqualified report of Grant Thornton LLP on Metro's basic financial statements as of and for the year ended June 30, 2004.

In addition to the above report, Metro is required to have an audit of its expenditures of federal awards in accordance with the U.S. Office of Management and Budget Circular A-133, and the provisions of *Government Auditing Standards* issued by the Comptroller General of the United States. The necessary reports pertaining to Metro's internal control, compliance with applicable laws, regulations, grants and contracts, and the Schedule of Expenditures of Federal Awards for the year ended June 30, 2004, have been issued under separate cover.

Respectfully submitted,

Alexis Dow, CPA
Metro Auditor

HOTLINE PHONE 503 230 0600 HOTLINE E-MAIL METROAUDITOR@METRO.DST.OR.US WWW.METRO-REGION.ORG

Independent Auditor's Report

The Council, Council President and Auditor of Metro
Portland, Oregon

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Metro, as of and for the year ended June 30, 2004, 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 statements reflect total assets of $4,995,683 as of June 30, 2004 and a change in net assets of $638,605 for the year then ended. Those statements were audited by other auditors, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Oregon Zoo Foundation, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Metro's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Metro, as of June 30, 2004, 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.

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In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2004 on our consideration of Metro's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 17 through 37 and 91 through 98 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Metro's basic financial statements. The introductory section, supplementary information other than required supplementary information, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has 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 section 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.

GRANT THORNTON LLP

By Gary C. Horsley

Portland, Oregon
November 15, 2004

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METRO
Management's Discussion and Analysis

The management of Metro provides readers of Metro's financial statements this narrative overview and analysis of the financial activities of Metro for the fiscal year ended June 30, 2004. 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 - 9 of this report. This information is based upon currently known facts, decisions or conditions.

FINANCIAL HIGHLIGHTS

- The assets of Metro exceed its liabilities at the close of the most recent fiscal year by $141,966,613 (net assets). Of this amount, $46,126,654 is unrestricted with $36,315,111 attributable to Metro's business-type activities and $9,811,543 to governmental activities.

- The total net assets for Metro increased $12,248,795 or 9.4% for the fiscal year. Governmental activities provided $11,172,688 towards this increase, primarily from paying down and refinancing principal on bonded debt outstanding. The remainder of the increase, $1,076,107, was from business-type activities, as revenues in these activities increased by 5.7%, whereas expenses were up only 0.6% from the prior year.

- Program revenues, the share of revenues generated directly from Metro's operations (which includes charges for services), increased to 67.0% of revenues, compared to 66.3% in the prior year. During the most recent fiscal year, 58.1% ($67,023,071) of Metro's revenues came from, or were based upon, its charges for services program revenues, compared to 58.0% ($63,262,602) in the prior year. Property taxes accounted for 22.6% of revenues, down from 22.7% in the prior year, and were dedicated to repayment of general obligation bond debt ($17,481,813 up 7.0%) and support of operations of the Oregon Zoo ($8,605,342, up 3.0%).

- Solid waste tonnage delivered to Metro transfer stations declined 1%, however, total regional tonnage disposed upon which Metro collects regional system fees was up 3% from the prior year. In addition to these changes in volume, the tonnage charge portion of Metro's disposal rate was lowered by $.57 per ton (1.3%), while the regional system fee was increased $1.57 per ton in fiscal year 2004. This combination of factors contributed to program revenues decreasing $1,157,513 or 2.3% from the prior year. Net revenue for the Solid Waste activity was $1,785,934 for the year, compared to a net expense of $1,310,129 the prior year.

- Combined fund balances of Metro's governmental funds totaled $29,054,899, down 11.7% from the prior year, primarily due to the expenditure of bond proceeds received in a prior fiscal year to purchase open spaces property and fund local share projects in cooperation with other governments. Metro added 88 acres, bringing the total acreage to 8,023 under this program, exceeding by over 2000 acres the commitment made to voters of the region. Total cost of local share projects and property acquisitions totaled $4,044,072 in fiscal year 2004.

- Metro's excise tax, a tax Metro assesses on users of its goods and services to fund primarily general government and planning functions, provided $10,506,081 in general revenue, up $684,093 or 7.0% from the prior year. The primary reason for this increase was an increase in revenues upon which the tax is based at the Oregon Zoo and the Oregon Convention Center (OCC).

- The Metropolitan Exposition-Recreation Commission (MERC) component unit experienced an increase in charges for services revenue of 23.2% or $4,817,153 during the year, primarily due to a full year of operations of the expanded OCC. The OCC experienced growth in food and beverage revenue, up $2,748,000, and rental revenue increased $703,000. Total expenses for MERC were up 20.6%, also due primarily to a full year of operations of the expanded OCC facility and the associated concessions expense and depreciation charges, up $2,074,558 (29.1%) and $2,698,604 (46.0%), respectively.

- Metro's total debt decreased 6.7% ($13,825,176) during the current fiscal year as a result of principal payments and a reduction in outstanding principal. This was due to the issuance of bonds to refund all outstanding maturities of Metro Regional Center Project 1993 Series A General Refunding Bonds and to prepay the callable portions of the outstanding 1995 and 1996 Oregon Economic and Community Development Department (OECDD) Special Public Works Fund loans. As a result of these activities carried out by the Finance and Administrative Services Department, Metro has future debt service savings of $5,814,790 and a combined economic gain of $2,462,083.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Metro's annual 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 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 than the government-wide statements.

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

In addition, there is a section with combining statements that provide additional information about Metro's internal service funds and the MERC component unit. This information is integrated into the basic financial statements.

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

Statement Element	Government-Wide Financial Statements	Fund Financial Statements		
		Governmental Funds	**Proprietary Funds**	**Fiduciary Funds**
Scope	Entire Metro government (except fiduciary activities)	The activities of Metro that are not proprietary or fiduciary, such as regional planning, parks and policy development	Activities Metro operates similar to businesses: ▪ Solid Waste ▪ Oregon Zoo	Cases in which Metro administers resources on behalf of other parties, such as: ▪ rehabilitation and enhancement committee funds
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	▪ Statement of fiduciary net assets ▪ Statement of changes in fiduciary net assets
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	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	All assets and liabilities, both short-term and long-term; Metro's funds do not contain capital assets
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	All additions and deductions 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 tax base, and the age and condition of capital assets used by Metro.

All of the current fiscal year's revenue and expenses are accounted for in the *statement of activities*. The statement presents information showing how Metro's net assets changed during the fiscal year.

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

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

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

Business-type activities – Metro charges fees to customers to help cover the costs of certain services. These activities include the operation of the solid waste system and the Oregon Zoo.

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

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

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

Metro maintains six individual governmental funds (the General Fund, Planning Fund, Parks Fund, General Obligation Bond Debt Service Fund, Open Spaces Fund and Cemetery Perpetual Care Fund). 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 of these major funds, as defined by GASB Statement No. 34.

Metro maintains budgetary controls over its funds. The objective of budgetary controls is to ensure compliance with legal provisions contained in the annually appropriated budget. Budgetary comparison schedules for all appropriated funds are provided following the notes to the financial statements. Of special note, three budgetary funds (the Regional Parks Fund, Smith and Bybee Lakes Fund, and Regional Parks Special Accounts Fund) are combined into a single Parks Fund for reporting in conformance with generally accepted accounting principles in the governmental fund financial statements.

The governmental fund financial statements can be found on pages 45 - 48 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 Zoo operations.

  Internal service funds are an accounting device used to accumulate and allocate costs internally among Metro's various functions. Metro uses internal service funds to account for its support services (legal, human resources, information technology, contracts and accounting and audit services), risk management, and Metro Regional Center building operations. The revenues and expenses of the internal service funds that are duplicated in other funds through cost allocations are eliminated in the government-wide statements, with the remaining balances included in the governmental activities column.

  Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail (such as cash flows). The proprietary fund financial statements provide separate information for the Solid Waste and Zoo operations, both of which are considered major funds of Metro. Conversely, the three internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for each of the funds is provided in the form of combining statements elsewhere in the report.

  The proprietary fund financial statements can be found on pages 49 - 54 of this report.

- ***Fiduciary funds*** statements provide information to the reader about the financial relationships in which Metro acts solely as a *trustee or agent* for the benefit of others outside of Metro. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support Metro's own programs. Metro has one fiduciary fund, the

Rehabilitation and Enhancement Fund. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statements can be found on pages 55 - 57 of this report.

Notes to the financial statements. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 59 - 90 of this report.

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 $141,966,613 at June 30, 2004, which reflects an increase of 9.4% ($12,248,795) over the prior year. The following table reflects the condensed Government-Wide Statement of Net Assets.

Metro's business-type activities account for a significant portion of total net assets – totaling $120,367,074 (84.8%), whereas governmental activities account for $21,599,539 (15.2%). The negative balance reflected for the amount invested in capital assets (net of related debt) for governmental activities ($6,201,885) is the result of Metro financing capital assets for the business-type activities (Oregon Zoo) and component unit (Oregon Convention Center) through the issuance of general obligation bonds. The amount of long-term debt outstanding on these bonds is reflected as a liability of the governmental activities in which repayment of the bonds occurs, whereas the associated capital assets financed by this debt are reflected with the business-type activities and component unit as they use these assets to provide their services to citizens.

Metro's Net Assets

		Governmental Activities		Business-Type Activities		Total - Primary Government	
		2004	2003	2004	2003	2004	2003
Current and other assets	$	48,516,727	49,466,900	56,635,916	62,472,425	105,152,643	111,939,325
Capital assets		162,225,973	159,105,809	93,542,495	90,931,752	255,768,468	250,037,561
Total assets		210,742,700	208,572,709	150,178,411	153,404,177	360,921,111	361,976,886
Long-term debt outstanding		173,992,793	188,124,380	18,801,173	18,494,762	192,793,966	206,619,142
Other liabilities		15,150,368	10,021,478	11,010,164	15,618,448	26,160,532	25,639,926
Total liabilities	$	189,143,161	198,145,858	29,811,337	34,113,210	218,954,498	232,259,068
Net assets							
Invested in capital assets, net of related debt		(6,201,885)	(19,603,144)	74,741,322	72,436,990	68,539,437	52,833,846
Restricted		17,989,881	20,629,174	9,310,641	10,399,251	27,300,522	31,028,425
Unrestricted		9,811,543	9,400,821	36,315,111	36,454,726	46,126,654	45,855,547
Total net assets	$	21,599,539	10,426,851	120,367,074	119,290,967	141,966,613	129,717,818

Of Metro's total net assets, 48.3% of the total reflects its investment in capital assets, net of related debt, up from 40.7% in the prior year. Metro uses these capital assets to provide services to its citizens and therefore this amount is not available for future spending. Although Metro's investment in its capital assets is reported net of the related debt, it should be noted that the resources needed to repay this debt must come from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

In addition, 19.2% of net assets are externally restricted for specific purposes, including capital projects, capital asset renewal and replacement, landfill closure, debt service and other purposes. This represents a decrease in restricted net assets of $3,727,903 (12.0%) from the amount at June 30, 2003 when restricted net assets comprised 22.7% of net assets. The remaining $46,126,654 is unrestricted, with 78.7% of this amount attributable to Metro's business-type activities. Unrestricted net assets declined slightly in business-type activities - $139,615 (0.4%) and increased $410,722 (4.4%) in governmental activities. Unrestricted net assets may be used to meet Metro's ongoing obligations to citizens and creditors.

The negative balance of governmental activities' net assets invested in capital assets, net of related debt, decreased by 68.4% ($13,401,259). This change reflects an increase in capital assets of $3,120,164, a decrease in related long-term debt outstanding of $14,131,587 and a reduction of $3,850,492 in the amount of related unspent bond proceeds from the prior year. Capital assets added in the governmental activities were primarily for acquisition of 88 acres of property under Metro's open spaces acquisition program, improvements to the Glendoveer Golf Course and the removal of a dam and construction of a water control structure at Smith and Bybee Lakes.

Restricted net assets decreased $3,727,903 ($1,088,610 or 10.5% for business-type activities and $2,639,293 or 12.8%, for governmental activities). The decline in restricted net assets of the business-type activities was primarily due to a reduction of $1,088,066 (15.1%) in amounts restricted for renewal and replacement of capital assets as Solid Waste and Recycling implemented certain projects contained in the Capital Improvement Plan (CIP) during fiscal year 2004. The decline in governmental activities' restricted net assets was primarily in restrictions for debt service, down $1,736,902 (14.9%). This decline in net assets restricted for debt service is primarily the result of refinancing of Metro Regional Center bonds and OECDD loans as noted later in this discussion.

The decline in current and other assets (composed of cash and investments, receivables and other current assets) was primarily due to a $4,027,695 cash payment made by the Solid Waste enterprise on July 1, 2003 to complete the prior year's refinancing of solid waste bonds. This is described further in the next paragraph. Excluding this amount, current and other assets declined 2.5% ($2,747,932). The remainder of the decline was primarily reflected in declines in cash corresponding to the changes in revenues from normal operations described further below, a decline of $528,944 in prepaid items resulting from the continued amortization of an advance contractual payment made in a prior year to the solid waste transport contractor, and further use of restricted cash by the Solid Waste enterprise to reduce its post-closure landfill liability by $785,137.

Other liabilities (consisting of accounts payable, accrued compensation, accrued interest payable, and other current liabilities) of Metro's business-type activities decreased 29.5% ($4,608,284) from June 30, 2003, primarily as a result of paying off an investment payable for refunding Solid Waste bonds in the amount of $4,027,695. This was a non-recurring timing matter for the payment made to Metro's trustee as part of the refunding initiated in May 2003. The investments held by Metro for this purpose matured on July 1, 2003, and Metro was required to contribute this amount of cash on that date to complete the funding of the escrow account. With this amount excluded, other liabilities for business-type activities decreased by $580,590 or 3.7%. Other liabilities in the governmental activities increased primarily as a result of Metro recognizing an estimated environmental impairment liability of $5,225,000 for various identified risks. Exclusive of this amount, other liabilities for governmental activities decreased $96,110 or 1.0%.

Long-term debt outstanding declined 6.7% ($13,825,176) as a result of scheduled debt payments and refinancing activities undertaken by Metro to take advantage of the favorable interest rate environment. Governmental activity long-term debt decreased $14,131,587 or 7.5%, and business-type activity long-term debt increased $306,411 or 1.7% from June 30, 2003. A further discussion of the refinancing activities undertaken during the year is presented later in this analysis.

Changes in net assets. As noted above, Metro's total net assets increased 9.4% over the prior year. Governmental activities' net assets increased by $11,172,688, while business-type activities' net assets increased $1,076,107. The components of this change in net assets is reflected in the condensed information from Metro's Statement of Activities which follows:

Changes in Metro's Net Assets

	Governmental Activities		Business-Type Activities		Total - Primary Government	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues						
Charges for services	$ 3,924,366	3,365,420	63,098,705	59,897,182	67,023,071	63,262,602
Operating grants and contributions	7,582,801	7,272,201	962,418	1,575,494	8,545,219	8,847,695
Capital grants and contributions	-	-	1,763,235	174,333	1,763,235	174,333
General revenues						
Property taxes	17,481,813	16,336,901	8,605,342	8,355,692	26,087,155	24,692,593
Excise taxes	10,506,081	9,821,988	-	-	10,506,081	9,821,988
Local government shared revenues	476,514	384,166	-	-	476,514	384,166
Other	445,696	962,061	555,028	910,223	1,000,724	1,872,284
Total revenues	$ 40,417,271	38,142,737	74,984,728	70,912,924	115,401,999	109,055,661
Expenses:						
General government operations	2,546,034	2,380,124	-	-	2,546,034	2,380,124
Regional planning and development	10,599,654	11,063,962	-	-	10,599,654	11,063,962
Recreation and development	7,774,128	8,094,833	-	-	7,774,128	8,094,833
Interest on long-term debt	8,324,767	9,167,669	-	-	8,324,767	9,167,669
Solid Waste	-	-	48,612,392	49,769,905	48,612,392	49,769,905
Zoo	-	-	25,296,229	23,683,884	25,296,229	23,683,884
Total expenses	$ 29,244,583	30,706,588	73,908,621	73,453,789	103,153,204	104,160,377
Increase (decrease) in net assets	$ 11,172,688	7,436,149	1,076,107	(2,540,865)	12,248,795	4,895,284

Program revenues generated directly from Metro's operations, which includes charges for services, increased $5,046,895 or 7.0% from the prior year, while the share of total revenues derived from these sources increased from the prior year, from 66.3% to 67.0%. A significant portion (58.1%) of Metro's revenues come from, or are based upon, its charges for services. This amount includes charges to customers for use of Metro facilities and services, such as solid waste fees and admission fees. Program revenues from business-type activities increased 6.8%, or $4,177,349, while governmental activities program revenue increased 8.2% ($869,546). Charges for services revenues grew 16.6% and 5.3% in governmental activities and business-type activities, respectively. Capital grants and contributions increased significantly ($1,588,902) over the prior year due to contributions of assets for the Zoo's California Condor breeding facility.

General revenues are used by Metro to fund expenses not covered by program revenues. The most significant general revenue, property taxes, accounts for 22.6% of all revenues, down from 22.7% in the prior fiscal year, and is dedicated to repayment of general obligation bond debt or support for operations of the Oregon Zoo ($17,481,813 and $8,605,342, respectively). The bonds were originally issued to finance construction of the OCC, construction of the Great Northwest project at the Oregon Zoo, and for acquisition of open spaces in the region.

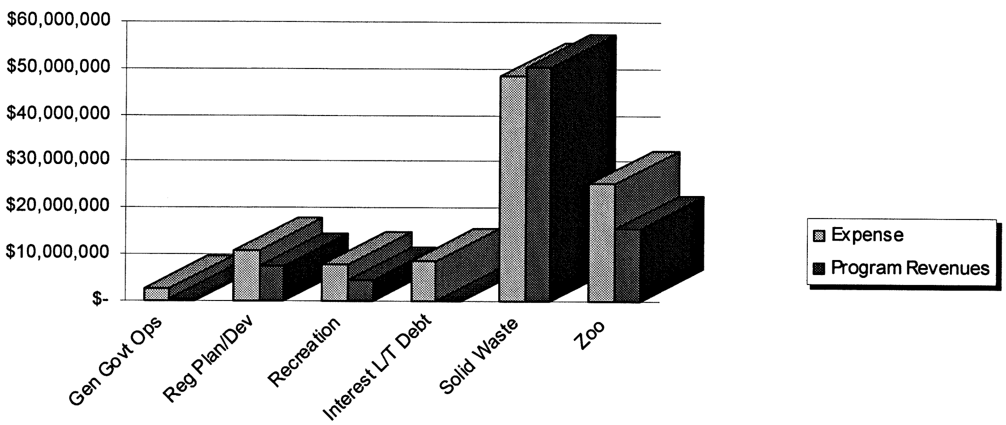
The excise tax – a tax Metro assesses on users of its goods and services to fund primarily general government and planning functions, provided $10,506,081 in general revenue, up $684,093 or 7.0%. This increase is reflective of the higher level of charges for services revenues upon which the tax is assessed, and the continuation of a $1 per ton increase in the excise tax on solid waste activities to support the operations of the Regional Parks and Greenspaces Department. The amount received was used to address Parks' backlog of capital maintenance needs, add to its renewal and replacement reserves, and continue programs that would have had to be cut without these additional funds. The Metro Council made this increase permanent through adoption of an ordinance amending the Metro Code to remove an existing sunset clause.

Most of the remaining revenue for Metro ($8,545,219 or 7.4%) comes from federal, state and local grants or other contributions that fund various programs such as regional transportation and growth management planning activities. These revenues were down 3.4% or $302,476 from the prior year.

The total cost of all programs and services declined 1.0% ($1,007,173) from the prior year to a total of $103,153,204. Business-type activities of Solid Waste and Zoo operations accounted for 71.6% of this total, compared to 70.6% in the prior year. General government operations reflected only 2.5% of total costs, compared to 2.3% in the prior year. Regional planning and development, and recreation and development, accounted for 10.3% and 7.5% of total costs, respectively. The remainder was primarily interest on long-term debt, which decreased by $842,902 or 9.2% from the prior year and totaled $8,324,767 or 8.1% of total costs, down from 8.8% in the prior year.

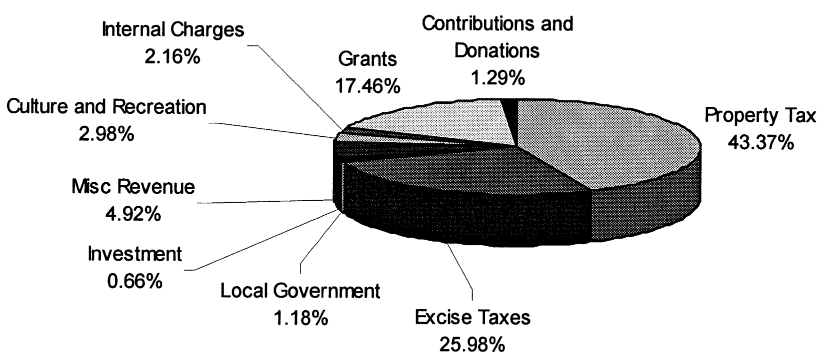
As reflected in the chart below, program revenues in each of the functional and program areas, other than Solid Waste operations, did not cover costs during the fiscal year. General revenues are called upon to cover this difference to the extent possible. Each of these areas is described separately in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

Metro
Government-Wide Revenues and Expenses
Fiscal Year 2004



Governmental activities. Revenues for Metro's governmental activities increased $2,274,534 (6.0%) to a total of $40,417,271 with 43.3% of this revenue ($16,336,901) coming from property taxes dedicated to repayment of general obligation bond principal and interest, an increase of $1,144,912 (7.0%) from the prior fiscal year. Property taxes funded interest expense totaling $8,324,767 and the remainder was used to pay bond principal and reduce outstanding bond liabilities.

Metro
Governmental Activities
Sources of Revenue, Fiscal Year 2004

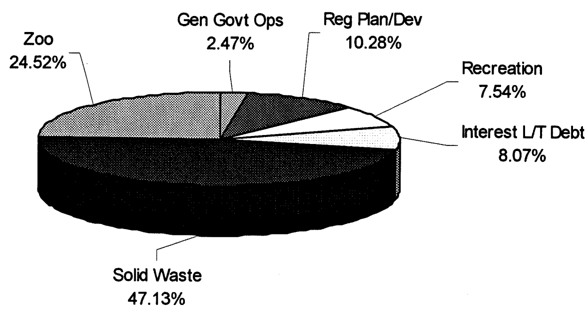


Metro's general government operations accounted for 8.7% ($2,546,034) of Metro's total expenses for governmental activities, which was an increase of $165,910 or 7.0% from the prior year. Savings of $391,109 over the prior year were provided by the elimination of the Office of the Executive Officer, with additional savings in the special appropriations category of $262,949 discussed further below. These savings offset increases in expenses for certain archives functions now accounted for in the general fund ($48,027), net decreases in reimbursements of costs and internal service allocations ($507,335), and an increase in general fund support of MERC ($98,577). General government operations rely significantly on general revenues, primarily excise taxes, to offset its net expense of $2,526,564.

Metro's regional planning and development activities had total costs of $10,599,654 for the fiscal year ending June 30, 2004, down $464,308 (4.2%) from the prior year. Revenues that fund these activities come primarily from operating grants and contributions ($6,340,907), which increased 3.5% or $213,579 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. In addition, charges for services on data and professional planning services provided to customers increased by $145,294 or 17.6% to a total of $972,578. The remaining net expense of $3,286,169 (a decrease of $822,821 or 20.0%) is funded from general revenue sources, including excise taxes and interest.

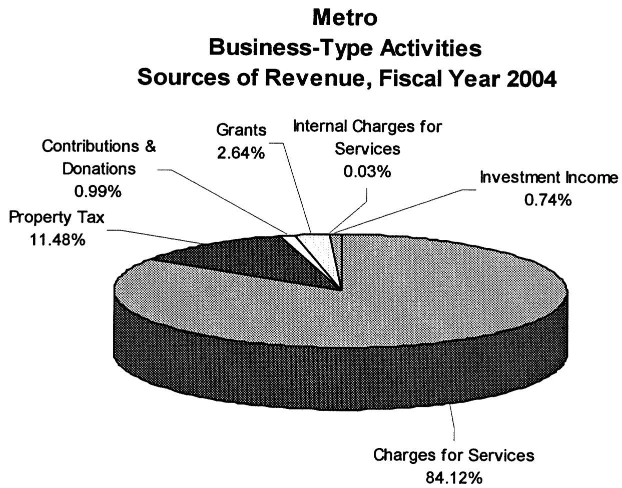
Recreation and development activities, which includes operation of Metro's regional parks and management of open spaces, accounted for total expenses of $7,774,128, down $320,705 or 4.0% from the prior year. Program revenues from charges for services (e.g., admission fees, rentals, etc.) totaled $2,942,318, up 16.0% or $405,439 from the prior year, with additional support provided from operating grants and contributions in the amount of $1,231,894, an increase of $87,021 or 7.6% over the prior year. The remaining net expense of this function, $3,599,916, was funded from general revenues, including local government shared revenues (e.g., marine fuel taxes from the State of Oregon), excise taxes and interest.

Metro
Function/Program Expenses
Fiscal Year 2004



Business-type activities. Revenues of Metro's business-type activities totaled $74,984,728, up 5.7% ($4,071,804) while total expenses only increased 0.6% or $454,832 to a total of $73,908,621. Therefore, operations of business-type activities (the Solid Waste enterprise and Oregon Zoo) reflected an increase in net assets of $1,076,107 for the fiscal year ended June 30, 2004.

Solid Waste operations reflected program revenues of $50,398,326, which is an increase of $1,938,550 over the prior year, or up 4.0%. Total expenses of $48,612,392 were down 2.3% or $1,157,513 from the prior year. Solid waste tonnage brought to Metro facilities was down slightly (1.0%) due to mild diversion of waste loads to privately-owned facilities that specialize in material recovery. This decline in revenue was offset by an increase in revenue generated from the Regional System Fee, which increased from $15.00 per ton in the prior year to $16.57 per ton. In addition, regional disposal tons increased about 3% over the prior year, and petroleum contaminated soils delivered to non-Metro facilities also increased. Net revenue for the Solid Waste activity was $1,785,934 for the fiscal year, compared to a net expense in the prior year of $1,310,129.



Operations of the Oregon Zoo reflected program revenues of $15,426,032, with 82.9% of this generated from charges for services (e.g., admission fees, food and retail sales). Program revenues increased $2,238,799 or 17.0% from the prior year, with $1,588,902 (71.0%) of this increase reflected in capital grants and contributions, including contributions received during the fiscal year for the California Condor facilities. Charges for services revenues increased $1,266,440 or 11.0% over the prior year. Total expenses for Zoo operations totaled $25,296,229, an increase of $1,612,345 or 6.8% from the prior year. The resulting net expense of $9,870,197 (an improvement of $626,454 or 6.0% over the prior year) is to be financed from general revenues, such as property taxes and investment earnings. Property taxes are the most significant of the general revenues and totaled $8,605,342, up $249,650 or 3.0% over the prior year.

MERC component unit. MERC operates the Metro-owned OCC and Expo Center. In addition, under terms of an intergovernmental agreement with the City of Portland, MERC operates the city-owned PCPA. Net assets for the component unit totaled $203,568,521, with 95.1% of this amount invested in capital assets, net of related debt. In addition, restrictions on net assets for renewal and replacement of capital assets total $3,510,684. Additionally, net assets of $275,496 are restricted for completion for capital projects, leaving $6,274,000 unrestricted and available for use.

Net assets decreased $10,846,473 during the fiscal year, or 5.1%. Unrestricted net assets decreased $2,267,667 or 26.5% from the prior year, while the net assets restricted for renewal and replacement declined $968,763 or 21.6%. Program revenue includes charges for services of $25,520,211 and operating grants and contributions of $1,125,366. Charges for services revenue was up $4,817,153 or 23.3% from the prior year. This revenue growth results from the first full fiscal year of operations of the expanded OCC (completed in April 2003), which contributed greater food and beverage, rental and utility services revenues, a combined increase of $3,994,000.

Total expenses for MERC were $45,514,394, up $7,777,253, or 20.6%. Depreciation and amortization expense reflected the largest increase, up $2,698,604 or 46.1% as the expanded OCC facility costs were charged to operations during the fiscal year. Facility operating expenses were down $344,002 or 6.3%. Concessions expenses increased $2,074,558 or 29.1% reflecting the growth in food and beverage sales. Payroll and fringe benefit costs were held to an increase of $189,274 or 1.5% and was achieved by holding certain administrative positions vacant and a further reduction of nineteen full time equivalent (FTE) positions.

The resulting net expense of MERC operations was $18,868,817 for the fiscal year ended June 30, 2004, compared to $13,552,329 in the prior year, an increase of 39.2%. General revenues used to support this net expense include local government shared revenues (transient lodging taxes) and investment income of $7,893,216 and $129,128, respectively.

FINANCIAL ANALYSIS OF METRO'S FUNDS

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

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

As Metro completed the fiscal year, its governmental funds reported *combined* fund balances of $29,054,899 down 11.7% from the prior year. The most significant decline ($3,850,492) occurred as expected in the Open Spaces Fund as additional properties were acquired and local share projects were funded from bond proceeds received in a prior year. $5,564,935 remains available for additional open spaces acquisitions. In addition, these other changes in fund balances should be noted:

The Planning Fund's fund balance increased $1,105,909 to $2,956,802. Personal service expenditures increased approximately $181,000 due to scheduled wage increases, higher fringe costs and reclassifications. Payments to other agencies decreased approximately $555,000, while contracted professional services decreased approximately $247,000 as work on South Corridor draft environmental impact statement continued to decrease and less local jurisdiction involvement was required. Other operating expenditures declined approximately $378,000, as the department completed the Regional

Travel Options (RTO) strategic plan, the 2002-2022 Periodic Review of the Urban Growth Boundary, and the Centers Strategic Plan for the Beaverton Regional Center.

The Parks Fund's fund balance decreased $177,926 or 2.3% from the prior year. Of the total fund balance of $7,519,826 at June 30, 2004, $3,631,588 is available for Smith and Bybee Lakes and $409,337 is available for special activities, such as cemetery care and other specified uses. The remaining $3,478,901 is available for regional park operations.

The General Fund reflected an increase in fund balance of $913,166 from the prior year, to a total of $2,561,919, more than sufficient to meet the objective of maintaining General Fund reserves at a minimum of $1,000,000 in undedicated funds. Revenues increased primarily from excise taxes, as noted earlier. General Fund expenditures were up 0.3% ($7,077). Expenditure increases were held to a minimum as a result of a full year of reductions in staff, both in the Council office and the elimination of the Office of the Executive Officer resulting from the Charter change in the prior year. FTE was down 21%, from 29.10 to 23.00. In addition, expenditures for special appropriations decreased $262,949, with $207,748 of this amount reflecting the prior year's Council decision to supplement the Solid Waste Regional System Fee credit program with payments from the Recovery Rate Stabilization Reserve in the General Fund, which did not reoccur for the fiscal year ended June 30, 2004. Election expenditures were also down by $69,057, as there was no region-wide election during fiscal year 2004.

Proprietary funds. Metro's proprietary funds 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 $55,982,136 at year-end, up 4.9% or $2,636,009. Of this amount, $26,840,329 is unrestricted, up 11.5%. 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 decreased $1,120,323 or 2.4% from the prior year. Payroll and fringe benefits increased 2.2% ($177,851) due to higher fringe benefit costs and scheduled wage increases. Facility operating expenses for Metro's two solid waste transfer stations increased $71,814 or 1.1%. Waste transport costs decreased 0.1% ($10,246) and disposal fees paid for waste disposal at the Gilliam County landfill decreased 3.4% ($433,850) due to lower tonnages handled by Metro. Various other operating costs accounted for a decrease of $925,892 from the prior year. This decrease was composed primarily of special waste disposal fees, which decreased $420,960 and other materials and services expenses, which were down $661,569 as the department took actions to reduce costs. Waste reduction grants, a non-operating expense, totaled $1,071,528 in the current fiscal year, down $25,811 or 2.5% from the prior year. Interest expense decreased $588,328 or 48.5% from the prior year attributable to the refunding of Solid Waste bonds in the prior year to achieve these lower debt service expenses.

Net assets in the Zoo Fund totaled $65,706,730, up 0.3% ($216,070) from the prior year. Of this amount, $10,796,574 is unrestricted. The majority of net assets are invested in capital assets, net of related debt - which totals $54,910,156. In addition to the analysis provided earlier regarding business-type activities, the following additional details are provided:

The Zoo's gift shop retail operation was contracted out to Aramark Corporation beginning in August 2003. The new operations contract has a guaranteed commission to the Zoo, so despite lower sales compared to the prior year, net revenue on the gift shop retail operations was $76,000 higher than the prior year. Food service revenue was down 6%, primarily due to a shortfall in catering revenue resulting from the regional economic slowdown impacting corporate event booking. Contributions and donations to the Oregon Zoo totaled $743,943 for the fiscal year ended June 30, 2004. In addition, $1,763,235 in capital contributions were received, primarily for completion of the Condor Creek Conservation Facility, an off-site breeding facility for California Condors.

Facility operating expenses for the Zoo totaled $7,483,543, up 9.7% ($658,887) from the prior year. Personal services expenditures declined 1.2% ($152,921) due to the Zoo holding positions vacant to ease overall spending in response to decreased revenues. Materials and services expenditures were down approximately $771,000 or 11.3% as lower visitor spending reduced the need for purchases of consumable goods for resale and the Zoo continued its efforts to control costs.

GENERAL FUND BUDGETARY HIGHLIGHTS

As noted earlier, Metro's General Fund is used to account for general government operations. These functions include the Council Office/Public Affairs and a Special Appropriations category for infrequent required costs, such as election expenditures. Unlike many governments, Metro does not account for its primary governmental services within the General Fund. Rather, it has established other special revenue funds for this purpose (e.g., the Planning and Parks funds discussed elsewhere.)

Only one budget amendment was made in the General Fund during the fiscal year. This amendment authorized $56,070 in additional operating expenditures (personal services) for funding a legislative manager position.

General Fund revenues, primarily excise taxes, exceeded the budgeted amount by 4.8%. The overall amount collected from excise taxes increased as discussed above. Investment earnings were $4,839 lower than budget due to the low interest rate environment.

General Fund expenditures came in at 67.7% of budget. The Council Office was at 87% of budget with underspending most prominent in materials and services, which was at 62% of budget. The Public Affairs Department had savings as a result of a position vacancy for the first two months of the fiscal year and the loaning of one staff person to the Planning Department. General Fund spending was 53.0% and 22.5% of the amount budgeted for contractual services and other purchased services, respectively. General Fund operating expenditure detail was $1,170,730 for Council, $393,261 for Public Affairs, $48,027 for Archives, $31,008 for Office of Citizen Involvement and $4,919 for Creative Services. In the Special Appropriations category, expenditure detail was $15,611 in Water Consortium dues, a $25,000 contribution to the Regional Arts & Culture Council, $152,251 for election costs, and $78,683 for public notice costs required by ballot measure 56.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Metro's investment in capital assets for its governmental and business type activities as of June 30, 2004, amounts to $255,768,468 (net of accumulated depreciation). This investment in capital assets includes land, buildings and exhibits, improvements, and various equipment. The total increase (including additions and deductions) in Metro's investment in capital assets for the current fiscal year was $5,730,907 or 2.3%, with an increase of $3,120,165 or 2.0% in capital assets attributable to governmental activities and an increase of $2,610,742 or 2.9% in business type activity capital assets.

Metro's Capital Assets

(Net of accumulated depreciation)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Land	$ 137,763,683	134,807,050	6,623,293	6,623,293	144,386,976	141,430,343
Buildings and Exhibits	16,940,402	17,102,098	80,854,484	77,062,635	97,794,886	94,164,733
Improvements	5,795,776	5,225,622	3,435,797	4,230,168	9,231,573	9,455,790
Equipment	321,662	452,041	2,196,230	2,463,215	2,517,892	2,915,256
Office furniture/equip	1,404,450	1,518,997	44,519	88,134	1,448,969	1,607,131
Railroad equip/facilities	-	-	388,172	464,308	388,172	464,308
Total	$ 162,225,973	159,105,808	93,542,495	90,931,753	255,768,468	250,037,561

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

- Acquisition of 88 acres of open spaces property in three different target areas, involving four separate land transactions during the fiscal year. This brought the total acquired acreage to 8,023 (including 62 miles of stream and river frontage) under the open spaces program funded by the Open Spaces Program general obligation bonds. The total capitalized cost for the property acquired in the current fiscal year was $1,882,376 and is reflected in governmental-activities capital assets.

- Metro's Regional Parks and Greenspaces capitalized $324,617 in improvements to Glendoveer Golf Course, reflected as improvements in governmental-activities, in addition to $594,237 in capital improvements at Smith and Bybee Lakes, primarily a water control structure.

- The Zoo had capital additions of $1,398,000 for the Eagle Canyon portion of the Great Northwest exhibit. In addition, the Zoo capitalized $1,024,000 for the Trillium Creek Family Farm and $1,011,000 for the Condor facility.

- The Solid Waste enterprise completed $1,117,697 of improvements to Metro Central Station, a solid waste transfer and recycling facility, for roof and ventilation and structural modifications and the northern tip floor at Metro South Station was renovated at a cost of $1,789,615.

MERC component unit capital assets. The total investment in capital assets, net of accumulated depreciation, for MERC totaled $208,532,197 at June 30, 2004, which represented a 2.9% ($6,254,681) decrease in total capital assets, net.

MERC Component Unit Capital Assets
(net of accumulated depreciation)

	2004	2003
Land	$ 15,279,942	15,279,942
Buildings	188,807,695	195,790,705
Improvements	2,338,732	1,686,989
Equipment	1,326,088	1,098,366
Office furniture/equip.	779,740	930,876
Total	$ 208,532,197	214,786,878

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

- MERC facilities capitalized an additional $2,358,988 in fixed assets during the fiscal year ended June 30, 2004. Some of the more significant additions included additional work at OCC to complete the expansion of the facility, such as work on Concession Stand E ($264,307), Hall C speaker upgrade ($155,354), and other miscellaneous projects ($586,971).

- Improvements to the Expo Center's canopy and walkways were made at a cost of $321,349.

- The above increases to fixed assets were more than offset by the annual depreciation charge, which totaled $8,558,806 for fiscal year 2004.

Additional information on Metro's capital assets can be found in note 2 to the financial statements.

Long-term debt. At the end of the current fiscal year, Metro had total bonded debt outstanding of $192,589,715 (net of unamortized costs, discounts, deferred amounts on refunding and unamortized accretion). Of this amount, $153,820,393 comprises debt backed by the full faith and credit of Metro and the remainder ($38,769,322) represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

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

Metro's Outstanding Debt

	Governmental Activities		Business-type activities		Total - Primary Government	
	2004	2003	2004	2003	2004	2003
Gen. obligation bonds	$ 153,820,393	165,364,313	-	-	153,820,393	165,364,313
Revenue bonds	20,065,556	22,555,238	18,703,766	14,482,943	38,769,322	37,038,181
Loans	106,844	129,694	97,407	4,011,819	204,251	4,141,513
Capital leases	-	75,135	-	-	-	75,135
Total	$ 173,992,793	188,124,380	18,801,173	18,494,762	192,793,966	206,619,142

Metro's total debt decreased $13,825,176 (6.7%) during the current fiscal year. The key factor in this decrease was principal payments on bonds, and an additional reduction in principal resulting from a refinancing transaction undertaken during the fiscal year to take advantage of the favorable interest rate environment. Refinancing activities included the following:

- On October 16, 2003, Metro sold $24,435,000 of Full Faith and Credit Refunding Bonds, 2003 Series to refund Metro's General Revenue Refunding Bonds (Metro Regional Center Project), 1993 Series A and outstanding 1995 and 1996 OECDD Loans. The new bonds are payable from any legally available funds of Metro, and Metro has pledged its full faith and credit to the successive owners of each of the bonds. All of the 1993 A bonds ($21,400,000) were refunded, and $2,072,052 of the 1995 OECDD and $1,626,047 of the 1996 OECDD loans were prepaid. The refunding resulted in future debt service savings of $5,814,790 and an economic gain of $2,462,083.

Metro maintains an "AA+" rating from Standard & Poor's and an "Aa1" rating from Moody's for general obligation debt. The Waste Disposal System Refunding Bonds, 2003 Series have been rated "AAA" as they are insured, with the underlying ratings "A" and "A3" by Standard & Poor's and Moody's, respectively. The Metro Full Faith and Credit Refunding Bonds have been rated "AA+" and "Aa2" by Standard & Poor's and Moody's, respectively.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for Metro is $13,845,507,019, which is significantly in excess of Metro's outstanding general obligation debt.

MERC component unit long-term debt. MERC had long-term debt outstanding at June 30, 2004 in the form of a loan from the OECDD in the amount of $14,838,827. In addition, MERC participated in the prior year in the creation of a Local Improvement District (LID), by the City of Portland, for the construction of a pedestrian walkway across the Willamette River. The outstanding principal balance of this LID at fiscal year end is $185,029.

Additional information on Metro's long-term debt can be found in notes 7 through 10 in the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

During the second quarter of 2004, according to the State of Oregon's Office of Economic Analysis (OEA), job growth in Oregon grew above 2.0% at an annual rate. On a year-over-year basis, jobs increased in the second quarter by 2.2%, the fourth consecutive quarter of job growth. The last time that year-over-year growth came in above 2.0% was the second quarter of 2000.

However, despite that steady job creation, Oregon's Employment Division reports that at June 2004 Oregon had regained only two-thirds of the 65,400 jobs lost since November 2000. Over 22,000 jobs still need to be created to match Oregon's level of employment experienced in late 2000. OEA forecasts employment to rise by 2.0% for 2004, ending a three-year string of job losses. Job growth is projected to be 2.3% in 2005 and 1.9% in 2006.

The portion of Oregon's economy that will continue to experience weakness in 2004 is the sector that contains semiconductors, computers, and electronic products. The average job count is expected to show losses of 0.5% for 2004, according to the Employment Division.

Population growth is expected to be higher than the U.S. average, but slower than the growth experienced in the mid-1990s. Oregon's much-vaunted quality of life is a feature of Oregon that is recognized nationally. According to U.S. Under Secretary of Commerce for Technology Phillip Bond, "Knowledge workers highly value quality of life, so much so that...(Oregon) is ahead of other regions."

Oregon's economy is gradually recovering across a broad index, in part because of increased commodity prices, a gradually strengthening world economy, and a weakening U.S. dollar according to John Mitchell, US Bancorp economist for the western region. He says, "Oregon is loaded with technology and transportation equipment companies" which should profit from an increase in business investment.

Mitchell cautions that the current recovery in the U.S. economy must be supported by increases in employment because tax cuts and consumer spending will not sustain the economic expansion.

The Planning Department budget for fiscal year 2005 has reduced its staffing from fiscal year 2004 and includes no increase in support from the General Fund, while personnel costs and overhead costs have generally increased 5%. General Fund support is used to pay for growth management planning, about one-third of the Data Resource Center services, some of the administrative and overhead costs, and to provide some of the matching funds to programs and projects funded through grants. The department relies upon grants for most of the transportation programs, and is finding that the external competition for grant revenues is continuing to increase.

The Regional Parks and Greenspaces Department budget for fiscal year 2005 maintains service levels from those in fiscal year 2004, with the exception of some areas that were enhanced due to increased excise tax support from the General Fund. As noted earlier, a two-year temporary excise tax imposed on solid waste operations has been extended indefinitely and the Council established an additional $1.50 per ton excise tax to generate an estimated $1.8 million annually dedicated to developing and operating four new regional natural areas. The fiscal year 2005 budget includes design and engineering for the Mt. Talbert Natural Area and Graham Oaks Natural Area. In addition, the budget is based upon no changes in user fees at Oxbow Park (entry fees and camping fees), Blue Lake Park (entry fees and picnic reservation fees), the boat ramps (entry fees), and at the pioneer cemeteries (grave prices and services).

The Oregon Zoo is projecting attendance for the coming year to be 1,295,000 – slightly below the 1,318,458 million served in the current fiscal year, the third best year in the 117-year history. The Zoo has budgeted the opening of the Trillium Creek Family Farm, with innovative programming utilizing trained youth volunteers exclusively. The budget eliminates the Center for Species Survival, and the Insect Zoo and reduces dollars budgeted for events, staff training, design services, travel, and capital maintenance. Construction activities will continue, including completion of the Introduction to the Forest, including bear, bobcat, cougar, and eagle exhibits and the second phase of the off-site condor breeding facility. These projects are to be funded by existing resources and contributions.

The Solid Waste and Recycling Department, responsible for operations of the regional solid waste system, will continue to identify potential cost reductions by review of programs that, relative to other remaining programs: 1) had matured to the point where they could be phased out with reasonable assurance that results would not be heavily impacted; 2) were not clearly producing the desired results; 3) cost significantly more to produce than other programs or approaches, all else being equal; or 4) had not yet developed to a point where results could be assured. Rates for fiscal year 2005 reflect the results of a new cost allocation model developed by the Rate Review Committee and adopted by Council. A mild increase in overall solid waste tonnage, from 1.5% to 2.0% is expected in the coming year. The department does not expect any policy changes that would divert additional tonnage from Metro transfer stations in the coming year. Privately-owned transfer stations are currently at or nearing authorized limits and no change in those limits is anticipated. Tonnage to Metro transfer stations may be affected if new licenses or franchises are approved and one such application is expected in the next year. Approval would mean diversion of 55,000 to 87,000 tons from Metro transfer stations per year, with the revenue loss being recovered from possible rate adjustments in fiscal year 2007.

The MERC component unit fiscal year 2005 budget recognizes a need to enhance financial stability by developing sponsorship/advertising opportunities, increasing revenue from food and beverage service, expanding reimbursed labor and retail opportunities and providing additional services. MERC will emphasize marketing plans for each of its facilities to increase recognition and generate new business. Funds received from the Visitor Development Initiative portion of the Multnomah County Lodging Tax, a shared revenue, are not guaranteed after fiscal year 2006. MERC expects to receive $250,000 in fiscal year 2005 and $300,000 in fiscal year 2006 from this revenue source. Additional funds received from Metro's general fund, specifically from the $0.50 per ton additional excise tax and placed in the Tourism Opportunity and Competitiveness Account, will be used for capital projects and green building Leadership in Energy & Environmental Design certification, which is expected to generate additional business and conserve energy.

In addition to the above, the budget for fiscal year 2005 includes these significant considerations:

PERS reserve. Based upon preliminary information from Oregon's Public Employee Retirement System (PERS) in September 2002, Metro estimated a PERS contribution rate of 19.9% of salary for eligible employees. The rate provided by PERS later in 2002 was 19.79%. The 2003 Oregon legislature made major reforms to PERS, resulting in a 6.65% reduction in Metro's contribution rate for fiscal year 2004. These changes are being litigated with cases in both state and Federal court. The Metro Council approved a policy directing staff to set aside the difference between the original estimated rate and the revised rate in each applicable fund, to be designated as part of fund balance. The fiscal year 2004 adopted budget continued to include the full 19.9% rate in the calculation of budgeted fringe benefits and the difference between that amount and the amount actually contributed to PERS was set aside in fund balance to be used in a future year(s) if needed to ease the cost increase to Metro if all or part of the legislation is overturned. The total set aside for all Metro funds at June 30, 2004 is $2,462,865. The fiscal year 2005 adopted budget includes the fiscal year 2005 estimated rate difference in contingency rather than budgeted fringe benefits.

REQUESTS FOR INFORMATION

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

Basic Financial Statements

METRO

Statement of Net Assets

June 30, 2004

		Primary Government			Component Units	
		Governmental Activities	Business-type Activities	Total	MERC	Oregon Zoo Foundation
Assets						
Equity in internal cash and investment pool	$	25,711,258	29,530,622	55,241,880	11,841,329	882,918
Investments		14,529,838	-	14,529,838	-	2,676,083
Receivables (net of allowance for uncollectibles):						
Property taxes		885,283	425,221	1,310,504	-	-
Trade		283,434	4,572,507	4,855,941	679,014	338,926
Other		466,620	1,197,626	1,664,246	3,164,886	177,353
Interest		99,712	152,573	252,285	40,181	33,064
Grants		1,555,892	-	1,555,892	-	-
Due from component unit		3,296,871	-	3,296,871	-	-
Internal balances		1,321,792	(1,321,792)	-	-	-
Inventories		-	524,478	524,478	-	-
Prepaid items		-	2,860,174	2,860,174	13,279	-
Other assets		18,871	388,547	407,418	6,592	93,612
Restricted assets:						
Equity in internal cash and investment pool		-	13,182,378	13,182,378	2,643,220	-
Investments		347,156	123,582	470,738	61,038	762,396
Loans receivable		-	5,000,000	5,000,000	-	-
Capital assets:						
Land, improvements, and construction in progress		137,763,683	6,623,293	144,386,976	15,279,942	-
Other capital assets (net of accumulated depreciation)		24,462,290	86,919,202	111,381,492	193,252,255	31,331
Total assets	$	210,742,700	150,178,411	360,921,111	226,981,736	4,995,683
Liabilities						
Accounts payable	$	1,724,016	4,204,615	5,928,631	1,259,097	351,736
Salaries, withholdings and payroll taxes payable		1,088,255	1,216,828	2,305,083	663,552	-
Contracts payable		56,438	73,051	129,489	-	107,805
Accrued interest payable		3,345,476	116,503	3,461,979	479,996	-
Accrued self-insurance claims		990,481	-	990,481	-	-

(Continued)

METRO

Statement of Net Assets

June 30, 2004

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	MERC	Oregon Zoo Foundation
Liabilities, Continued					
Due to primary government	$ -	-	-	3,296,871	-
Unearned revenue	1,472,084	-	1,472,084	1,322,300	1,506,742
Deposits payable	46,240	-	46,240	852,396	18,651
Other liabilities	11,954	291,769	303,723	9,715	-
Payable from restricted assets:					
Contracts payable	-	100,000	100,000	-	-
Post-closure costs payable	-	3,895,319	3,895,319	-	-
Arbitrage payable	-	17,724	17,724	-	-
Non-current liabilities:					
Due within one year:					
Bonds payable	11,455,155	648,884	12,104,039	-	-
Loans payable	24,294	97,407	121,701	403,670	-
Compensated absences	929,013	872,772	1,801,785	406,162	17,677
Due in more than one year:					
Environmental impairment liability	5,225,000	-	5,225,000	-	-
Bonds payable (net of unamortized premium or discount and deferred amount on refunding)	162,430,794	18,054,882	180,485,676	-	-
Loans payable	82,550	-	82,550	14,620,186	-
Compensated absences	261,411	221,583	482,994	99,270	-
Total liabilities	189,143,161	29,811,337	218,954,498	23,413,215	2,002,611
Net Assets					
Invested in capital assets, net of related debt	(6,201,885)	74,741,322	68,539,437	193,508,341	31,331
Restricted for:					
Capital projects	-	-	-	275,496	-
Renewal and replacement	-	6,111,701	6,111,701	3,510,684	-
Landfill closure	-	3,149,099	3,149,099	-	-
Debt service	8,043,791	49,841	8,093,632	-	-
Other purposes	9,946,090	-	9,946,090	-	508,927
Unrestricted	9,811,543	36,315,111	46,126,654	6,274,000	2,452,814
Total net assets	$ 21,599,539	120,367,074	141,966,613	203,568,521	2,993,072

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

METRO

Statement of Activities

For the year ended June 30, 2004

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Functions/Programs				
Primary Government:				
Governmental activities:				
General government operations	$ 2,546,034	9,470	10,000	-
Regional planning and development	10,599,654	972,578	6,340,907	-
Recreation and development	7,774,128	2,942,318	1,231,894	-
Interest on long-term debt	8,324,767	-	-	-
Total governmental activities	29,244,583	3,924,366	7,582,801	-
Business-type activities:				
Solid Waste	48,612,392	50,315,937	82,389	-
Zoo	25,296,229	12,782,768	880,029	1,763,235
Total business-type activities	73,908,621	63,098,705	962,418	1,763,235
Total primary government	$ 103,153,204	67,023,071	8,545,219	1,763,235
Component Units:				
MERC	$ 45,514,394	25,520,211	1,125,366	-
Oregon Zoo Foundation	5,343,447	2,822,379	3,058,922	-
Total component units	$ 50,857,841	28,342,590	4,184,288	-

General revenues:
- Property taxes
- Excise taxes
- Cemetery revenue surcharge
- Local government shared revenues
- Unrestricted investment earnings
- Total general revenues
  - Change in net assets

Net assets-July 1, 2003
Net assets-June 30, 2004

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

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	MERC	Oregon Zoo Foundation
(2,526,564)	-	(2,526,564)	-	-
(3,286,169)	-	(3,286,169)	-	-
(3,599,916)	-	(3,599,916)	-	-
(8,324,767)	-	(8,324,767)	-	-
(17,737,416)	-	(17,737,416)	-	-
-	1,785,934	1,785,934	-	-
-	(9,870,197)	(9,870,197)	-	-
-	(8,084,263)	(8,084,263)	-	-
(17,737,416)	(8,084,263)	(25,821,679)	-	-
-	-	-	(18,868,817)	-
-	-	-	-	537,854
-	-	-	(18,868,817)	537,854
17,481,813	8,605,342	26,087,155	-	-
10,506,081	-	10,506,081	-	-
33,086	-	33,086	-	-
476,514	-	476,514	7,893,216	-
412,610	555,028	967,638	129,128	100,751
28,910,104	9,160,370	38,070,474	8,022,344	100,751
11,172,688	1,076,107	12,248,795	(10,846,473)	638,605
10,426,851	119,290,967	129,717,818	214,414,994	2,354,467
$ 21,599,539	120,367,074	141,966,613	203,568,521	2,993,072

Fund Financial Statements

Major Governmental Funds

General Fund

The *General Fund* accounts for all activities not required to be accounted for in another fund. This fund accounts primarily for Metro's general government activities, including Council Office/Public Affairs functions and special appropriations. The principal resources of the fund are investment income and excise taxes on Metro's facilities and services levied in accordance with the Metro Code.

Special Revenue Funds

Planning Fund

This fund accounts for funding and operation of Metro's regional planning functions, including land use, urban growth management, and environmental and transportation planning. Principal sources of revenues are grants, charges for services, and excise tax transferred from the General Fund.

Parks Fund

This fund accounts for funding and operation of Metro's greenspaces program and recreation activities, including parks, marine facilities, pioneer cemeteries, and a golf course. Principal sources of revenue are grants, shared revenue, and charges for services. This fund consists of three budgetary funds (Regional Parks Fund, Smith and Bybee Lakes Fund, and Regional Parks Special Accounts Fund) that are combined as one Special Revenue Fund to be in accordance with accounting principles generally accepted in the United States of America.

Debt Service Fund

The *General Obligation Bond Debt Service Fund* accounts for payments of general obligation bond principal and interest to bondholders. The principal source of revenue is property taxes.

Capital Projects Fund

The *Open Spaces Fund* accounts for the activities to acquire and protect regional open spaces, parks, trails, and streams. The principal resource is investment income.

Permanent Fund

The *Cemetery Perpetual Care Fund* accounts for amounts provided to build a permanent investment of principal for which the earnings will be used to provide care for Pioneer Cemeteries under Metro's management. The principal resource is a cemetery revenue surcharge.

METRO

Balance Sheet
Governmental Funds

June 30, 2004

	General	Special Revenue Planning	Special Revenue Parks	Debt Service	Capital Projects Open Spaces	Permanent Cemetery Perpetual Care	Total Governmental Funds
Assets							
Equity in internal cash and investment pool	$ 2,410,784	3,704,245	7,870,081	1,156,542	137,995	122,842	15,402,489
Investments	-	-	-	9,051,830	5,478,008	-	14,529,838
Receivables:							
Property taxes	-	-	-	885,283	-	-	885,283
Trade	-	126,561	123,780	-	33,093	-	283,434
Other	424,911	3,982	-	-	-	-	428,893
Interest	9,182	10,815	27,640	2,502	5,647	442	56,228
Grants	-	1,344,436	211,456	-	-	-	1,555,892
Other assets	1,294	4,629	600	-	-	-	6,523
Total assets	$ 2,846,171	5,194,668	8,233,557	11,096,157	5,654,743	123,284	33,148,580
Liabilities and Fund Balances							
Liabilities:							
Accounts payable	$ 191,554	397,317	415,534	-	61,985	-	1,066,390
Salaries, withholdings and payroll taxes payable	92,698	371,749	192,235	-	27,823	-	684,505
Contracts payable	-	28,014	28,424	-	-	-	56,438
Deferred revenue	-	-	-	768,024	-	-	768,024
Unearned revenue	-	1,416,121	55,963	-	-	-	1,472,084
Deposits payable	-	24,665	21,575	-	-	-	46,240
Total liabilities	284,252	2,237,866	713,731	768,024	89,808	-	4,093,681
Fund balances:							
Reserved for:							
Debt service	-	-	-	10,328,133	-	-	10,328,133
Other purposes	-	-	-	-	-	123,284	123,284
Unreserved, reported in:							
General fund	2,561,919	-	-	-	-	-	2,561,919
Special revenue funds	-	2,956,802	7,519,826	-	-	-	10,476,628
Capital projects funds	-	-	-	-	5,564,935	-	5,564,935
Total fund balances	2,561,919	2,956,802	7,519,826	10,328,133	5,564,935	123,284	29,054,899
Total liabilities and fund balances	$ 2,846,171	5,194,668	8,233,557	11,096,157	5,654,743	123,284	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	145,612,845
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	768,024
Internal service funds are used by management to charge the costs of certain activities, such as insurance and central administration and support to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	6,151,079
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(159,987,308)
Net assets of governmental activities	$ 21,599,539

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

METRO

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

For the year ended June 30, 2004

	General	Special Revenue Planning	Special Revenue Parks	Debt Service	Capital Projects Open Spaces	Permanent Cemetery Perpetual Care	Total Governmental Funds
Revenues:							
Property taxes	$ -	-	-	17,536,825	-	-	17,536,825
Excise taxes	10,506,081	-	-	-	-	-	10,506,081
Cemetery revenue surcharge	-	-	-	-	-	33,086	33,086
Local government shared revenues	-	18,920	457,594	-	-	-	476,514
Investment income	20,161	44,818	98,356	46,749	56,622	760	267,466
Government fees	-	242,391	1,728	-	-	-	244,119
Culture and recreation fees	70	-	1,203,960	-	-	-	1,204,030
Other fees	-	240,569	1,311,781	-	65,423	-	1,617,773
Internal charges for services	-	487,487	383,367	-	4,657	-	875,511
Miscellaneous revenue	9,400	2,131	29,639	-	54,503	-	95,673
Grants	10,000	6,340,907	695,710	-	14,875	-	7,061,492
Government contributions	-	-	104,508	-	-	-	104,508
Contributions and donations	-	-	416,801	-	-	-	416,801
Total revenues	10,545,712	7,377,223	4,703,444	17,583,574	196,080	33,846	40,439,879
Expenditures:							
Current:							
General government operations	2,625,450	-	-	-	-	-	2,625,450
Regional planning and development	-	10,453,513	-	-	-	-	10,453,513
Recreation and development	-	-	5,852,413	-	1,861,708	-	7,714,121
Debt service:							
Principal	-	42,138	-	11,543,920	-	-	11,586,058
Interest	-	3,322	-	8,004,304	-	-	8,007,626
Capital outlay	-	44,652	1,634,049	-	2,182,364	-	3,861,065
Total expenditures	2,625,450	10,543,625	7,486,462	19,548,224	4,044,072	-	44,247,833
Revenues over (under) expenditures	7,920,262	(3,166,402)	(2,783,018)	(1,964,650)	(3,847,992)	33,846	(3,807,954)
Other financing sources (uses):							
Transfers in	-	4,272,311	2,694,530	-	-	89,438	7,056,279
Transfers out	(7,007,096)	-	(89,438)	-	(2,500)	-	(7,099,034)
Total other financing sources (uses)	(7,007,096)	4,272,311	2,605,092	-	(2,500)	89,438	(42,755)
Net change in fund balances	913,166	1,105,909	(177,926)	(1,964,650)	(3,850,492)	123,284	(3,850,709)
Fund balances - July 1, 2003	1,648,753	1,850,893	7,697,752	12,292,783	9,415,427	-	32,905,608
Fund balances - June 30, 2004	$ 2,561,919	2,956,802	7,519,826	10,328,133	5,564,935	123,284	29,054,899

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

METRO

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

For the year ended June 30, 2004

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

Net change in fund balances-total governmental funds		$ (3,850,709)
Governmental funds report capital outlays as expenditures, while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which capital outlays exceeded depreciation in the current period.		
Expenditures for capital assets	4,689,419	
Less current year depreciation	(798,910)	3,890,509
In the statement of activities, only the loss on the disposal of capital assets is reported, while in governmental funds, the entire proceeds from sales increase financial resources. The change in net assets differs from the change in fund balance by the book values of the assets disposed.		(62,710)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes		(55,012)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and central administration and support to individual funds. The net revenue of certain activities of the internal service funds are included in governmental activities in the statement of activities.		(678,144)
The repayment of principal on long-term debt uses current financial resources of governmental funds, but repayment of debt reduces long-term liabilities in the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These are the effects of these differences in the treatment of long-term debt and related items.		
Principal payments	11,586,058	
Amortization of deferred amounts on refunding	212,747	11,798,805
Expenses in the statement of activities that do not require the use of current financial resources are not reported as expenditures in the funds.		
Compensated absences	(71,991)	
Accrued interest on long-term debt	201,940	129,949
Change in net assets of governmental activities		$ 11,172,688

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

Fund Financial Statements

Proprietary Funds

Solid Waste Fund

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

Zoo Fund

This fund accounts for funding and operation of the Oregon Zoo. Principal sources of revenues are charges for services and property taxes derived from a property tax base. This fund consists of three budgetary funds (Zoo Operating Fund, Zoo Capital Projects Fund and General Revenue Bond Fund - Zoo) that are combined as one Enterprise Fund to be in accordance with accounting principles generally accepted in the United States of America.

METRO

Statement of Net Assets
Proprietary Funds

June 30, 2004

Assets	Business-type Activities-Enterprise Funds Solid Waste	Zoo	Total	Governmental Activities-Internal Service Funds
Current assets:				
Equity in internal cash and investment pool	$ 17,508,228	12,022,394	29,530,622	10,308,769
Receivables:				
Property taxes	-	425,221	425,221	-
Trade	3,868,259	704,248	4,572,507	-
Other	1,117,885	79,741	1,197,626	37,727
Interest	109,258	43,315	152,573	43,484
Inventories	416,881	107,597	524,478	-
Prepaid items	2,860,174	-	2,860,174	-
Other assets	28,882	359,665	388,547	12,348
Total current assets	25,909,567	13,742,181	39,651,748	10,402,328
Noncurrent assets:				
Restricted equity in internal cash and investment pool	13,182,378	-	13,182,378	-
Restricted investments	123,582	-	123,582	347,156
Loans receivable	5,000,000	-	5,000,000	-
Capital assets, net	34,820,818	58,721,677	93,542,495	16,613,128
Total noncurrent assets	53,126,778	58,721,677	111,848,455	16,960,284
Total assets	79,036,345	72,463,858	151,500,203	27,362,612
Liabilities				
Current liabilities:				
Accounts payable	3,036,673	1,167,942	4,204,615	657,626
Salaries, withholdings and payroll taxes payable	465,326	751,502	1,216,828	403,750
Contracts payable	31,564	41,487	73,051	-
Accrued interest payable	63,677	52,826	116,503	293,110
Accrued self-insurance claims	-	-	-	990,481
Bonds payable-current	448,884	200,000	648,884	815,000
Loans payable-current	-	97,407	97,407	24,294
Compensated absences-current	404,543	468,229	872,772	352,704
Other liabilities	-	291,769	291,769	11,954
Total current liabilities	4,450,667	3,071,162	7,521,829	3,548,919

(Continued)

METRO

Statement of Net Assets, Continued
Proprietary Funds

June 30, 2004

Liabilities, continued	Business-type Activities-Enterprise Funds: Solid Waste	Zoo	Total	Governmental Activities-Internal Service Funds
Noncurrent liabilities:				
Payable from restricted assets:				
Contracts payable	$ 100,000	-	100,000	-
Post-closure costs payable	3,895,319	-	3,895,319	-
Arbitrage payable	-	17,724	17,724	-
Environmental impairment liability	-	-	-	5,225,000
Bonds payable (net of unamortized discount and deferred amount on refunding)	14,540,768	3,514,114	18,054,882	16,874,875
Loans payable	-	-	-	82,550
Compensated absences	67,455	154,128	221,583	98,852
Total non-current liabilities	18,603,542	3,685,966	22,289,508	22,281,277
Total liabilities	23,054,209	6,757,128	29,811,337	25,830,196
Net Assets				
Invested in capital assets, net of related debt	19,831,166	54,910,156	74,741,322	(1,183,591)
Restricted for:				
Renewal and replacement	6,111,701	-	6,111,701	-
Landfill closure	3,149,099	-	3,149,099	-
Debt service	49,841	-	49,841	-
Unrestricted	26,840,329	10,796,574	37,636,903	2,716,007
Total net assets	$ 55,982,136	65,706,730	121,688,866	1,532,416
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds:				
Current year			(1,775,972)	
Cumulative prior years			454,180	
Net assets of business-type activities			$ 120,367,074	

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

METRO

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

For the year ended June 30, 2004

	Business-type Activities-Enterprise Funds			Governmental Activities-Internal Service Funds
	Solid Waste	Zoo	Total	
Operating revenues:				
Charges for services	$ 50,292,014	12,782,768	63,074,782	1,049,672
Internal charges for services	23,923	-	23,923	16,434,581
Total operating revenues	50,315,937	12,782,768	63,098,705	17,484,253
Operating expenses:				
Payroll and fringe benefits	8,243,696	12,103,767	20,347,463	7,281,525
Depreciation and amortization	1,664,808	2,208,834	3,873,642	907,143
Administrative expenses	2,962,022	2,006,174	4,968,196	589,782
Facility operating expenses	6,788,779	7,483,543	14,272,322	-
Disposal fees	12,279,532	-	12,279,532	-
Waste transport costs	7,282,575	-	7,282,575	-
Special waste disposal fees	748,818	-	748,818	-
Recycling credits	1,157,396	-	1,157,396	-
Consulting services	1,920,162	-	1,920,162	-
Charges for services	507,953	-	507,953	-
Payments to other governments	567,348	-	567,348	299,553
Rehabilitation fees	365,971	-	365,971	-
Insurance expense	-	-	-	5,335,635
Claims expense	-	-	-	849,232
Actuarial claims expense	-	-	-	5,304,466
Other materials and services	1,953,934	-	1,953,934	1,790,173
Total operating expenses	46,442,994	23,802,318	70,245,312	22,357,509
Operating income (loss)	3,872,943	(11,019,550)	(7,146,607)	(4,873,256)
Non-operating revenues (expenses):				
Grants	82,389	136,086	218,475	5,000
Contributions and donations	-	743,943	743,943	-
Property taxes	-	8,605,342	8,605,342	-
Investment income	375,976	179,052	555,028	145,144
Loss on disposal of capital assets	-	(88,208)	(88,208)	(47,404)
Waste reduction grants	(1,071,528)	-	(1,071,528)	-
Interest expense	(623,771)	(103,830)	(727,601)	(731,828)
Total non-operating revenues (expenses)	(1,236,934)	9,472,385	8,235,451	(629,088)
Income (loss) before contributions and transfers	2,636,009	(1,547,165)	1,088,844	(5,502,344)
Capital contributions	-	1,763,235	1,763,235	-
Transfers in	-	-	-	42,755
Change in net assets	2,636,009	216,070	2,852,079	(5,459,589)
Total net assets - July 1, 2003	53,346,127	65,490,660		6,992,005
Total net assets - June 30, 2004	$ 55,982,136	65,706,730		1,532,416
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			(1,775,972)	
Change in net assets of business-type activities			$ 1,076,107	

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

METRO

Statement of Cash Flows
Proprietary Funds

For the year ended June 30, 2004

	Business-type Activities- Enterprise Funds Solid Waste	Zoo	Total	Governmental Activities- Internal Service Funds
Cash flows from operating activities:				
Receipts from customers	$ 50,075,479	12,449,513	62,524,992	5,976,189
Receipts from interfund services provided	-	-	-	11,454,389
Other operating receipts	51,260	84,015	135,275	46,291
Payments to suppliers for goods and services	(33,020,842)	(7,639,626)	(40,660,468)	(7,053,214)
Payments for claims	-	-	-	(849,232)
Payments to other governments	(567,348)	-	(567,348)	(299,553)
Payments to employees for services	(8,167,450)	(12,029,458)	(20,196,908)	(7,296,523)
Payments for interfund services used	(3,327,992)	(2,006,174)	(5,334,166)	(589,782)
Net cash provided by (used in) operating activities	5,043,107	(9,141,730)	(4,098,623)	1,388,565
Cash flows from noncapital financing activities:				
Grants received	82,389	120,888	203,277	5,000
Contributions and donations	-	743,943	743,943	-
Property taxes	-	8,625,563	8,625,563	-
Transfers from other funds	-	-	-	42,755
Grants to others	(1,071,528)	-	(1,071,528)	-
Net cash provided by (used in) noncapital financing activities	(989,139)	9,490,394	8,501,255	47,755
Cash flows from capital and related financing activities:				
Proceeds from revenue bonds	-	4,053,412	4,053,412	20,372,019
Principal payment on revenue bonds	-	-	-	(22,070,000)
Interest payments	(69,530)	(162,744)	(232,274)	(772,352)
Refunding costs	-	(355,312)	(355,312)	(716,613)
Payment of investment payable relating to refunding	(4,027,695)	-	(4,027,695)	-
Capital contributions	-	834,469	834,469	-
Acquisition and construction of capital assets	(2,907,312)	(2,772,789)	(5,680,101)	(246,913)
Proceeds from sale of capital assets	-	36,275	36,275	-
Principal payments on loans	-	(3,914,412)	(3,914,412)	(22,850)
Principal payments on capital leases	-	-	-	(32,997)
Net cash used in capital and related financing activities	(7,004,537)	(2,281,101)	(9,285,638)	(3,489,706)
Cash flows from investing activities:				
Investment income	329,279	164,394	493,673	125,363
Loan collections	100,000	-	100,000	-
Proceeds from sale of investments	8,573,072	1,320,637	9,893,709	4,240,393
Purchase of investments	(4,594,331)	(1,097,677)	(5,692,008)	(2,406,008)
Net cash provided by investing activities	4,408,020	387,354	4,795,374	1,959,748
Net increase (decrease) in cash including restricted amounts	1,457,451	(1,545,083)	(87,632)	(93,638)
Cash at beginning of year including restricted amounts	29,233,155	13,567,477	42,800,632	10,402,407
Cash at end of year including restricted amounts	$ 30,690,606	12,022,394	42,713,000	10,308,769

(Continued)

METRO

Statement of Cash Flows, Continued
Proprietary Funds

For the year ended June 30, 2004

	Business-type Activities-Enterprise Funds			Governmental Activities- Internal
	Solid Waste	Zoo	Total	Service Funds
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	$ 3,872,943	(11,019,550)	(7,146,607)	(4,873,256)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	1,664,808	2,208,834	3,873,642	907,143
Change in assets and liabilities:				
Trade/other accounts receivable	(189,197)	(430,328)	(619,525)	(9,004)
Inventory	(187,560)	73,384	(114,176)	-
Other assets	635,590	(174,353)	461,237	9,151
Accounts payable	(59,122)	(72,589)	(131,711)	60,865
Salaries, withholdings and payroll taxes payable/compensated absences	76,246	74,309	150,555	(14,998)
Accrued self-insurance claims	-	-	-	79,466
Accrued environmental impairment liability	-	-	-	5,225,000
Contracts payable	14,536	17,475	32,011	-
Deposits payable	-	16,552	16,552	-
Other liabilities	-	164,536	164,536	4,198
Post-closure costs payable	(785,137)	-	(785,137)	-
Total adjustments	1,170,164	1,877,820	3,047,984	6,261,821
Net cash provided by (used in) operating activities	$ 5,043,107	(9,141,730)	(4,098,623)	1,388,565

	Solid Waste	Zoo	Total	Internal Service Funds
Noncash investing, capital, and financing activities:				
Investment income relating to the change in the fair value of investments	$ (33,017)	(7,807)	(40,824)	(19,973)
Noncash donation of California Condor Recovery Center construction from Oregon Zoo Foundation	-	928,766	928,766	-

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

Fund Financial Statements

Fiduciary Fund

Rehabilitation and Enhancement Private Purpose Trust Fund

This fund accounts for resources legally held in trust for use by community committees devoted to directing the rehabilitation and enhancement of the area in and around various solid waste disposal facilities. All resources of the fund, including investment income may be used to support the committees' activities. No portion of the resources is required to be preserved as capital.

METRO

Statement of Fiduciary Net Assets
Fiduciary Fund

June 30, 2004

Assets		Rehabilitation and Enhancement Private Purpose Trust Fund
Equity in internal cash and investment pool	$	2,038,509
Interest receivable		7,286
Total assets		2,045,795
Liabilities		
Accounts payable		69,602
Total liabilities		69,602
Net Assets		
Held in trust for private purposes	$	1,976,193

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

METRO

Statement of Changes in Fiduciary Net Assets
Fiduciary Fund

For the year ended June 30, 2004

		Rehabilitation and Enhancement Private Purpose Trust Fund
Additions:		
Community enhancement fees	$	365,971
Miscellaneous revenue		11,000
Investment income		24,516
Total additions		401,487
Deductions:		
Charges for services		23,923
Rehabilitation and enhancement expenses		331,813
Total deductions		355,736
Change in net assets		45,751
Net Assets - July 1, 2003		1,930,442
Net Assets - June 30, 2004	$	1,976,193

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

METRO

Notes to the Financial Statements

For the Year Ended June 30, 2004

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 office of Metro Auditor is elected at large to perform financial and performance audit functions and make reports to the Council and Chief Operating Officer.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

1. THE REPORTING ENTITY

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

Discretely Presented Component Units

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

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

OZF - The OZF exists exclusively for the support and benefit of the Zoo. It is a public benefit corporation organized and operated under Section 501(c)(3) of the Internal Revenue Code of 1986. The OZF conducts fundraising efforts on behalf of the Zoo, receiving donations from both individuals and corporations that are provided as financial support to the Zoo. The OZF is included in Metro's report under provisions of GASB Statement No. 39. Complete financial statements for OZF can be obtained from the Finance Manager at 4001 SW Canyon Road, Portland, OR 97221-2799.

2. BASIC FINANCIAL STATEMENTS

Government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been eliminated from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The primary government is reported separately from its legally separate component units.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment and 3) capital grants and contributions. Taxes and other items not properly included among program revenues are reported instead as *general revenues*, as are internally dedicated resources.

Fund financial statements are presented for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. 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 and fiduciary fund financial statements. All transactions affecting increases (revenues) and decreases (expenses) in total net assets during the period are reported. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants are recognized as revenue when all eligibility requirements imposed by the provider have been met.

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

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

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

Metro reports the following major governmental funds:

General Fund – This fund accounts for all activities not required to be accounted for in another fund, primarily Metro's general government activities, including Council Office/Public Affairs functions and special appropriations.

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:

Planning Fund - This fund accounts for funding and operation of Metro's regional planning functions, including land use, urban growth management, and environmental and transportation planning.

Parks Fund - This fund accounts for funding and operation of Metro's greenspaces program and recreation activities, including parks, marine facilities, pioneer cemeteries, and a golf course. This fund consists of three budgetary funds (Regional Parks Fund, Smith and Bybee Lakes Fund, and Regional Parks Special Accounts Fund) that are combined as one Special Revenue Fund to be in accordance with accounting principles generally accepted in the United States of America.

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

Capital Projects Fund - 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 fund is:

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

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 for which the earnings will be used to provide care for Pioneer Cemeteries under Metro's management.

Metro reports the following major proprietary funds:

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

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

Zoo Fund - This fund accounts for funding and operation of the Oregon Zoo. This fund consists of three budgetary funds (Zoo Operating Fund, Zoo Capital Fund, and General Revenue Bond Fund – Zoo) that are combined as one

Enterprise Fund to be in accordance with accounting principles generally accepted in the United States of America.

Metro also reports the following fund types:

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

Building Management Fund - This fund accounts for revenues and expenses related to the management of Metro's headquarters facility and parking structure. This fund consists of two budgetary funds (Building Management Fund and General Revenue Bond Fund - Building Management) that are combined as one Internal Service Fund to be in accordance with accounting principles generally accepted in the United States of America.

Support Services Fund - This fund accounts for central services provided to other Metro operating units. These central services consist of Finance, Business Support, Public Affairs/Creative Services, Office of Metro Attorney, and Office of the Auditor.

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

Fiduciary Fund - Metro's fiduciary fund accounts for resources received and held in a trustee capacity. Disbursements from this fund are made in accordance with the trust agreement or applicable legislative enactment for the fund. Metro's fiduciary fund is:

Rehabilitation and Enhancement Private Purpose Trust Fund - This fund accounts for resources legally held in trust for use by other governments and community committees devoted to rehabilitation and enhancement projects in the vicinity of various solid waste disposal facilities. All resources of the fund, including investment income may be used to support the committees' activities. No portion of the resources is required to be preserved as capital.

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

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Solid Waste Fund, Zoo Fund, and of the internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

4. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Cash and Investments

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

Receivables and Payables

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

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

Receivables are stated net of an allowance for uncollectibles.

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 2004 allocated indirect costs to grants at a rate of approximately 28% 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 certain long-term liabilities, revenue bonds and for operating contracts requiring segregated customer deposits 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 they are maintained in separate bank accounts and/or their use is limited by applicable bond covenants. Such restrictions include amounts for renewal and replacement, debt service, and the payment of the post-closure liability in the Solid Waste Enterprise Fund; and amounts for customer deposits, renewal and replacement, and construction of the OCC expansion in the MERC Component Unit Enterprise Fund.

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 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. Replacements exceeding $5,000 that improve or extend the lives of property are capitalized.

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

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

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

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

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets in the government-wide financial statements or proprietary fund types fund financial statements. Bond premiums, discounts, issuance costs and deferred amounts are amortized over the life of the bonds using straight-line or the effective interest method. Bonds payable are reported on the statement of net assets net of the unamortized portion of those costs.

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

Liability for Compensated Absences

Accumulated unpaid vacation benefits are accrued as earned in government-wide, proprietary, and fiduciary fund financial statements. Accumulated unpaid vacation benefits in the governmental fund types are recorded as expenditures to the extent they are expected to be liquidated with expendable available resources. Calculated amounts of vacation leave payable include salary-related payments associated with the leave, such as Metro's share of Social Security and Medicare taxes. Accumulated sick leave does not vest and is, therefore, recorded in all funds when leave is taken.

Fund Equity

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

RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

	Capital assets	Long-term liabilities
Capital assets	$149,609,586	-
Accumulated depreciation	(3,996,741)	-
Bonds payable (net of unamortized premium and deferred amount on refunding)	-	(156,196,074)
Accrued interest payable	-	(3,052,366)
Compensated absences	-	(738,868)
Net adjustment to fund balance-total governmental funds to arrive at net assets-governmental activities	$145,612,845	(159,987,308)

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

DEFICIT FUND EQUITY

The Building Management Fund had a deficit in total net assets of $516,279 as of June 30, 2004. Metro plans to cover the deficit through normal operations in future years.

DETAILED NOTES ON ALL FUNDS

1. CASH AND INVESTMENTS

Deposits

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

Investments

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

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

As of June 30, 2004, Metro had the following investments and maturities. Except for $123,418 of U.S. Treasuries, $14,529,838 of USGSE, and $11,038 of the State Treasurer's Investment Pool held by individual funds, all investments are in an internal investment pool.

		Investment Maturities (in months)		
Investment Type	Fair Value	Less than 3	3-17	18-59
Bankers' Acceptances	$ 2,001,397	2,001,397	-	-
U.S. Government securities - treasury	123,418	123,418	-	-
U.S. Government securities - USGSE	52,797,409	18,593,914	34,203,495	-
U.S. Government securities - USGSE (STRIPS)	2,161,689	-	2,161,689	-
State Treasurer's investment pool	35,404,166	35,404,166	-	-
Total	$92,488,079	56,122,895	36,365,184	-

Equity in internal cash and investment pool on the Statement of Activities includes pooled investments of $77,426,465 reported above. The MERC component unit participates in the internal investment pool of Metro; the OZF component unit does not.

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

Oregon Revised Statutes require investments to not exceed a maturity of 18 months, except when the local government has adopted a written investment policy that was submitted to and reviewed by the OSTFB.

Metro limits investment maturities as follows:

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

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

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

Concentration of Credit Risk - To avoid incurring unreasonable risks inherent in over-investing in specific instruments or in individual financial institutions, Metro's investment policy sets maximum limits on the percentage of the portfolio that can be invested in any one type of security. At June 30, 2004 Metro was in compliance with all percentage restrictions.

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

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

Issuer	Percentage of Total Investments (Total Entity Concentration)	Policy Allowed Maximum	Fund Concentrations Exceeding Total Entity Concentration: Debt Service Fund	Fund Concentrations Exceeding Total Entity Concentration: Capital Projects Fund
Federal Home Loan Bank (FHLB)	21.65%	40.00%	-	53.26%
Federal Home Loan Mortgage Corporation (FHLMC)	12.70%	40.00%	25.56%	26.60%
Federal Farm Credit Bank (FFCB)	8.00%	40.00%	25.68%	-
Federal National Mortgage Association (FNMA)	9.26%	40.00%	28.53%	17.69%

2. CAPITAL ASSETS

Primary Government

Capital asset activity for fiscal year 2004 was as follows:

	Balance July 1, 2003	Increases	Decreases	Transfers	Balance June 30, 2004
Governmental activities:					
Capital assets, non-depreciable:					
Land	$ 134,807,050	3,010,778	(54,083)	(62)	137,763,683
Total non-depreciable	134,807,050	3,010,778	(54,083)	(62)	137,763,683
Capital assets, depreciable:					
Buildings	23,794,816	618,969	(25,168)	26,378	24,414,995
Improvements	6,407,589	989,499	-	(26,316)	7,370,772
Equipment	1,288,961	25,520	(109,063)	(43,350)	1,162,068
Office furniture/equipment	3,819,596	291,566	(226,463)	43,350	3,928,049
Total depreciable	35,310,962	1,925,554	(360,694)	62	36,875,884
Accumulated depreciation:					
Buildings	(6,692,718)	(757,362)	3,393	(27,906)	(7,474,593)
Improvements	(1,181,967)	(420,935)	-	27,906	(1,574,996)
Equipment	(836,920)	(144,492)	106,783	34,223	(840,406)
Office furniture/equipment	(2,300,599)	(383,264)	194,487	(34,223)	(2,523,599)
Total accumulated depreciation	(11,012,204)	(1,706,053)	304,663	-	(12,413,594)
Total capital assets, depreciable, net	24,298,758	219,501	(56,031)	62	24,462,290
Governmental activities capital assets, net	$ 159,105,808	3,230,279	(110,114)	-	162,225,973

	Balance July 1, 2003	Increases	Decreases	Transfers	Balance June 30, 2004
Business-type activities:					
Capital assets, non-depreciable:					
Land	$ 6,623,293	-	-	-	6,623,293
Total non-depreciable	6,623,293	-	-	-	6,623,293
Capital assets, depreciable:					
Buildings and exhibits	105,022,614	6,417,438	(107,218)	706,190	112,039,024
Improvements	6,825,083	-	(20,103)	(613,646)	6,191,334
Equipment	4,962,773	168,174	(23,817)	44,835	5,151,965
Office furniture/equipment	339,287	23,255	(2,432)	(137,379)	222,731
Railroad equipment/facilities	11,404,989	-	-	-	11,404,989
Total depreciable	128,554,746	6,608,867	(153,570)	-	135,010,043
Accumulated depreciation:					
Buildings and exhibits	(27,959,979)	(3,065,676)	13,921	(172,806)	(31,184,540)
Improvements	(2,594,915)	(249,453)	904	87,927	(2,755,537)
Equipment	(2,499,558)	(453,335)	14,016	(16,858)	(2,955,735)
Office furniture/equipment	(251,153)	(29,042)	246	101,737	(178,212)
Railroad equipment/facilities	(10,940,681)	(76,136)	-	-	(11,016,817)
Total accumulated depreciation	(44,246,286)	(3,873,642)	29,087	-	(48,090,841)
Total capital assets, depreciable, net	84,308,460	2,735,225	(124,483)	-	86,919,202
Business-type activities capital assets, net	$ 90,931,753	2,735,225	(124,483)	-	93,542,495

An agreement between the City 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, 2004.

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

Governmental Activities:	
Regional planning and development	$ 144,022
Recreation and development	654,888
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	907,143
Total depreciation expense - governmental activities	$ 1,706,053
Business-type activities:	
Solid Waste	$ 1,664,808
Zoo	2,208,834
Total depreciation expense - business-type activities	$ 3,873,642

Discretely Presented Component Unit - MERC

Capital asset activity for the MERC component unit for fiscal year 2004 was as follows:

	Balance July 1, 2003	Increases	Decreases	Transfers	Balance June 30, 2004
Capital assets, non-depreciable:					
Land	$ 15,279,942	-	-	-	15,279,942
Total non-depreciable	15,279,942	-	-	-	15,279,942
Capital assets, depreciable:					
Buildings	232,746,373	1,517,672	(71,217)	(291,134)	233,901,694
Improvements	2,057,231	373,739	(1,962)	283,891	2,712,899
Equipment	2,822,411	448,343	(63,799)	10,515	3,217,470
Office furniture/equipment	4,757,250	19,234	(11,882)	(3,272)	4,761,330
Total depreciable	242,383,265	2,358,988	(148,860)	-	244,593,393
Accumulated depreciation:					
Buildings	(36,955,668)	(8,069,019)	20,522	(89,834)	(45,093,999)
Improvements	(370,242)	(95,607)	1,848	89,834	(374,167)
Equipment	(1,724,045)	(225,862)	63,240	(4,715)	(1,891,382)
Office furniture/equipment	(3,826,374)	(168,318)	8,387	4,715	(3,981,590)
Total accumulated depreciation	(42,876,329)	(8,558,806)	93,997	-	(51,341,138)
Total capital assets, depreciable, net	199,506,936	(6,199,818)	(54,863)	-	193,252,255
MERC capital assets, net	$ 214,786,878	(6,199,818)	(54,863)	-	208,532,197

Capital assets for the MERC component unit are those of Metro owned facilities. Capital assets used in operating the PCPA are not included in the statement of net assets of Metro or MERC as title to the assets remains with the City in accordance with an intergovernmental consolidation agreement. These capital assets will be included in the Comprehensive Annual Financial Report of the City.

3. 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, 2004 were:

	Deferred	Unearned
Delinquent property taxes-Debt Service Fund	$768,024	-
Grant and contract drawdowns prior to meeting all eligibility requirements-Planning Fund	-	1,416,121
Prepaid sponsorships and rent -Parks Fund	-	55,963
	$768,024	$1,472,084

4. 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.

5. PENSION PLAN

Defined Benefit Plan Description

Substantially all full-time employees, and other employees who meet certain eligibility requirements, are participants in the Oregon Public Employees Retirement System (PERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for political subdivisions in the State of Oregon.

PERS issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing to Oregon Public Employees Retirement System, P.O. Box 23700, Portland, Oregon 97281-3700 or by calling 1-888-320-7377.

Benefits vest after five years of continuous service. Retirement with unreduced benefits is allowed for employees at age 58, but retirement with reduced benefits is generally available after age 55. 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.

Funding Policy

The rate of employer contributions to PERS is determined periodically by PERS based on actuarial valuations performed at least every two years. Metro's required employer contribution rate is 7.14% of covered employees' salaries. 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 certain employees in conformance with its personnel policies. Some Metro and MERC employees are required to pay the 6% contribution. It is Metro's policy to recognize pension expenditures or expenses as currently funded.

Annual Pension Cost

For fiscal year 2004, Metro's annual pension cost of $2,605,657 was equal to Metro's required and actual contribution. In addition, Metro paid $1,866,699 for the 6% employee contribution as described above. The required employer contribution was determined as part of an actuarial valuation at December 31, 2001 using the actuarial entry age cost method. Significant actuarial assumptions used in the valuation include:

- Consumer price inflation of 3.5% per year,
- A rate of return on the investment of present and future assets of 8.0% per year,
- Projected salary increases of 4.25% per year attributable to general wage adjustments, with additional increases for promotion and longevity that may vary by age and service, and
- Projected automatic cost-of-living benefit increases of 2.0% per year.

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

Three year historical trend information:

Fiscal year ended June 30:	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2002	$3,105,877	100%	$ 0
2003	$3,243,554	100%	0
2004	$2,605,657	100%	0

Schedule of funding progress:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Percent	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/97	$50,010,247	$51,512,838	$ 1,502,591	97%	$29,175,599	05%
12/31/99	67,001,296	61,083,893	(5,917,403)	110	32,447,840	(18)
12/31/01	Pooled	Pooled	(26,103,570)	Pooled	34,576,920	(75)

The actuarial value of assets was determined by allocating the fair market value of all PERS assets to participating employers in proportion to the funds in each employer's account. Amortization of the UAAL is over a closed group fixed term of 26 years as a level percentage of projected annual payroll. 2001 is the most recent valuation available from the PERS actuaries.

The actuarial value of assets and actuarial accrued liability in the above trend information includes only the employer's portion in 1997. It includes the employer's, employees' and retirees' information for 1999 and 2001. Beginning January 1, 2000, Metro elected to participate with other Oregon state and local governments in a PERS rate pool as created by the Legislature.

The actuarial information included in the above table was prepared using recently enacted amendments to PERS. There is current litigation involving PERS benefits, and there will likely be litigation over PERS benefits in the future. The most widespread of the current actions involves the sustainability of the 2003 legislation, which will be reviewed by the Oregon Supreme Court. If the Supreme Court voids all or part of the 2003 legislation, it could have a significant impact on the actuarial information reported above.

6. COMMITMENTS

Columbia Ridge Landfill

Metro has a waste disposal services contract expiring December 31, 2014 with the owner and operator of the Columbia Ridge Landfill for disposal of solid waste from the Metro region. The contract requires a per ton unit price of $22.31 for the first 550,000 tons and a declining incremental price scale for each ton of waste in excess of 550,000 tons. The per ton rate is adjusted annually on July 1 to reflect changes in the Consumer Price Index (CPI).

Waste Transport

Solid waste transport from Metro facilities to the Columbia Ridge Landfill and other disposal sites is privately contracted through December 31, 2009. The contract specifies a per load unit price that equates to an approximate per ton rate of $14. 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. $2,860,174 of this payment is unamortized at June 30, 2004 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, were contracted through September 30, 2004. At the time of this report, an extension to March 31, 2005 and a new contract expiring March 31, 2010 are pending Council approval. The new agreement sets an annual payment for a fixed number of tons and a per ton price above the fixed tonnage for each facility. For Metro South, the fixed amount is $1,815,600 per year based on 17,000 tons of waste received each month and a price of $8.46 per ton in excess of 17,000 tons per month. For Metro Central these figures are $2,030,400 per year for 18,000 tons per month and $8.93 per ton. The contractor also receives incentives for materials recovered from the waste stream and not sent to the Columbia Ridge Landfill. The unit price is adjusted annually on July 1 in accordance with the CPI.

The following table presents approximate annual commitments based on forecasted refuse tons and a 3.2% annual inflation factor for all of the previously described contracts:

	Columbia Ridge Landfill	Waste Transport	Metro South	Metro Central
Fiscal year ending June 30:	Variable payment based on tons	Variable payment based on loads	Variable payment based on tons	Variable payment based on tons
2005	$ 10,219,160	6,979,353	2,673,445	3,268,154
2006	10,421,835	7,021,881	3,141,554	3,669,071
2007	10,788,175	7,421,161	3,330,449	3,897,040
2008	11,249,550	7,885,356	3,538,314	4,165,380
2009	11,693,537	8,383,641	3,745,828	4,428,756
Thereafter	77,489,709	4,425,416	2,927,814	3,472,026
Total	$131,861,966	42,116,808	19,357,404	22,900,427

Construction Projects

Metro is committed under a number of contracts for construction services. The amount of uncompleted contracts totals $801,322 in the primary government at June 30, 2004.

7. 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 $10,927 per month through October 31, 2004, and $11,184 per month thereafter.

The future minimum lease payments are as follows:

Fiscal year ending June 30:		Fiscal year ending June 30:		Fiscal year ending June 30:	
2005	$133,184	2020-24	$671,070	2055-59	$ 671,070
2006	134,214	2025-29	671,070	2060-64	671,070
2007	134,214	2030-34	671,070	2065-69	671,070
2008	134,214	2035-39	671,070	2070-74	671,070
2009	134,214	2040-44	671,070	2075-79	671,070
2010-14	671,070	2045-49	671,070	2080-84	581,594
2015-19	671,070	2050-54	671,070		
				Total	$10,646,614

8. BONDS PAYABLE

Governmental Activities

Open Spaces Program 1995 Series B General Obligation Bonds

In prior years, Metro issued Open Spaces Program General Obligation Bonds, of which the Series A and C bonds have been refunded. The 1995 Series B (Capital Appreciation) bonds, originally issued in the amount $5,219,923, remain on their original redemption schedule. The Open Spaces Bonds were issued by Metro under authority granted by voters for $135.6 million in general obligation bonds to finance land acquisition and capital improvements pursuant to Metro's Open Spaces Program. The program establishes a cooperative regional system of parks, natural areas, open spaces, trails and greenways for wildlife and people.

The bonds are to be repaid with proceeds of Metro's ad valorem property tax levied each year. Interest rates on the remaining Series B bonds range from 4.9% to 5.5%.

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

Fiscal year ending June 30:	1995 Series B Principal	1995 Series B Interest
2005	$ 325,155	174,845
2006	308,037	193,963
2007	288,945	211,055
2008	271,585	228,415
2009	254,775	245,225
2010-11	461,896	539,104
	$1,910,393	1,592,607

2002 Series General Obligation Refunding Bonds

In prior years, Metro sold $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 maturing after fiscal year 2004. The net proceeds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments until the bonds' optional redemption date of September 1, 2003, at which time all outstanding defeased bonds were called and paid and the escrow account for the defeasance was 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 4.0% to 5.25%.

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

Fiscal year ending June 30:	Principal	Interest
2005	$ 5,570,000	4,384,513
2006	5,795,000	4,157,212
2007	6,040,000	3,890,313
2008	6,350,000	3,580,562
2009	6,685,000	3,254,687
2010-14	40,520,000	10,637,138
2015-16	19,785,000	1,052,494
	$90,745,000	30,956,919

The above principal amounts are reported on the statement of net assets net of ($7,198,634) in unamortized costs and premium, and $4,822,953 in deferred amount on refunding.

2001 Series A General Obligation Refunding Bonds

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

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

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

Fiscal year ending June 30:	Principal	Interest
2005	$ 3,530,000	1,762,863
2006	3,695,000	1,621,664
2007	3,870,000	1,473,864
2008	4,065,000	1,309,389
2009	4,270,000	1,131,545
2010-13	19,635,000	2,360,380
	$39,065,000	9,659,705

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

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

The bonds are to be repaid with proceeds of Metro's ad valorem property tax levied each year. Interest rates range from 5.2% to 6.0% on various maturities, with an average interest cost for the entire issue of 5.3119%.

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

Fiscal year ending June 30:	Principal	Interest
2005	$ 1,215,000	1,212,510
2006	1,275,000	1,139,610
2007	1,345,000	1,063,110
2008	1,415,000	982,410
2009	1,490,000	908,830
2010-14	8,790,000	3,271,285
2015-17	6,570,000	736,175
	$22,100,000	9,313,930

Full Faith and Credit Refunding Bonds 2003 Series

On October 16, 2003, Metro sold $24,435,000 of Full Faith and Credit Refunding Bonds, 2003 Series to refund all outstanding maturities of Metro Regional Center Project 1993 Series A General Revenue Refunding Bonds and to prepay the callable portions of the outstanding 1995 and 1996 Oregon Economic and Community Development Department's (OECDD) Special Public Works Fund loans.

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

The refunding resulted in future debt service savings of $5,814,790 and an economic gain of $2,462,083.

The portion of bonds attributable to the refunding of the Metro Regional Center bonds is reported below. Those defeased bonds were called and paid at 101% on December 1, 2003. The portion of bonds attributable to the prepayment of the Zoo OECDD loans is reported in the *Business-type Activities* section of the note that follows.

Bond principal and interest outstanding at June 30 and the corresponding maturities on the 2003 Series pertaining to Metro Regional Center are as follows:

Fiscal year ending June 30:	Principal	Interest
2005	$ 815,000	695,314
2006	835,000	678,813
2007	840,000	662,064
2008	865,000	642,311
2009	885,000	619,342
2010-14	4,815,000	2,691,611
2015-19	5,765,000	1,767,050
2020-23	5,560,000	492,232
	$20,380,000	8,248,737

The above principal amounts are reported on the statement of net assets net of $139,944 in unamortized costs and discount, and $2,550,181 in deferred amount on refunding.

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, 2004.

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. In the previous fiscal year, 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 funds were used to purchase U.S. government securities that were deposited in an irrevocable trust with an escrow agent to provide for future debt service. As a result of these actions, the 1993 bonds and certain maturities of the 1990 bonds were considered defeased and the liability for those bonds was removed from the government-wide statement of net assets. On July 1, 2003, the refunded 1993 bonds were called and paid. At June 30, 2004, $1,070,000 of the defeased 1990 series bonds were outstanding.

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 range from 7.05% to 7.1% on the remaining 1990 Series A bonds and from 2.0% to 2.5% on the 2003 Series Refunding Revenue bonds.

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

	1990 Series A		2003 Series Refunding	
Fiscal year ending June 30:	Principal	Interest	Principal	Interest
2005	$1,070,000	-	65,000	116,413
2006	2,140,000	-	90,000	114,862
2007	2,140,000	-	95,000	113,013
2008	1,070,000	-	155,000	110,512
2009	-	-	2,265,000	83,481
2010	-	-	2,320,000	29,000
	$6,420,000	-	4,990,000	567,281

The above principal amounts are reported on the statement of net assets net of $147,168 in unamortized costs and discount, $690,097 in deferred amount on refunding, and $583,083 in unamortized accretion.

Metro/Riedel Oregon Compost Co. Project, Waste Disposal System Project Revenue Bonds

On June 20, 1990, Metro sold $5,000,000 of Waste Disposal Project Revenue Bonds 1990 Series 1 that mature on July 1, 2011. US Bank secures the bonds through an irrevocable direct-pay letter of credit. Metro is not legally obligated to make payments for debt service on the bonds that were issued as they were issued as non-recourse to Metro; however, Metro acts as a conduit for payments. Accordingly, the statement of net assets reflects the bonds payable and a loan receivable of $5,000,000 for amounts due from US Bank. As interest rates are variable, interest payments over the life of the bonds are not determinable.

Full Faith and Credit Refunding Bonds 2003 Series

The Full Faith and Credit Refunding Bonds 2003 Series are fully described in the *Governmental Activities* section of this Bonds Payable note above. The portion of the bond issue attributable to prepayment of the callable portions of the Zoo's outstanding 1995 and 1996 Oregon Economic and Community Development Department's (OECDD) Special Public Works Fund loans is reported here. The bonds are payable from all legally available taxes and other revenues of Metro. Interest rates on the bonds range from 2.0% to 4.4%.

Bond principal and interest outstanding at June 30 and the corresponding maturities on the 2003 Series pertaining to the Zoo are as follows:

Fiscal year ending June 30:	Principal	Interest
2005	$ 200,000	117,964
2006	290,000	113,064
2007	300,000	107,164
2008	305,000	100,161
2009	310,000	92,089
2010-14	1,700,000	317,462
2015-17	950,000	45,387
	$4,055,000	893,291

The above principal amounts are reported on the statement of net assets net of $36,646 in unamortized costs and discount, and $304,240 in deferred amount on refunding.

9. 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, 2004 was $106,844.

Oregon Economic and Community Development Department Loans

In prior years, Metro borrowed funds through the OECDD's Special Public Works Fund loan program to pay for Metro's share of the construction of the Washington Park light rail station and to finance certain costs of the Washington Park parking lot project. The callable portions of these outstanding 1995 and 1996 loans were prepaid when Metro issued Full Faith and Credit Refunding Bonds, 2003 Series in fiscal year 2004 as described in Note 8. The remaining outstanding balance on the 1996 loan at June 30, 2004 was $97,407.

In prior years, Metro obtained a loan for MERC from the OECDD to pay for the construction of a new building to replace the existing Hall D at the Expo Center. The original loan consists of $13,618,000 at a true interest cost of 5.524% for construction of the building and $2,013,000 at a true interest cost of 5.245% for infrastructure improvements. Expo Center revenues will be used to repay the loan in annual installments through December 1, 2024. The outstanding balance at June 30, 2004 was $14,838,827.

Local Improvement District Assessment Loan

In prior years, the City made a Local Improvement District (LID) assessment on MERC facilities for the construction of a pedestrian walkway across the Willamette River. The installment loan bears an interest rate of 5.32% and will be repaid by MERC in semi-annual installments through January 13, 2022. The outstanding balance at June 30, 2004 was $185,029.

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

Fiscal year ending June 30:	Primary Government: Governmental Activities: Energy Loan Payable Principal	Interest	Primary Government: Business-type Activities: OECDD 1996 Loan Payable Principal	Interest	MERC Component Unit: OECDD 2000 Loan Payable Principal	Interest	MERC Component Unit: LID Payable Principal	Interest
2005	$ 24,294	5,982	97,407	4,870	393,391	815,117	10,279	9,713
2006	28,055	4,429	-	-	420,670	794,464	10,279	9,166
2007	27,603	2,777	-	-	438,068	772,379	10,279	8,619
2008	26,892	796	-	-	465,591	749,380	10,279	8,072
2009	-	-	-	-	483,248	724,937	10,279	7,525
2010-14	-	-	-	-	2,861,953	3,206,324	51,398	29,424
2015-19	-	-	-	-	3,737,380	2,331,728	51,398	15,753
2020-24	-	-	-	-	4,888,250	1,176,453	30,838	2,889
2025	-	-	-	-	1,150,276	64,703	-	-
	$106,844	13,984	97,407	4,870	14,838,827	10,635,485	185,029	91,161

10. CHANGES IN LONG-TERM LIABILITIES

Primary Government

The following changes occurred during fiscal year 2004 in long-term liabilities:

	July 1, 2003	Additions	Reductions	June 30, 2004	One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	$ 165,364,313	-	(11,543,920)	153,820,393	10,640,155
Revenue bonds	22,070,000	20,380,000	(22,070,000)	20,380,000	815,000
Less deferred amounts:					
For issuance costs and premium or discount	7,409,348	(145,425)	(205,233)	7,058,690	-
On refunding	(6,924,110)	(1,006,446)	557,422	(7,373,134)	-
Total bonds payable	187,919,551	19,228,129	(33,261,731)	173,885,949	11,455,155
Loans payable	129,694	-	(22,850)	106,844	24,294
Capital leases payable	75,135	-	(75,135)	-	-
Compensated absences	1,064,436	1,190,424	(1,064,436)	1,190,424	929,013
Governmental activity Long-term liabilities	$ 189,188,816	20,418,553	(34,424,152)	175,183,217	12,408,462
Business-type activities:					
Bonds payable:					
Revenue bonds	$ 16,410,000	4,055,000	-	20,465,000	648,884
Less deferred amounts:					
For accretion	(922,339)	-	339,256	(583,083)	-
For issuance costs and premium or discount	(176,601)	(38,367)	31,154	(183,814)	-
On refunding	(828,117)	(318,533)	152,313	(994,337)	-
Total bonds payable	14,482,943	3,698,100	522,723	18,703,766	648,884
Loans payable	4,011,819	-	(3,914,412)	97,407	97,407
Compensated absences	992,894	1,094,355	(992,894)	1,094,355	872,772
Business-type activity Long-term liabilities	$ 19,487,656	4,792,455	(4,384,583)	19,895,528	1,619,063

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

Discretely Presented Component Unit - MERC

The following changes occurred during fiscal year 2004 in long-term liabilities:

		Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Due Within One Year
Loans payable	$	15,332,116	-	(308,260)	15,023,856	403,670
Compensated absences		449,102	505,432	(449,102)	505,432	406,162
Component unit activity Long-term liabilities	$	15,781,218	505,432	(757,362)	15,529,288	809,832

11. ARBITRAGE PAYABLE

Under certain conditions, the Tax Reform Act of 1986 requires governmental units to remit excess arbitrage earnings arising from invested bond proceeds to the Internal Revenue Service. At June 30, 2004, Metro recorded a liability of $17,724 in the financial statements for such estimated excess arbitrage earnings.

12. 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 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 $785,137 in closure costs as the closure process continued ($37,498,582 cumulative to date), reducing the remaining estimated liability to $3,895,319 at June 30, 2004. Metro has accumulated $7,044,418 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.

13. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund balances at June 30, 2004 consisted of:

Due to/from primary government and component units:

Receivable Entity	Payable Entity	Amount
Primary Government-governmental activities	MERC Component Unit	$3,296,871

Interfund transfers for the fiscal year were:

	Transfers in				
Transfers out	Planning Fund	Parks Fund	Cemetery Perpetual Care Fund	Internal service funds	Total
General Fund	$4,272,311	2,692,030	-	42,755	7,007,096
Parks Fund	-	-	89,438	-	89,438
Open Spaces Fund	-	2,500	-	-	2,500
Total	$4,272,311	2,694,530	89,438	42,755	7,099,034

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. The majority of the transfers represent General Fund excise tax transferred to support programs in other funds.

14. INSURED RISKS

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

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

- Property damage to Metro-owned facilities: this risk is covered with a commercial primary, all risk property insurance policy. The property coverage is in the amount of $439,599,391 with a $100,000 deductible.

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

Metro has not experienced settlements in excess of insurance coverage in any of the last three fiscal years. An independent actuary prepared an actuarial valuation and estimates of liabilities for unpaid claims in December 2003. 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 $990,481 reported as accrued self-insurance claims in the Risk Management Fund at June 30, 2004 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, with the actuary using a discount factor of .971 for liability and .987 for workers' compensation and an assumed investment rate of 1.5% in preparing the estimates. Metro does not purchase annuity contracts from commercial insurers to pay any aggregate amount of outstanding claims liabilities.

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

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Fiscal Year Liability
2002-2003	$791,795	946,395	827,175	911,015
2003-2004	$911,015	928,698	849,232	990,481

15. 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. However, should costs be disallowed on a grant for which Metro acts in a pass-through capacity, Metro should be able to require repayment of amounts disallowed from the subgrantees.

Legal Matters

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

Supplementary Information

Metro

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

Major Governmental Funds
Required Supplementary Information

General Fund

Special Revenue Funds

Planning Fund

Regional Parks Fund
Smith and Bybee Lakes Fund
Regional Parks Special Accounts Fund

METRO

General Fund

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

For the year ended June 30, 2004

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with final budget positive (negative)
Revenues:				
Program revenues:				
Charges for services:				
Culture and recreation fees	$ -	-	70	70
Miscellaneous revenue	-	-	9,400	9,400
Operating grants and contributions:				
Grants	-	-	10,000	10,000
General revenues:				
Taxes:				
Excise taxes	10,019,954	10,019,954	10,506,081	486,127
Investment income	25,000	25,000	20,161	(4,839)
Total revenues	10,044,954	10,044,954	10,545,712	500,758
Expenditures:				
Council Office/Public Affairs:				
Operating expenses	1,996,482	2,052,552	1,647,945	404,607
Special appropriations:				
Operating expenses	340,000	340,000	271,545	68,455
Contingency	500,000	443,930	-	443,930
Total expenditures	2,836,482	2,836,482	1,919,490	916,992
Revenues over expenditures	7,208,472	7,208,472	8,626,222	1,417,750
Other financing sources (uses):				
Transfers in	248,114	248,114	229,047	(19,067)
Transfers out	(8,041,194)	(8,041,194)	(7,942,103)	99,091
Total other financing sources (uses)	(7,793,080)	(7,793,080)	(7,713,056)	80,024
Revenues and other sources over (under) expenditures and other uses	(584,608)	(584,608)	913,166	1,497,774
Beginning fund balance available for appropriation - July 1, 2003	1,277,550	1,277,550	1,648,753	371,203
Unappropriated ending fund balance - June 30, 2004	$ 692,942	692,942	2,561,919	1,868,977

METRO

Planning Fund

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

For the year ended June 30, 2004

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with final budget positive (negative)
Revenues:				
Program revenues:				
Charges for services:				
Government fees	$ 5,000	5,000	242,391	237,391
Other fees	472,480	472,480	240,569	(231,911)
Internal charges for services	66,000	66,000	746	(65,254)
Miscellaneous revenue	14,536	14,536	2,131	(12,405)
Operating grants and contributions:				
Grants	12,895,064	12,895,064	6,340,907	(6,554,157)
General revenues:				
Local government shared revenue	-	-	18,920	18,920
Investment income	-	-	44,818	44,818
Total revenues	13,453,080	13,453,080	6,890,482	(6,562,598)
Expenditures:				
Operating expenses	15,755,770	15,823,729	8,396,115	7,427,614
Capital outlay	54,200	54,200	44,652	9,548
Debt service	44,212	44,212	44,212	-
Contingency	369,499	301,540	-	301,540
Total expenditures	16,223,681	16,223,681	8,484,979	7,738,702
Revenues under expenditures	(2,770,601)	(2,770,601)	(1,594,497)	1,176,104
Other financing sources (uses):				
Transfers in	4,643,456	4,643,456	4,759,052	115,596
Interfund loan	(106,100)	(106,100)	(101,248)	4,852
Transfers out	(2,331,186)	(2,331,186)	(2,057,398)	273,788
Total other financing sources (uses)	2,206,170	2,206,170	2,600,406	394,236
Revenues and other sources over (under) expenditures and other uses	(564,431)	(564,431)	1,005,909	1,570,340
Beginning fund balance available for appropriation - July 1, 2003	654,431	654,431	1,950,893	1,296,462
Unappropriated ending fund balance - June 30, 2004	$ 90,000	90,000	2,956,802	2,866,802

Reconciliation to GAAP basis:	
Cumulative effect of budget to GAAP differences from prior years	(100,000)
Interfund loan use is not expenditure for financial reporting purposes	100,000
Fund balance as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds	2,956,802

Regional Parks Fund

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

For the year ended June 30, 2004

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with final budget positive (negative)
Revenues:				
Program revenues:				
Charges for services:				
Government fees	$ 6,000	6,000	1,728	(4,272)
Culture and recreation fees	1,172,726	1,172,726	1,202,484	29,758
Other fees	1,279,937	1,279,937	1,311,230	31,293
Miscellaneous revenue	11,500	11,500	29,639	18,139
Operating grants and contributions:				
Grants	698,353	698,353	295,090	(403,263)
Government contributions	45,300	45,300	41,508	(3,792)
Contributions and donations	232,340	232,340	338,948	106,608
General revenues:				
Local government shared revenue	414,361	414,361	457,594	43,233
Investment income	58,998	58,998	47,777	(11,221)
Total revenues	3,919,515	3,919,515	3,725,998	(193,517)
Expenditures:				
Operating expenses	5,066,632	5,066,632	4,717,846	348,786
Capital outlay	924,711	1,099,711	1,039,812	59,899
Contingency	261,390	86,390	-	86,390
Total expenditures	6,252,733	6,252,733	5,757,658	495,075
Revenues under expenditures	(2,333,218)	(2,333,218)	(2,031,660)	301,558
Other financing sources (uses):				
Transfers in	3,168,349	3,168,349	3,056,541	(111,808)
Transfers out	(1,294,707)	(1,294,707)	(1,142,791)	151,916
Total other financing sources (uses)	1,873,642	1,873,642	1,913,750	40,108
Revenues and other sources under expenditures and other uses	(459,576)	(459,576)	(117,910)	341,666
Beginning fund balance available for appropriation - July 1, 2003	3,158,426	3,158,426	3,596,811	438,385
Unappropriated ending fund balance - June 30, 2004	$ 2,698,850	2,698,850	3,478,901	780,051

Reconciliation to GAAP basis:	
Smith and Bybee Lakes Fund budgetary fund balance from page 95	3,631,588
Regional Parks Special Accounts Fund budgetary fund balance from page 96	409,337
Parks Fund fund balance as reported on the statement of revenues, expenditures and changes in fund balances-governmental funds	7,519,826

METRO

Smith and Bybee Lakes Fund

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

For the year ended June 30, 2004

	Budgeted Amounts		Actual	Variance with final budget
	Original	Final	Amounts	positive (negative)
Revenues:				
Program revenues:				
Charges for services:				
Culture and recreation fees	$ -	-	1,301	1,301
Other fees	1,500	1,500	551	(949)
Operating grants and contributions:				
Grants	128,570	128,570	400,620	272,050
Government contributions	363,000	363,000	63,000	(300,000)
Contributions and donations	438,500	438,500	77,853	(360,647)
General revenues:				
Investment income	71,136	71,136	45,024	(26,112)
Total revenues	1,002,706	1,002,706	588,349	(414,357)
Expenditures:				
Operating expenses	231,470	231,470	128,160	103,310
Capital outlay	1,100,070	1,100,070	594,237	505,833
Contingency	9,817	9,817	-	9,817
Total expenditures	1,341,357	1,341,357	722,397	618,960
Revenues under expenditures	(338,651)	(338,651)	(134,048)	204,603
Other financing sources (uses):				
Transfers in	380,337	380,337	206,543	(173,794)
Transfers out	(52,412)	(52,412)	(48,803)	3,609
Total other financing sources (uses)	327,925	327,925	157,740	(170,185)
Revenues and other sources over (under) expenditures and other uses	(10,726)	(10,726)	23,692	34,418
Beginning fund balance available for appropriation - July 1, 2003	3,601,998	3,601,998	3,607,896	5,898
Unappropriated ending fund balance - June 30, 2004	$ 3,591,272	3,591,272	3,631,588	40,316

METRO

Regional Parks Special Accounts Fund

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

For the year ended June 30, 2004

		Budgeted Amounts		Actual	Variance with final budget positive
		Original	Final	Amounts	(negative)
Revenues:					
Program revenues:					
Charges for services:					
Culture and recreation fees	$	2,000	2,000	175	(1,825)
General revenues:					
Investment income		9,409	9,409	5,555	(3,854)
Total revenues		11,409	11,409	5,730	(5,679)
Expenditures:					
Operating expenses		100	100	-	100
Total expenditures		100	100	-	100
Revenues over expenditures		11,309	11,309	5,730	(5,579)
Other financing uses:					
Transfers out		(93,993)	(93,993)	(89,438)	4,555
Revenues under expenditures and other uses		(82,684)	(82,684)	(83,708)	(1,024)
Beginning fund balance available for appropriation - July 1, 2003		437,134	437,134	493,045	55,911
Unappropriated ending fund balance - June 30, 2004	$	354,450	354,450	409,337	54,887

METRO

Notes to Required Supplementary Information

For the Year Ended June 30, 2004

BUDGETARY INFORMATION

1. BUDGETS

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

Primary Government
Planning Fund
Regional Parks Fund
Smith and Bybee Lakes Fund
Regional Parks Special Accounts Fund
General Obligation Bond Debt Service Fund
Open Spaces Fund
Cemetery Perpetual Care Fund
Zoo Operating Fund
Zoo Capital Fund
Rehabilitation and Enhancement Fund
Building Management Fund
Risk Management Fund

MERC Component Unit
MERC Operating Fund
Convention Center Project Capital Fund
MERC Pooled Capital Fund

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

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

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

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

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

Metro adopted eight budget amendments during the year ended June 30, 2004. The amount of such amendments was not significant.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2004, expenditures exceeded appropriations in the General Revenue Bond Fund due to the refunding of Metro Regional Center Project bonds and OECDD loans. Expenditures to the escrow agent exceeded appropriations in the Solid Waste Revenue Fund related to the refunding of revenue bonds. Oregon Budget Law (ORS 294.483) provides an exemption for overexpenditures in these situations.

Expenditures also exceeded appropriations in the Risk Management Fund where a liability for enviromental impairment exposures was calculated and recorded for the first time.

3. RECONCILIATION OF BASIS OF BUDGETING TO GAAP BASIS

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

Internal Service Funds

Building Management Fund

This fund accounts for revenues and expenses related to the management of Metro's headquarters facility and parking structure. Principal sources of revenue are investment income and charges for services to user funds. Expenses primarily consist of maintenance, utilities and professional services costs. This fund consists of two budgetary funds (Building Management Fund and General Revenue Bond Fund - Building Management) that are combined as one Internal Service Fund to be in accordance with accounting principles generally accepted in the United States of America.

Support Services Fund

This fund accounts for central services provided to other Metro operating units. These central services consist of Finance, Business Support, Public Affairs/Creative Services, Office of Metro Attorney, and Office of the Auditor. Primary sources of revenue are investment income and charges for services to user funds, established through a cost allocation plan that distributes the central services costs based upon the benefit received.

Risk Management Fund

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

METRO

Combining Statement of Net Assets
Internal Service Funds

June 30, 2004

Assets	Building Management Fund	Support Services Fund	Risk Management Fund	Total
Current assets:				
Equity in internal cash and investment pool	$ 2,245,699	1,941,466	6,121,604	10,308,769
Other receivables	37,540	187	-	37,727
Interest receivable	9,510	8,707	25,267	43,484
Other assets	932	11,416	-	12,348
Total current assets	2,293,681	1,961,776	6,146,871	10,402,328
Noncurrent assets:				
Restricted investments	-	-	347,156	347,156
Capital assets, net	15,346,327	1,266,801	-	16,613,128
Total noncurrent assets	15,346,327	1,266,801	347,156	16,960,284
Total assets	17,640,008	3,228,577	6,494,027	27,362,612
Liabilities				
Current liabilities:				
Accounts payable	46,147	434,585	176,894	657,626
Salaries, withholdings and payroll taxes payable	15,911	372,120	15,719	403,750
Accrued interest payable	293,110	-	-	293,110
Accrued self-insurance claims	-	-	990,481	990,481
Bonds payable-current	815,000	-	-	815,000
Loans payable-current	24,294	-	-	24,294
Compensated absences-current	-	352,704	-	352,704
Other liabilities	4,400	7,554	-	11,954
Total current liabilities	1,198,862	1,166,963	1,183,094	3,548,919
Noncurrent liabilities:				
Environmental impairment liability	-	-	5,225,000	5,225,000
Bonds payable (net of unamortized discount and deferred amount on refunding)	16,874,875	-	-	16,874,875
Loans payable	82,550	-	-	82,550
Compensated absences	-	98,852	-	98,852
Total noncurrent liabilities	16,957,425	98,852	5,225,000	22,281,277
Total liabilities	18,156,287	1,265,815	6,408,094	25,830,196
Net Assets				
Invested in capital assets, net of related debt	(2,450,392)	1,266,801	-	(1,183,591)
Unrestricted	1,934,113	695,961	85,933	2,716,007
Total net assets	$ (516,279)	1,962,762	85,933	1,532,416

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

METRO

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Internal Service Funds

For the year ended June 30, 2004

	Building Management Fund	Support Services Fund	Risk Management Fund	Total
Operating revenues:				
Charges for services	$ 535,269	492,456	21,947	1,049,672
Internal charges for services	1,775,155	8,679,232	5,980,194	16,434,581
Total operating revenues	2,310,424	9,171,688	6,002,141	17,484,253
Operating expenses:				
Payroll and fringe benefits	274,944	6,617,649	388,932	7,281,525
Depreciation and amortization	555,397	351,746	-	907,143
Administrative expenses	-	589,782	-	589,782
Payments to other governments	-	299,553	-	299,553
Insurance expense	-	-	5,335,635	5,335,635
Claims expense	-	-	849,232	849,232
Actuarial claims expense	-	-	5,304,466	5,304,466
Other materials and services	512,428	1,134,133	143,612	1,790,173
Total operating expenses	1,342,769	8,992,863	12,021,877	22,357,509
Operating income (loss)	967,655	178,825	(6,019,736)	(4,873,256)
Non-operating revenues (expenses):				
Grants	-	5,000	-	5,000
Investment income	33,512	24,527	87,105	145,144
Loss on disposal of capital assets	(15,428)	(31,976)	-	(47,404)
Interest expense	(730,205)	(1,623)	-	(731,828)
Total non-operating revenues (expenses)	(712,121)	(4,072)	87,105	(629,088)
Income (loss) before transfers	255,534	174,753	(5,932,631)	(5,502,344)
Transfers in	-	42,755	-	42,755
Change in net assets	255,534	217,508	(5,932,631)	(5,459,589)
Total net assets - July 1, 2003	(771,813)	1,745,254	6,018,564	6,992,005
Total net assets - June 30, 2004	$ (516,279)	1,962,762	85,933	1,532,416

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

Combining Statement of Cash Flows
Internal Service Funds

For the year ended June 30, 2004

	Building Management Fund	Support Services Fund	Risk Management Fund	Total
Cash flows from operating activities:				
Receipts from customers	$ 525,885	470,112	4,980,192	5,976,189
Receipts from interfund services provided	1,775,155	8,679,232	1,000,002	11,454,389
Other operating receipts	-	24,344	21,947	46,291
Payments to suppliers for goods and services	(502,038)	(1,204,178)	(5,346,998)	(7,053,214)
Payments for claims	-	-	(849,232)	(849,232)
Payments to other governments	-	(299,553)	-	(299,553)
Payments to employees for services	(272,146)	(6,560,238)	(464,139)	(7,296,523)
Payments for interfund services used	-	(589,782)	-	(589,782)
Net cash provided by (used in) operating activities	1,526,856	519,937	(658,228)	1,388,565
Cash flows from noncapital financing activities:				
Grants received	-	5,000	-	5,000
Transfer from other funds	-	42,755	-	42,755
Net cash provided by noncapital financing activities	-	47,755	-	47,755
Cash flows from capital and related financing activities:				
Proceeds from revenue bonds	20,372,019	-	-	20,372,019
Principal payment on revenue bonds	(22,070,000)	-	-	(22,070,000)
Interest payments	(770,729)	(1,623)	-	(772,352)
Refunding costs	(716,613)	-	-	(716,613)
Acquisition and construction of capital assets	-	(246,913)	-	(246,913)
Principal payments on loans	(22,850)	-	-	(22,850)
Principal payments on capital leases	-	(32,997)	-	(32,997)
Net cash used in capital and related financing activities	(3,208,173)	(281,533)	-	(3,489,706)
Cash flows from investing activities:				
Investment income	28,919	20,191	76,253	125,363
Proceeds from sale of investments	3,880,331	-	360,062	4,240,393
Purchase of investments	(2,058,852)	-	(347,156)	(2,406,008)
Net cash provided by investing activities	1,850,398	20,191	89,159	1,959,748
Net increase (decrease) in cash	169,081	306,350	(569,069)	(93,638)
Cash at beginning of year	2,076,618	1,635,116	6,690,673	10,402,407
Cash at end of year	$ 2,245,699	1,941,466	6,121,604	10,308,769

(Continued)

METRO

Combining Statement of Cash Flows, Continued
Internal Service Funds

For the year ended June 30, 2004

	Building Management Fund	Support Services Fund	Risk Management Fund	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	$ 967,655	178,825	(6,019,736)	(4,873,256)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	555,397	351,746	-	907,143
Change in assets and liabilities:				
Trade/other accounts receivable	(9,384)	380	-	(9,004)
Other assets	(932)	10,083	-	9,151
Accounts payable	11,322	(82,706)	132,249	60,865
Salaries, withholdings and payroll taxes payable/compensated absences	2,798	57,411	(75,207)	(14,998)
Accrued self-insurance claims	-	-	79,466	79,466
Accrued environmental impairment liability	-	-	5,225,000	5,225,000
Other liabilities	-	4,198	-	4,198
Total adjustments	559,201	341,112	5,361,508	6,261,821
Net cash provided by (used in) operating activities	$ 1,526,856	519,937	(658,228)	1,388,565
Noncash investing, capital, and financing activities:				
Investment income relating to the change in the fair value of investments	$ (2,789)	(3,625)	(13,559)	(19,973)

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

Budgetary Comparison Schedules

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

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

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

Other Major Governmental Funds

Debt Service Fund

General Obligation Bond Debt Service Fund.

Capital Projects Fund

Open Spaces Fund

Permanent Fund

Cemetery Perpetual Care Fund

METRO

General Obligation Bond Debt Service Fund

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

For the year ended June 30, 2004

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with final budget positive (negative)
Revenues:				
General revenues:				
Taxes:				
Property taxes	$ 17,363,870	17,363,870	17,536,825	172,955
Investment income	200,000	200,000	46,749	(153,251)
Total revenues	17,563,870	17,563,870	17,583,574	19,704
Expenditures:				
Debt service:				
Principal	11,543,920	11,543,920	11,543,920	-
Interest	8,004,307	8,004,307	8,004,304	3
Total expenditures	19,548,227	19,548,227	19,548,224	3
Revenues under expenditures	(1,984,357)	(1,984,357)	(1,964,650)	19,707
Beginning fund balance available for appropriation - July 1, 2003	11,790,000	11,790,000	12,292,783	502,783
Unappropriated ending fund balance - June 30, 2004	$ 9,805,643	9,805,643	10,328,133	522,490

METRO

Open Spaces Fund

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

For the year ended June 30, 2004

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with final budget positive (negative)
Revenues:				
Program revenues:				
Charges for services:				
Other fees	$ -	-	65,423	65,423
Miscellaneous revenue	-	-	54,503	54,503
Operating grants and contributions:				
Grants	200,000	200,000	14,875	(185,125)
General revenues:				
Investment income	85,000	85,000	56,622	(28,378)
Total revenues	285,000	285,000	191,423	(93,577)
Expenditures:				
Operating expenses	2,633,260	2,633,260	1,491,491	1,141,769
Capital outlay	5,137,300	5,137,300	1,882,376	3,254,924
Contingency	250,000	250,000	-	250,000
Total expenditures	8,020,560	8,020,560	3,373,867	4,646,693
Revenues under expenditures	(7,735,560)	(7,735,560)	(3,182,444)	4,553,116
Other financing sourcs (uses):				
Transfers in	-	-	4,657	4,657
Transfers out	(1,009,078)	(1,009,078)	(672,705)	336,373
Total other financing sources (uses)	(1,009,078)	(1,009,078)	(668,048)	341,030
Revenues and other sources under expenditures and other uses	(8,744,638)	(8,744,638)	(3,850,492)	4,894,146
Beginning fund balance available for appropriation - July 1, 2003	10,851,057	10,851,057	9,415,427	(1,435,630)
Unappropriated ending fund balance - June 30, 2004	$ 2,106,419	2,106,419	5,564,935	3,458,516

METRO

Cemetery Perpetual Care Fund

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

For the year ended June 30, 2004

		Budgeted Amounts		Actual	Variance with final budget positive
		Original	Final	Amounts	(negative)
Revenues:					
General revenues:					
Taxes:					
Cemetery revenue surcharge	$	18,090	18,090	33,086	14,996
Investment income		1,500	1,500	760	(740)
Total revenues		19,590	19,590	33,846	14,256
Expenditures:					
Operating expenses		-	-	-	-
Total expenditures		-	-	-	-
Revenues over expenditures		19,590	19,590	33,846	14,256
Other financing sources:					
Transfers in		93,993	93,993	89,438	(4,555)
Revenues and other sources over expenditures		113,583	113,583	123,284	9,701
Beginning fund balance available for appropriation - July 1, 2003		-	-	-	-
Unappropriated ending fund balance - June 30, 2004	$	113,583	113,583	123,284	9,701

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

Proprietary Funds

Solid Waste Revenue Fund

Zoo Operating Fund
Zoo Capital Fund

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

METRO

Solid Waste Revenue Fund

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

For the year ended June 30, 2004

	Budgeted Amounts		Actual	Variance with final budget positive
	Original	Final	Amounts	(negative)
Revenues:				
Program revenues:				
Charges for services:				
Government fees	$ 400,950	400,950	615,068	214,118
Culture and recreation fees	3,194	3,194	4,719	1,525
Solid waste fees	48,942,009	48,942,009	49,422,316	480,307
Other fees	250,000	250,000	198,650	(51,350)
Miscellaneous revenue	365,000	365,000	109,650	(255,350)
Operating grants and contributions:				
Grants	-	-	82,389	82,389
General revenues:				
Investment income	678,896	678,896	374,728	(304,168)
Total revenues	50,640,049	50,640,049	50,807,520	167,471
Expenditures:				
Operating Account:				
Operating expenses	43,847,707	43,847,707	41,332,936	2,514,771
Landfill Closure Account:				
Operating expenses	192,400	192,400	67,165	125,235
Capital outlay	1,008,200	1,008,200	717,972	290,228
Total Landfill Closure Account	1,200,600	1,200,600	785,137	415,463
Recycling Business Assistance Account:				
Operating expenses	700,000	700,000	-	700,000
Renewal and Replacement Account:				
Capital outlay	2,899,000	2,899,000	1,789,615	1,109,385
General Account:				
Capital outlay	915,000	1,365,000	1,117,697	247,303

(Continued)

METRO

Solid Waste Revenue Fund

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

For the year ended June 30, 2004

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with final budget positive (negative)
Expenditures, continued:				
Master Project Account:				
Debt service	$ 350,000	350,000	58,390	291,610
Debt Service Account:				
Debt service	1,511,427	1,511,427	69,587	1,441,840
Contingency	11,358,338	10,908,338	-	10,908,338
Total expenditures	62,782,072	62,782,072	45,153,362	17,628,710
Revenues over (under) expenditures	(12,142,023)	(12,142,023)	5,654,158	17,796,181
Other financing sources (uses):				
Transfers in	23,923	23,923	23,923	-
Interfund loan	106,100	106,100	101,248	(4,852)
Payment to refunded bond escrow agent	-	-	(4,027,695)	(4,027,695)
Transfers out	(4,209,801)	(4,209,801)	(3,835,945)	373,856
Total other financing sources (uses)	(4,079,778)	(4,079,778)	(7,738,469)	(3,658,691)
Revenues and other sources under expenditures and other uses	(16,221,801)	(16,221,801)	(2,084,311)	14,137,490
Beginning fund balance available for appropriation - July 1, 2003	31,239,138	31,239,138	34,800,955	3,561,817
Unappropriated ending fund balance - June 30, 2004	$ 15,017,337	15,017,337	32,716,644	17,699,307

METRO

Zoo Operating Fund

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

For the year ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with final budget positive (negative)
	Original	Final		
Revenues:				
Program revenues:				
Charges for services:				
Culture and recreation fees	$ 12,213,876	12,213,876	11,910,352	(303,524)
Other fees	900,149	900,149	788,400	(111,749)
Miscellaneous revenue	29,756	29,756	117,176	87,420
Operating grants and contributions:				
Grants	-	-	136,086	136,086
Contributions and donations	1,232,000	1,232,000	743,943	(488,057)
General revenues:				
Taxes:				
Real property taxes	8,822,490	8,822,490	8,619,927	(202,563)
Investment income	104,045	104,045	97,725	(6,320)
Total revenues	23,302,316	23,302,316	22,413,609	(888,707)
Expenditures:				
Operating expenses	20,384,417	20,634,673	19,650,020	984,653
Capital outlay	268,600	268,600	89,323	179,277
Contingency	1,000,000	749,744	-	749,744
Total expenditures	21,653,017	21,653,017	19,739,343	1,913,674
Revenues over expenditures	1,649,299	1,649,299	2,674,266	1,024,967
Other financing uses:				
Transfers out	(2,600,295)	(2,600,295)	(2,272,946)	327,349
Revenues over (under) expenditures and other uses	(950,996)	(950,996)	401,320	1,352,316
Beginning fund balance available for appropriation - July 1, 2003	5,202,233	5,202,233	5,902,062	699,829
Unappropriated ending fund balance - June 30, 2004	$ 4,251,237	4,251,237	6,303,382	2,052,145

METRO

Zoo Capital Fund

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

For the year ended June 30, 2004

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with final budget positive (negative)
Revenues:				
Program revenues:				
Charges for services:				
Miscellaneous revenue	$ -	-	3,114	3,114
Operating grants and contributions:				
Contributions and donations	2,000,000	2,000,000	-	(2,000,000)
Capital grants and contributions:				
Capital contributions and donations	-	-	1,763,235	1,763,235
General revenues:				
Investment income	122,213	122,213	79,143	(43,070)
Total revenues	2,122,213	2,122,213	1,845,492	(276,721)
Expenditures:				
Operating expenses	61,819	96,819	96,063	756
Capital outlay	4,777,862	4,742,862	3,516,169	1,226,693
Contingency	500,000	500,000	-	500,000
Total expenditures	5,339,681	5,339,681	3,612,232	1,727,449
Revenues under expenditures	(3,217,468)	(3,217,468)	(1,766,740)	1,450,728
Beginning fund balance available for appropriation - July 1, 2003	6,110,661	6,110,661	6,407,568	296,907
Unappropriated ending fund balance - June 30, 2004	$ 2,893,193	2,893,193	4,640,828	1,747,635

METRO

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

For the year ended June 30, 2004

	Solid Waste Fund	Zoo Fund	Total
Excess of revenues and other financing sources over (under) expenditures and other financing uses on the basis of budgeting:			
Solid Waste Revenue Fund	$ (2,084,311)	-	(2,084,311)
Zoo Operating Fund	-	401,320	401,320
Zoo Capital Fund	-	(1,766,740)	(1,766,740)
General Revenue Bond Fund - Zoo	-	2,184	2,184
Budget resources not qualifying as revenues under GAAP:			
Bond proceeds and discount	-	(4,053,412)	(4,053,412)
Proceeds from sale of capital assets	-	(36,275)	(36,275)
Interfund loan repayment	(100,000)	-	(100,000)
Budget requirements not qualifying as expenses under GAAP:			
Payment of post-closure liability	785,137	-	785,137
Fixed assets additions	2,907,312	3,701,555	6,608,867
Principal and interest payments on bonds	16,202	-	16,202
Principal and interest payments on loans	-	231,782	231,782
Payment to refunded bond escrow agent	4,027,695	4,016,632	8,044,327
Costs of refunding	-	36,780	36,780
Additional revenues (expenses) required by GAAP:			
Tax revenue earned but not available	-	(14,584)	(14,584)
Depreciation and amortization	(1,664,808)	(2,208,834)	(3,873,642)
Loss on disposal of capital assets	-	(88,208)	(88,208)
Amortization of bond accretion, discount and costs	(506,708)	(16,015)	(522,723)
Reduction in interest payable due to refunding	-	112,285	112,285
Amortization of prepaid item	(628,944)	-	(628,944)
Vacation benefits	(51,889)	(49,574)	(101,463)
Accrued interest on bonds	(63,677)	(52,826)	(116,503)
Change in net assets presented in the statement of revenues, expenses and changes in fund net assets for proprietary funds	$ 2,636,009	216,070	2,852,079

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

Fiduciary Fund

Rehabilitation and Enhancement Fund

METRO

Rehabilitation and Enhancement Fund

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

For the year ended June 30, 2004

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with final budget positive (negative)
Revenues:				
Program revenues:				
Charges for services:				
Miscellaneous revenue	$ -	-	11,000	11,000
General revenues:				
Investment income	40,324	40,324	24,516	(15,808)
Total revenues	40,324	40,324	35,516	(4,808)
Expenditures:				
Operating expenses	533,952	533,952	331,813	202,139
Contingency	300,000	300,000	-	300,000
Total expenditures	833,952	833,952	331,813	502,139
Revenues under expenditures	(793,628)	(793,628)	(296,297)	497,331
Other financing sources (uses):				
Transfers in	400,988	400,988	365,971	(35,017)
Transfers out	(23,923)	(23,923)	(23,923)	-
Total other financing sources (uses)	377,065	377,065	342,048	(35,017)
Revenues and other sources over (under) expenditures and other uses	(416,563)	(416,563)	45,751	462,314
Beginning fund balance available for appropriation - July 1, 2003	2,016,233	2,016,233	1,930,442	(85,791)
Unappropriated ending fund balance - June 30, 2004	$ 1,599,670	1,599,670	1,976,193	376,523

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

Internal Service Funds

Building Management Fund

Support Services Fund

Risk Management Fund

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

METRO

Building Management Fund

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

For the year ended June 30, 2004

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with final budget positive (negative)
Revenues:				
Program revenues:				
Charges for services:				
Culture and recreation fees	$ 69,183	69,183	74,377	5,194
Other fees	493,373	493,373	460,892	(32,481)
General revenues:				
Investment income	30,000	30,000	24,024	(5,976)
Total revenues	592,556	592,556	559,293	(33,263)
Expenditures:				
Operating expenses	903,059	903,059	809,680	93,379
Capital outlay	15,000	15,000	-	15,000
Contingency	40,000	40,000	-	40,000
Total expenditures	958,059	958,059	809,680	148,379
Revenues under expenditures	(365,503)	(365,503)	(250,387)	115,116
Other financing sources (uses):				
Transfers in	2,209,499	2,209,499	1,775,155	(434,344)
Transfers out	(1,755,696)	(1,755,696)	(1,410,730)	344,966
Total other financing sources (uses)	453,803	453,803	364,425	(89,378)
Revenues and other sources over expenditures and other uses	88,300	88,300	114,038	25,738
Beginning fund balance available for appropriation - July 1, 2003	1,541,439	1,541,439	1,570,356	28,917
Unappropriated ending fund balance - June 30, 2004	$ 1,629,739	1,629,739	1,684,394	54,655

METRO

Support Services Fund

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

For the year ended June 30, 2004

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with final budget positive (negative)
Revenues:				
Program revenues:				
Charges for services:				
Government fees	$ -	-	5,494	5,494
Culture and recreation fees	-	-	65,859	65,859
Licenses and permits	432,000	432,000	396,759	(35,241)
Miscellaneous revenue	-	-	24,344	24,344
Operating grants and contributions:				
Grants	-	-	5,000	5,000
General revenues:				
Investment income	12,960	12,960	24,527	11,567
Total revenues	444,960	444,960	521,983	77,023
Expenditures:				
Finance:				
Operating expenses	2,552,507	2,552,507	2,279,361	273,146
Total finance	2,552,507	2,552,507	2,279,361	273,146
Business support:				
Operating expenses	4,241,749	4,241,749	3,651,398	590,351
Capital outlay	309,000	309,000	246,913	62,087
Debt service	34,620	34,620	34,620	-
Total business support	4,585,369	4,585,369	3,932,931	652,438
Public affairs-creative services:				
Operating expenses	538,375	538,375	505,880	32,495
Total public affairs-creative services	538,375	538,375	505,880	32,495
Office of Metro attorney				
Operating expenses	1,153,083	1,153,083	990,341	162,742
Total office of Metro attorney	1,153,083	1,153,083	990,341	162,742

(Continued)

METRO

Support Services Fund

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

For the year ended June 30, 2004

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with final budget positive (negative)
Expenditures, continued:				
Office of the auditor:				
Operating expenses	$ 607,940	654,940	570,356	84,584
Total office of the auditor	607,940	654,940	570,356	84,584
Contingency	465,276	418,276	-	418,276
Total expenditures	9,902,550	9,902,550	8,278,869	1,623,681
Revenues under expenditures	(9,457,590)	(9,457,590)	(7,756,886)	1,700,704
Other financing sources (uses):				
Transfers in	9,687,849	9,687,849	8,721,987	(965,862)
Transfers out	(756,557)	(756,557)	(589,782)	166,775
Total other financing sources (uses)	8,931,292	8,931,292	8,132,205	(799,087)
Revenues and other sources over (under) expenditures and other uses	(526,298)	(526,298)	375,319	901,617
Beginning fund balance available for appropriation - July 1, 2003	678,272	678,272	772,198	93,926
Unappropriated ending fund balance - June 30, 2004	$ 151,974	151,974	1,147,517	995,543

METRO

Risk Management Fund

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

For the year ended June 30, 2004

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with final budget positive (negative)
Revenues:				
Program revenues:				
Charges for services:				
Internal charges for services	$ 5,312,168	5,312,168	4,980,192	(331,976)
Miscellaneous revenue	-	-	21,947	21,947
Operating grants and contributions:				
Grants	10,000	10,000	-	(10,000)
General revenues:				
Investment income	140,000	140,000	87,105	(52,895)
Total revenues	5,462,168	5,462,168	5,089,244	(372,924)
Expenditures:				
Operating expenses	7,622,358	7,622,358	12,021,877	(4,399,519)
Contingency	500,000	500,000	-	500,000
Total expenditures	8,122,358	8,122,358	12,021,877	(3,899,519)
Revenues under expenditures	(2,660,190)	(2,660,190)	(6,932,633)	(4,272,443)
Other financing sources:				
Transfers in	1,000,000	1,000,000	1,000,002	2
Revenues and other sources under expenditures	(1,660,190)	(1,660,190)	(5,932,631)	(4,272,441)
Beginning fund balance available for appropriation - July 1, 2003	6,442,134	6,442,134	6,018,564	(423,570)
Unappropriated ending fund balance - June 30, 2004	$ 4,781,944	4,781,944	85,933	(4,696,011)

METRO

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

For the year ended June 30, 2004

	Building Management Fund	Support Services Fund	Risk Management Fund	Total
Excess of revenues and other financing sources over (under) expenditures and other financing uses on the basis of budgeting:				
Building Management Fund	$ 114,038	-	-	114,038
General Revenue Bond Fund - Building Management	(1,765,647)	-	-	(1,765,647)
Support Services Fund	-	375,319	-	375,319
Risk Management Fund	-	-	(5,932,631)	(5,932,631)
Budget resources not qualifying as revenues under GAAP:				
Bond proceeds and discount	(20,372,019)	-	-	(20,372,019)
Budget requirements not qualifying as expenses under GAAP:				
Fixed assets additions	-	246,913	-	246,913
Principal and interest payments on bonds	1,141,293	-	-	1,141,293
Principal and interest payments on loans	22,850	-	-	22,850
Principal payments on capital leases	-	32,997	-	32,997
Payment to refunded bond escrow agent	21,979,168	-	-	21,979,168
Costs of refunding	137,445	-	-	137,445
Additional revenues (expenses) required by GAAP:				
Depreciation and amortization	(555,397)	(351,746)	-	(907,143)
Loss on disposal of capital assets	(15,428)	(31,976)	-	(47,404)
Amortization of bond discount and costs	(137,659)	-	-	(137,659)
Vacation benefits	-	(53,999)	-	(53,999)
Accrued interest on bonds	(293,110)	-	-	(293,110)
Change in net assets presented in combining statement of revenues, expenses and changes in fund net assets for internal service funds	$ 255,534	217,508	(5,932,631)	(5,459,589)

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

Other Budgetary Funds

General Revenue Bond Fund

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

METRO

General Revenue Bond Fund

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

For the year ended June 30, 2004

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with final budget positive (negative)
Revenues:				
General revenues:				
Investment income	$ 48,400	48,400	11,672	(36,728)
Total revenues	48,400	48,400	11,672	(36,728)
Expenditures:				
Debt service account:				
Materials and services	-	-	174,766	(174,766)
Debt service-Metro Regional Center	1,785,696	1,785,696	1,440,730	344,966
Debt service-Washington Park Parking Lot	435,319	435,319	266,772	168,547
Debt service-Expo Center Hall D	1,128,742	1,128,742	1,128,742	-
Project account:				
Capital outlay-Washington Park Parking Lot	175,281	175,281	-	175,281
Contingency	300,000	300,000	-	300,000
Total expenditures	3,825,038	3,825,038	3,011,010	814,028
Revenues under expenditures	(3,776,638)	(3,776,638)	(2,999,338)	777,300
Other financing sources (uses):				
Refunding bond proceeds	-	-	24,425,431	24,425,431
Transfers in	3,319,757	3,319,757	2,806,244	(513,513)
Payment to refunded bond escrow agent	-	-	(25,995,800)	(25,995,800)
Total other financing sources (uses)	3,319,757	3,319,757	1,235,875	(2,083,882)
Revenues and other sources under expenditures and other uses	(456,881)	(456,881)	(1,763,463)	(1,306,582)
Beginning fund balance available for appropriation - July 1, 2003	2,406,881	2,406,881	2,482,220	75,339
Unappropriated ending fund balance - June 30, 2004	$ 1,950,000	1,950,000	718,757	(1,231,243)

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

METRO

General Revenue Bond Fund

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

For the year ended June 30, 2004

	Building Management	Zoo	Expo	Total
Revenues:				
General revenues:				
Investment income	$ 9,488	2,184	-	11,672
Total revenues	9,488	2,184	-	11,672
Expenditures:				
Debt service account:				
Materials and services	137,986	36,780	-	174,766
Debt service-Metro Regional Center	1,440,730	-	-	1,440,730
Debt service-Washington Park Parking Lot	-	266,772	-	266,772
Debt service-Expo Center Hall D	-	-	1,128,742	1,128,742
Total expenditures	1,578,716	303,552	1,128,742	3,011,010
Revenues under expenditures	(1,569,228)	(301,368)	(1,128,742)	(2,999,338)
Other financing sources (uses):				
Refunding bond proceeds	20,372,019	4,053,412	-	24,425,431
Transfers in	1,410,730	266,772	1,128,742	2,806,244
Payment to refunded bond escrow agent	(21,979,168)	(4,016,632)	-	(25,995,800)
Total other financing sources (uses)	(196,419)	303,552	1,128,742	1,235,875
Revenues and other sources over (under) expenditures and other uses	(1,765,647)	2,184	-	(1,763,463)
Beginning fund balance available for appropriation - July 1, 2003	2,308,476	173,744	-	2,482,220
Unappropriated ending fund balance - June 30, 2004	$ 542,829	175,928	-	718,757

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

Capital Assets Used in the Operation of Governmental Funds

METRO

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

June 30, 2004

Governmental funds capital assets:	
Land	$ 137,174,967
Buildings	3,785,654
Improvements	7,370,772
Equipment	827,224
Office furniture/equipment	450,969
Total governmental funds capital assets	$ 149,609,586
Investments in governmental funds capital assets by source:	
Special Revenue Funds:	
Planning Fund	$ 1,159,177
Regional Parks Fund	13,285,365
Smith and Bybee Lakes Fund	1,020,219
Capital Projects Funds:	
Open Spaces Fund	134,144,825
Total governmental funds capital assets	$ 149,609,586

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

METRO

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

June 30, 2004

Function and Activity		Land	Buildings	Improvements	Equipment	Office furniture/ equipment	Total
Regional planning and development	$	-	-	-	708,208	450,969	1,159,177
Recreation and development		137,174,967	3,785,654	7,370,772	119,016	-	148,450,409
Total	$	137,174,967	3,785,654	7,370,772	827,224	450,969	149,609,586

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

METRO

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

For the year ended June 30, 2004

Function and Activity		Governmental Funds Capital Assets July 1, 2003	Additions	Deductions	Governmental Funds Capital Assets June 30, 2004
Regional planning and development	$	1,245,802	44,652	(131,277)	1,159,177
Recreation and development		143,871,403	4,644,767	(65,761)	148,450,409
Total additions	$	145,117,205	4,689,419	(197,038)	149,609,586

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

MERC
Component Unit
Financial Schedules

Enterprise Fund

MERC Fund

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

METRO

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

For the year ended June 30, 2004

	MERC Component Unit
Operating revenues:	
Charges for services	$ 25,520,211
Government contributions	962,545
Total operating revenues	26,482,756
Operating expenses:	
Payroll and fringe benefits	12,708,647
Depreciation and amortization	8,558,806
Administrative expenses	1,823,254
Facility operating expenses	5,105,887
Marketing expense	2,903,628
Concessions expense	9,200,839
Total operating expenses	40,301,061
Operating loss	(13,818,305)
Non-operating revenues (expenses):	
Grants	11,205
Contributions and donations	151,616
Local government shared revenues	7,893,216
Investment income	129,128
Loss on disposal of capital assets	(54,863)
Contributions to other governments	(1,321,353)
Interest expense	(831,644)
Total non-operating revenues (expenses)	5,977,305
Change in net assets	(7,841,000)
Adjustment to reflect the consolidation of internal service fund activities related to the MERC component unit	(3,005,473)
Change in net assets of the MERC component unit	$ (10,846,473)

Statement of Cash Flows
MERC Component Unit

For the year ended June 30, 2004

	MERC Component Unit
Cash flows from operating activities:	
Receipts from customers	$ 24,965,584
Receipts from other governments	962,545
Other operating receipts	443,913
Payments to suppliers for goods and services	(18,506,969)
Payments to employees for services	(12,719,018)
Payments to primary government for services used	(1,823,254)
Net cash used in operating activities	(6,677,199)
Cash flows from noncapital financing activities:	
Grants received	11,205
Contributions and donations	151,616
Local government shared revenues	7,893,216
Net cash provided by noncapital financing activities	8,056,037
Cash flows from capital and related financing activities:	
Interest payments	(841,021)
Acquisition and construction of capital assets	(3,680,341)
Principal payments on loans	(308,260)
Net cash used in capital and related financing activities	(4,829,622)
Cash flows from investing activities:	
Investment income	112,022
Proceeds from sale of investments	3,765,131
Purchase of investments	(3,061,991)
Net cash provided by investing activities	815,162
Net decrease in cash including restricted amounts	(2,635,622)
Cash at beginning of year including restricted amounts	17,120,171
Cash at end of year including restricted amounts	$ 14,484,549

(Continued)

METRO

Statement of Cash Flows, Continued
MERC Component Unit

For the year ended June 30, 2004

	MERC Component Unit
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (13,818,305)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	8,558,806
Change in assets and liabilities:	
Trade/other accounts receivable	(684,745)
Other assets	227,085
Accounts payable	(1,575,389)
Salaries, withholdings and payroll taxes payable/compensated absences	(10,371)
Unearned revenue	456,433
Deposits payable	117,597
Other liabilities	51,690
Total adjustments	7,141,106
Net cash used in operating activities	$ (6,677,199)
Noncash investing, capital, and financing activities:	
Investment income relating to the change in the fair value of investments	$ (11,183)

Acquisiton and construction of capital assets includes $1,321,353 that becomes capital assets of the City of Portland under terms of an intergovernmental agreement.

METRO

MERC Operating Fund

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

For the year ended June 30, 2004

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with final budget positive (negative)
Revenues:				
Program revenues:				
Charges for services:				
Culture and recreation fees	$22,140,227	22,140,227	22,425,225	284,998
Other fees	3,321,049	3,321,049	2,651,073	(669,976)
Internal charges for services	-	-	15,995	15,995
Miscellaneous revenue	100,000	100,000	393,900	293,900
Operating grants and contributions:				
Grants	-	-	11,205	11,205
Government contributions	324,635	324,635	320,628	(4,007)
Contributions and donations	-	-	26,950	26,950
General revenues:				
Local government shared revenue	7,988,680	7,988,680	7,893,216	(95,464)
Investment income	206,281	206,281	51,969	(154,312)
Total revenues	34,080,872	34,080,872	33,790,161	(290,711)
Expenditures:				
Operating expenses	30,520,098	30,520,098	29,857,204	662,894
Debt service	22,809	22,809	20,539	2,270
Contingency	1,222,561	1,222,561	-	1,222,561
Total expenditures	31,765,468	31,765,468	29,877,743	1,887,725
Revenues over expenditures	2,315,404	2,315,404	3,912,418	1,597,014
Other financing sources (uses):				
Transfers in	173,939	173,939	98,577	(75,362)
Transfers out	(3,694,943)	(3,694,943)	(3,226,235)	468,708
Total other financing sources (uses)	(3,521,004)	(3,521,004)	(3,127,658)	393,346
Revenues and other sources over (under) expenditures and other uses	(1,205,600)	(1,205,600)	784,760	1,990,360
Beginning fund balance available for appropriation - July 1, 2003	9,986,094	9,986,094	9,771,540	(214,554)
Unappropriated ending fund balance - June 30, 2004	$ 8,780,494	8,780,494	10,556,300	1,775,806

METRO

Convention Center Project Capital Fund

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

For the year ended June 30, 2004

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with final budget positive (negative)
Revenues:				
Program revenues:				
Operating grants and contributions:				
Contributions and donations	$ -	-	124,666	124,666
General revenues:				
Investment income	130	130	26,128	25,998
Total revenues	130	130	150,794	150,664
Expenditures:				
Operating expenses	48,600	118,600	118,399	201
Capital outlay	1,776,400	1,706,400	1,696,018	10,382
Total expenditures	1,825,000	1,825,000	1,814,417	10,583
Revenues under expenditures	(1,824,870)	(1,824,870)	(1,663,623)	161,247
Other financing sources:				
Transfers in	260,000	260,000	-	(260,000)
Revenues and other sources under expenditures	(1,564,870)	(1,564,870)	(1,663,623)	(98,753)
Beginning fund balance available for appropriation - July 1, 2003	1,564,870	1,564,870	1,939,119	374,249
Unappropriated ending fund balance - June 30, 2004	$ -	-	275,496	275,496

METRO

MERC Pooled Capital Fund

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

For the year ended June 30, 2004

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with final budget positive (negative)
Revenues:				
Program revenues:				
Charges for services:				
Miscellaneous revenue	$ -	-	34,018	34,018
Operating grants and contributions:				
Government contributions	3,208,931	3,208,931	641,917	(2,567,014)
Contributions and donations	527,520	527,520	-	(527,520)
General revenues:				
Investment income	98,220	98,220	51,031	(47,189)
Total revenues	3,834,671	3,834,671	726,966	(3,107,705)
Expenditures:				
Operating expenses	528,048	528,048	448,614	79,434
Capital outlay	2,389,580	2,389,580	1,422,777	966,803
Contingency	750,000	750,000	-	750,000
Total expenditures	3,667,628	3,667,628	1,871,391	1,796,237
Revenues over (under) expenditures	167,043	167,043	(1,144,425)	(1,311,468)
Other financing sources:				
Transfers in	253,580	253,580	175,662	(77,918)
Revenues and other sources over (under) expenditures	420,623	420,623	(968,763)	(1,389,386)
Beginning fund balance available for appropriation - July 1, 2003	2,017,297	2,017,297	4,479,447	2,462,150
Unappropriated ending fund balance - June 30, 2004	$ 2,437,920	2,437,920	3,510,684	1,072,764

METRO

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

For the year ended June 30, 2004

Excess of revenues and other financing sources over (under) expenditures and other financing uses on the basis of budgeting:	
MERC Operating Fund	$ 784,760
Convention Center Project Capital Fund	(1,663,623)
MERC Pooled Capital Fund	(968,763)
General Revenue Bond Fund-Expo	-
Budget requirements not qualifying as expenses under GAAP:	
Fixed assets additions	2,358,988
Principal and interest payments on loans	797,633
Additional revenues (expenses) required by GAAP:	
Depreciation and amortization	(8,558,806)
Loss on disposal of capital assets	(54,863)
Vacation benefits	(56,330)
Accrued interest on loans	(479,996)
Change in net assets presented in the statement of revenues, expenses and changes in fund net assets for the MERC component unit	$ (7,841,000)

Other Financial Schedules

METRO

Schedule of Property Tax Transactions
and Outstanding Receivable

For the year ended June 30, 2004

Fiscal Year		Original levy or balance of receivable July 1, 2003	Add (deduct) Discounts	Adjustments	Interest	Collections	Property taxes receivable June 30, 2004
2003-04	$	26,872,963	(653,893)	(103,605)	3,663	(25,350,559)	768,569
2002-03		801,496	-	(52,497)	9,356	(474,566)	283,789
2001-02		333,782	-	(34,532)	7,217	(144,723)	161,744
2000-01		173,523	-	(19,545)	5,920	(96,194)	63,704
1999-00		58,475	-	(10,017)	3,153	(36,532)	15,079
1998-99 & prior		30,430	-	(22,106)	1,083	8,212	17,619
	$	28,270,669	(653,893)	(242,302)	30,392	(26,094,362)	1,310,504

Reconciliation to property tax revenue presented in the Statement of Activities:		Governmental Activities	Business-type Activities	Total
Cash collections July 1, 2003 to June 30, 2004	$	17,497,013	8,597,349	26,094,362
Accrual of receivables:				
July 1, 2003 to August 31, 2003		(129,229)	(61,514)	(190,743)
July 1, 2004 to August 31, 2004		117,259	55,879	173,138
Timing difference between county tax collector and county treasurer		3,036	6,518	9,554
Payments in lieu of property taxes		48,746	21,695	70,441
Taxes earned but not available:				
June 30, 2003		(823,036)	(383,927)	(1,206,963)
June 30, 2004		768,024	369,342	1,137,366
Property tax revenue per Statement of Activities	$	17,481,813	8,605,342	26,087,155
Property taxes receivable June 30, 2004	$	885,283	425,221	1,310,504

METRO

Schedule of Future Bonded Debt Service Requirements
General Obligation Bonds

June 30, 2004

Year of maturity		1995 Series B Open Spaces Program General Obligation Bonds Principal	Interest	2002 Series General Obligation Refunding Bonds Principal	Interest	2001 Series A General Obligation Refunding Bonds Principal	Interest
2004-05	$	325,155	174,845	5,570,000	4,384,513	3,530,000	1,762,864
2005-06		308,037	193,963	5,795,000	4,157,212	3,695,000	1,621,664
2006-07		288,945	211,055	6,040,000	3,890,313	3,870,000	1,473,863
2007-08		271,585	228,415	6,350,000	3,580,562	4,065,000	1,309,389
2008-09		254,775	245,225	6,685,000	3,254,688	4,270,000	1,131,545
2009-10		238,540	261,460	7,030,000	2,911,812	4,525,000	918,045
2010-11		223,356	277,644	7,395,000	2,551,188	4,785,000	691,795
2011-12		-	-	8,265,000	2,159,687	5,035,000	486,040
2012-13		-	-	8,690,000	1,735,813	5,290,000	264,500
2013-14		-	-	9,140,000	1,278,637	-	-
2014-15		-	-	9,630,000	785,925	-	-
2015-16		-	-	10,155,000	266,569	-	-
2016-17		-	-	-	-	-	-
Total	$	1,910,393	1,592,607	90,745,000	30,956,919	39,065,000	9,659,705

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

Metro Washington Park Zoo Oregon Project 1996 Series A General Obligation Bonds		Total	
Principal	Interest	Principal (1)	Interest
1,215,000	1,212,510	10,640,155	7,534,732
1,275,000	1,139,610	11,073,037	7,112,449
1,345,000	1,063,110	11,543,945	6,638,341
1,415,000	982,410	12,101,585	6,100,776
1,490,000	908,830	12,699,775	5,540,288
1,570,000	830,605	13,363,540	4,921,922
1,660,000	748,180	14,063,356	4,268,807
1,755,000	660,200	15,055,000	3,305,927
1,850,000	565,869	15,830,000	2,566,182
1,955,000	466,431	11,095,000	1,745,068
2,070,000	361,350	11,700,000	1,147,275
2,185,000	247,500	12,340,000	514,069
2,315,000	127,325	2,315,000	127,325
22,100,000	9,313,930	153,820,393	51,523,161

METRO

Schedule of Future Bonded Debt Service Requirements
Revenue Bonds

June 30, 2004

	Solid Waste Enterprise Fund Revenue Bonds				
	Metro Central Transfer Station 1990 Series A		Waste Disposal System Refunding Revenue Bonds 2003 Series		Metro\Riedel Compost Facility 1990 Series 1 (1)
Year of maturity	Principal	Interest	Principal	Interest	Principal
2004-05	$ 1,070,000	-	65,000	116,413	-
2005-06	2,140,000	-	90,000	114,862	-
2006-07	2,140,000	-	95,000	113,013	-
2007-08	1,070,000	-	155,000	110,512	-
2008-09	-	-	2,265,000	83,481	-
2009-10	-	-	2,320,000	29,000	-
2010-11	-	-	-	-	-
2011-12	-	-	-	-	5,000,000
2012-13	-	-	-	-	-
2013-14	-	-	-	-	-
2014-15	-	-	-	-	-
2015-16	-	-	-	-	-
2016-17	-	-	-	-	-
2017-18	-	-	-	-	-
2018-19	-	-	-	-	-
2019-20	-	-	-	-	-
2020-21	-	-	-	-	-
2021-22	-	-	-	-	-
2022-23	-	-	-	-	-
Total	$ 6,420,000	-	4,990,000	567,281	5,000,000

(1) As interest rates on this issue are variable, interest payments over the life of the bonds are not determinable. Interest payments for 2004-05 are estimated to total $350,000 at 7.0%.

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

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

Total Solid Waste Enterprise Fund		Full Faith and Credit Refunding Bonds Refunding Bonds 2003 Series — Zoo (Zoo Enterprise Fund)		Metro Regional Center (Building Management Internal Service Fund)	
Principal (2)	Interest	Principal (2)	Interest	Principal (3)	Interest
1,135,000	116,413	200,000	117,964	815,000	695,314
2,230,000	114,862	290,000	113,064	835,000	678,814
2,235,000	113,013	300,000	107,164	840,000	662,064
1,225,000	110,512	305,000	100,161	865,000	642,311
2,265,000	83,481	310,000	92,089	885,000	619,342
2,320,000	29,000	320,000	83,820	905,000	595,848
-	-	330,000	74,670	935,000	569,945
5,000,000	-	340,000	64,407	960,000	540,920
-	-	350,000	53,320	990,000	509,585
-	-	360,000	41,245	1,025,000	475,313
-	-	380,000	28,105	1,060,000	438,295
-	-	395,000	13,957	1,090,000	399,050
-	-	175,000	3,325	1,150,000	357,035
-	-	-	-	1,210,000	310,985
-	-	-	-	1,255,000	261,684
-	-	-	-	1,305,000	209,832
-	-	-	-	1,360,000	154,520
-	-	-	-	1,420,000	95,430
-	-	-	-	1,475,000	32,450
16,410,000	567,281	4,055,000	893,291	20,380,000	8,248,737

METRO

Schedule of Long-Term Bonded Debt Transactions
General Obligation Bonds

For the year ended June 30, 2004

	Principal				
	Outstanding July 1, 2003	Issued During Year	Matured and Paid During Year	Outstanding June 30, 2004	Interest Expense
Open Spaces Program 1995 Series A General Obligation Bonds refunded, final interest rate 5.5%, final maturity 9/1/03	$ 3,105,000	-	3,105,000	-	85,388
Open Spaces Program 1995 Series B General Obligation Bonds with interest rates from 4.9 to 5.5%, final maturity 9/1/10	2,254,313	-	343,920	1,910,393	156,080
Open Spaces Program 1995 Series C General Obligation Bonds refunded, final interest rate 6.0%, final maturity 9/1/03	2,275,000	-	2,275,000	-	68,250
2002 Series General Obligation Refunding Bonds with interest rates from 4.0 to 5.25%, final maturity 9/1/15	92,045,000	-	1,300,000	90,745,000	4,515,412
2001 Series A General Obligation Refunding Bonds with interest rates from 4.0 to 5.0%, final maturity 1/1/13	42,435,000	-	3,370,000	39,065,000	1,897,664
Metro Washington Park Zoo Oregon Project 1996 Series A General Obligation Bonds with interest rates from 5.2 to 6.0%, final maturity 1/15/17	23,250,000	-	1,150,000	22,100,000	1,281,510
Total	$ 165,364,313	-	11,543,920	153,820,393	8,004,304

METRO

Schedule of Long-Term Bonded Debt Transactions
Revenue Bonds

For the year ended June 30, 2004

		Principal				
		Outstanding July 1, 2003	Issued During Year	Matured and Paid During Year	Outstanding June 30, 2004	Interest Expense
ENTERPRISE FUNDS:						
SOLID WASTE FUND:						
Metro Central Transfer Station						
1990 Series A Solid Waste Disposal Project Revenue Bonds with interest rates from 7.05 to 7.1%, final maturity 7/1/07	$	6,420,000	-	-	6,420,000	-
Waste Disposal System						
Refunding Revenue Bonds 2003 Series with interest rates from 2.0 to 2.5%, final maturity 7/1/09		4,990,000	-	-	4,990,000	69,587
Metro\Riedel Compost Facility						
1990 Series 1 Solid Waste Disposal Project Revenue Bonds with variable interest rates, final maturity 7/1/11		5,000,000	-	-	5,000,000	58,390
Subtotal Solid Waste Fund		16,410,000	-	-	16,410,000	127,977
ZOO FUND:						
Full Faith and Credit (1)						
Refunding Bonds 2003 Series with interest rates from 2.0 to 4.4%, final maturity 8/1/16		-	4,055,000	-	4,055,000	34,989
Total	$	16,410,000	4,055,000	-	20,465,000	162,966
INTERNAL SERVICE FUNDS:						
BUILDING MANAGEMENT FUND:						
Metro Regional Center Project						
1993 Series A General Revenue Refunding Bonds, refunded 10/16/03	$	22,070,000	-	22,070,000	-	565,553
Full Faith and Credit (1)						
Refunding Bonds 2003 Series with interest rates from 2.0 to 4.4%, final maturity 8/1/22		-	20,380,000	-	20,380,000	205,177
Total	$	22,070,000	20,380,000	22,070,000	20,380,000	770,730

(1) The Full Faith and Credit bonds are presented by their fund components, but were issued as a single bond issue.

METRO

Schedule Of Accountability For Independently Elected Officials

For the year ended June 30, 2004

In compliance with ORS 297, Metro reports it has no independently elected officials who collect or receive money for or from Metro.

METRO

General Governmental Expenditures by Function (1)

for the last ten fiscal years
Unaudited

Fiscal year ended June 30,	General government operations	Zoo operations and development (2)	Regional planning and development	Recreation and development	Capital outlay	Debt service	Total
1995	$ 2,395,330	$ 12,895,793	$ 11,069,401	$ 4,396,155	$ 813,877	$ 5,542,640	$ 37,113,196
1996	1,962,173	13,038,699	11,100,770	9,474,072	14,137,150	10,910,449	60,623,313
1997	2,005,267	13,343,436	14,816,259	8,329,607	34,364,694	17,348,950	90,208,213
1998	2,524,722	13,866,883	14,690,941	8,918,822	35,126,447	19,469,296	94,597,111
1999	2,695,154	16,036,401	16,979,166	8,221,900	35,949,786	19,915,021	99,797,428
2000	3,464,504	17,981,708	10,683,715	8,390,587	33,626,613	19,710,657	93,857,784
2001	3,587,316	19,847,517	10,916,783	6,490,300	18,954,879	19,723,991	79,520,786
2002	3,824,481	-	15,016,781	7,837,607	10,426,457	18,899,413	56,004,739
2003	2,981,919	-	11,134,840	8,892,911	4,407,455	17,669,630	45,086,755
2004	2,625,450	-	10,453,513	7,714,121	3,861,065	19,593,684	44,247,833

(1) Includes general, special revenue, debt service, capital projects and permanent funds.

(2) In fiscal year 2002, zoo operations became proprietary activities.

METRO

General Governmental Revenues by Source (1)

for the last ten fiscal years
Unaudited

Fiscal year ended June 30,	Property taxes	Excise taxes	Charges for services	Grants	Contributions and donations	Investment and other income	Total (2)
1995	$ 11,831,729	$ 5,999,125	$ 10,505,971	$ 7,903,594	$ 739,756	$ 2,823,237	$ 39,803,412
1996	24,666,369	6,996,251	11,149,521	7,758,523	786,188	9,391,255	60,748,107
1997	22,244,865	7,228,573	12,041,342	10,257,407	797,206	13,138,730	65,708,123
1998	25,672,117	7,621,699	10,999,508	10,037,351	806,277	9,867,083	65,004,035
1999	25,532,776	7,405,463	12,571,986	12,104,342	1,337,092	7,435,230	66,386,889
2000	24,410,966	7,726,842	14,890,703	6,533,796	1,699,285	4,943,549	60,205,141
2001	26,892,741	7,619,224	16,097,777	6,760,944	1,133,699	4,402,706	62,907,091
2002	19,235,074	7,922,160	3,430,418	10,151,521	322,617	2,024,500	43,086,290
2003	16,494,258	9,821,988	3,428,303	6,814,472	340,800	1,226,723	38,126,544
2004	17,536,825	10,506,081	4,037,106	7,061,492	416,801	881,574	40,439,879

(1) Includes general, special revenue, debt service, capital projects and permanent funds.

(2) In fiscal year 2002, zoo operations became proprietary activities.

METRO

Property Tax Levies and Collections (1)

for the last ten fiscal years
Unaudited

Fiscal year ended June 30,	Taxes levied by assessor	Current tax collections	Current tax collections as percent of current levy	Delinquent tax collections	Total tax collections	Total collections as percent of current levy	Uncollected taxes	Uncollected taxes as percent of current levy
1995	$ 11,918,746	$ 11,203,099	94.0 %	$ 616,290	$ 11,819,389	99.2 %	$ 765,012	6.4 %
1996	25,499,278	24,061,489	94.4	462,400	24,523,889	96.2	1,098,856	4.3
1997	22,796,884	21,521,746	94.4	675,849	22,197,595	97.4	1,151,230	5.0
1998	26,103,411	24,848,112	95.2	720,013	25,568,125	97.9	1,286,146	4.9
1999	26,225,874	24,710,874	94.2	798,788	25,509,662	97.3	1,403,421	5.4
2000	25,039,223	23,514,268	93.9	798,873	24,313,141	97.1	1,469,184	5.9
2001	27,612,647	25,936,657	93.9	716,457	26,653,114	96.5	1,559,461	5.6
2002	28,067,559	26,357,614	93.9	863,115	27,220,729	97.0	1,589,819	5.7
2003	25,461,547	23,932,994	94.0	891,558	24,824,552	97.5	1,397,706	5.5
2004	26,872,963	25,350,559	94.3	743,803	26,094,362	97.1	1,310,504	4.9

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

METRO

Assessed and Real Market Value of Taxable Property

for the last ten fiscal years (1)
Unaudited

Fiscal year ended June 30,	Real property		Personal property		Public utility property		Total		Ratio of total assessed to total real market value
	Assessed value	Real market value	Assessed value	Real market value	Assessed value	Real market value	Assessed value	Real market value	
1995	$ 56,193,560,012	$ 56,193,560,012	$ 2,612,727,562	$ 2,612,727,562	$ 2,173,333,580	$ 2,173,333,580	$ 60,979,621,154	$ 60,979,621,154	100.0 %
1996	63,459,767,323	63,459,767,323	2,904,185,194	2,904,185,194	2,382,468,737	2,382,468,737	68,746,421,254	68,746,421,254	100.0
1997	72,014,495,367	72,014,495,367	3,104,873,132	3,104,873,132	2,602,116,760	2,602,116,760	77,721,485,259	77,721,485,259	100.0
1998	60,387,931,053	80,283,641,966	3,675,943,675	3,974,916,593	2,647,959,728	3,061,987,922	66,711,834,456	87,320,546,481	76.4
1999	64,954,925,132	86,686,731,219	4,015,295,303	4,218,503,324	2,965,312,065	3,252,510,350	71,935,532,500	94,157,744,893	76.4
2000	68,119,873,420	96,442,637,972	4,599,178,731	4,855,164,356	3,539,158,652	3,849,648,489	76,258,210,803	105,147,450,817	72.5
2001	72,324,619,679	103,550,908,925	4,778,797,938	5,014,856,997	3,906,448,496	4,445,298,672	81,009,866,113	113,011,064,594	71.7
2002	76,887,078,626	113,257,470,348	5,241,574,117	5,332,826,767	4,360,911,274	4,460,651,523	86,489,564,017	123,050,948,638	70.3
2003	80,537,735,166	119,083,633,530	5,171,288,194	5,260,708,472	4,128,896,729	4,198,202,328	89,837,920,089	128,542,544,330	69.9
2004	83,831,528,669	129,455,074,198	4,953,228,970	5,027,676,572	3,953,101,838	3,972,319,417	92,737,859,477	138,455,070,187	67.0

(1) In fiscal year 1997-98, the State of Oregon was converted from a levy based to a rate based property tax system with reductions in assessed values.

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

METRO

Property Tax Rates - Direct and Overlapping Governments (1)
for the last ten fiscal years
Unaudited

	Dollars per $1,000 Assessed Value									
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Direct Government										
Metro	$ 0.20	0.37	0.29	0.39	0.36	0.33	0.34	0.32	0.28	0.29
Overlapping Government										
Multnomah County										
Portland School District #1J	$ 14.10	13.25	13.37	6.67	6.32	6.35	7.00	6.97	7.22	7.12
City of Portland	6.61	6.36	6.07	6.78	6.83	6.79	6.90	6.72	6.97	8.19
Multnomah County	4.08	3.88	4.23	4.89	5.39	5.25	5.31	5.21	5.17	5.27
Reynolds School District #7	10.94	10.20	10.40	5.88	5.49	5.34	5.29	6.32	6.02	6.03
Multnomah County ESD	1.22	1.14	1.08	0.46	0.46	0.46	0.46	0.46	0.46	0.46
Parkrose School District #3	11.72	12.37	11.53	6.68	6.49	6.36	6.28	6.51	6.59	6.91
David Douglas School District #40	14.98	13.82	13.12	5.66	5.53	5.49	5.47	6.71	6.73	6.64
Portland Community College	0.82	0.79	0.73	0.37	0.35	0.36	0.37	0.55	0.49	0.51
City of Gresham	4.68	4.50	3.71	4.04	3.95	3.91	3.92	3.93	3.92	3.79
Gresham-Barlow School District #10JT	14.17	13.01	13.15	7.29	7.31	7.13	7.02	7.38	7.57	7.46
Washington County										
Beaverton School District #48J	$ 12.41	12.07	11.41	6.16	6.17	6.19	6.12	6.37	6.56	8.01
Tigard-Tualatin School District #23J	13.88	14.01	12.85	6.60	6.65	6.31	8.48	8.08	8.11	9.01
Washington County	2.48	2.34	2.51	3.48	3.85	3.85	3.85	4.26	4.19	4.31
Hillsboro School District #1J (2)	7.79	7.02	13.11	7.09	7.00	7.49	7.10	8.34	7.87	7.75
Tualatin Valley Fire and Rescue	1.76	1.66	1.52	1.54	1.53	1.56	1.59	1.83	1.82	1.83
City of Beaverton	4.16	4.01	2.58	3.38	3.66	3.98	3.79	3.32	3.61	3.97
Forest Grove School District #15	17.01	16.71	15.02	8.27	8.08	8.33	6.48	8.30	8.42	8.28
Hillsboro Elem. School District #7 (2)	8.59	7.81	-	-	-	-	-	-	-	-
Tualatin Hills Park & Rec. District	1.30	1.41	1.37	1.53	1.53	1.56	1.49	1.47	1.46	1.46
Sherwood School District #88J	12.30	11.10	10.87	7.47	7.32	9.01	8.64	8.46	8.40	8.36
Clackamas County										
North Clackamas School District #12	$ 10.59	9.55	8.47	5.23	5.36	7.20	6.41	6.13	6.21	6.24
Lake Oswego School District #7J	13.37	11.57	11.25	6.83	6.23	6.11	6.49	7.42	7.36	7.50
Clackamas County	3.28	3.94	4.31	6.09	6.10	6.10	6.10	6.09	6.10	6.10
West Linn-Wilsonville School District #3J	13.15	11.78	11.17	6.76	8.23	6.81	9.02	8.97	9.15	9.28
Oregon City School District #62	14.03	12.75	11.49	4.97	4.96	4.96	6.79	6.76	6.76	6.78
Clackamas Community College	1.25	1.17	1.09	0.63	0.62	0.62	0.62	0.86	0.76	0.76
City of Lake Oswego	4.40	4.29	4.23	10.35	10.41	10.41	10.37	10.05	10.38	10.51
Clackamas County ESD	0.79	0.76	0.71	0.37	0.37	0.37	0.37	0.37	0.37	0.37
Clackamas Rural Fire Protect. District #1	2.67	2.52	2.30	2.44	2.48	2.47	2.44	2.57	2.54	2.57
Canby School District #86	12.69	11.56	10.77	6.93	6.80	6.57	8.02	7.91	7.91	7.75

(1) Metro is a regional government that covers a three county area and has over 200 overlapping governments. Listed above are 10 selected governments from each county.
In fiscal year 1997-98, the State of Oregon was converted from a levy based to a rate based property tax system with reductions in assessed values.

(2) In 1997, the Hillsboro High School District merged with the Hillsboro Elementary School District and several other smaller districts to become Hillsboro School District #1J.

Sources: Municipal Debt Advisory Commission, State of Oregon; and the Departments of Assessment and Taxation for Multnomah, Clackamas and Washington Counties.

METRO

Computation of Legal Debt Margin

June 30, 2004
Unaudited

True cash value		$ 138,455,070,187
Debt limit (1)		10.0%
		13,845,507,019
Gross bonded debt principal	$ 194,665,393	
Less legal deductions from debt limit:		
Metro Central Transfer Station Project, Solid Waste Disposal System Revenue Bonds	(6,420,000)	
Solid Waste Disposal System Refunding Revenue Bonds	(4,990,000)	
Metro/Reidel Oregon Compost Company, Inc. Project, Waste Disposal Project Revenue Bonds	(5,000,000)	
Full Faith and Credit Refunding Bonds Refunding Bonds 2003 Series	(24,435,000)	
Net debt subject to 10% limitation		153,820,393
Legal debt margin		$ 13,691,686,626

(1) ORS 268.520 sets a debt limit of 10% of the true cash value of all taxable property within the district.

Sources: The Departments of Assessment and Taxation for Multnomah, Clackamas and Washington Counties.
The Treasury Department, State of Oregon.

METRO

Ratio of Net General Bonded Debt to Assessed Value
and Net Bonded Debt Per Capita

for the last ten fiscal years
Unaudited

Fiscal year ended June 30,	Population		Assessed valuation		Net bonded debt	Ratio of net bonded debt to assessed valuation		Net bonded debt per capita	
1995	1,305,100	$	60,979,621,154	$	58,386,119	0.10 %	$	44.74	
1996	1,325,700		68,746,421,254		182,165,720	0.26		137.41	
1997	1,341,700		77,721,485,259		205,846,342	0.26		153.42	
1998	1,363,100		66,711,834,456		198,196,159	0.30		145.40	
1999	1,378,450		71,935,532,500		190,321,671	0.26		138.07	
2000	1,444,219		76,258,210,803		183,799,227	0.24		127.27	
2001	1,467,300		81,009,866,113		174,313,666	0.22		118.80	
2002	1,484,150		86,489,564,017		164,752,527	0.19		111.01	
2003	1,503,900		89,837,920,089		153,071,530	0.17		101.78	
2004	N/A	*	92,737,859,477		143,492,260	0.15		N/A	*

* Not available

Sources: The Departments of Assessment and Taxation for Multnomah, Clackamas and Washington Counties.
Population Research Center, Portland State University.

METRO

Ratio of Annual Debt Service Expenditures for
General Bonded Debt to Total General Governmental Expenditures

for the last ten fiscal years
Unaudited

Fiscal year ended June 30,	Principal	Interest	Total debt service (1)	Total general governmental expenditures (2) (3)	Ratio of debt service to total general governmental expenditures
1995	$ 1,755,000	$ 3,787,640	$ 5,542,640	$ 37,113,196	14.93%
1996	1,860,000	6,853,588	8,713,588	60,623,313	14.37
1997	6,073,965	10,557,118	16,631,083	90,208,213	18.44
1998	6,978,955	12,142,400	19,121,355	94,597,111	20.21
1999	7,624,050	11,458,222	19,082,272	99,797,428	19.12
2000	8,048,755	11,053,369	19,102,124	93,857,784	20.35
2001	8,483,200	10,641,953	19,125,153	79,520,786	24.05
2002	8,978,625	9,869,646	18,848,271	56,004,739	33.65
2003	9,798,060	7,826,899	17,624,959	45,086,755	39.09
2004	11,543,920	8,004,304	19,548,224	44,247,833	44.18

(1) Beginning fiscal year 1997, the Open Spaces program and its related debt service is included.

(2) In fiscal year 2002, zoo operations became proprietary activities.

(3) Includes general, special revenue, debt service, capital projects and permanent funds.

Schedule of Overlapping Bonded Debt - All Overlapping Governments

June 30, 2004
Unaudited

Overlapping government	Percent within District	Overlapping Gross bonded debt	Overlapping Net direct debt
Clackamas County	73.88 %	$ 136,682	$ 136,682
Oak Lodge Water District 4	100.00	2,150,000	2,150,000
Clackamas County RFPD 1	81.56	7,291,035	7,291,035
Clackamas County SD 3J (West Linn-Wilsonville)	94.67	143,236,963	143,236,963
Clackamas County SD 7J (Lake Oswego)	100.00	92,780,000	92,780,000
Clackamas County SD 12 (N Clackamas)	98.52	95,448,389	95,448,389
Clackamas County SD 62 (Oregon City)	66.93	44,667,604	44,667,604
Clackamas County SD 115 (Gladstone)	100.00	10,045,000	10,045,000
Clackamas County SD 86 (Canby)	16.32	6,014,773	6,014,773
Clackamas County SD 46 (Oregon Trail)	6.63	68,238	68,238
Clackamas Community College	73.19	36,561,865	36,561,865
City of Gladstone	100.00	155,000	155,000
City of Lake Oswego	100.00	34,675,000	34,675,000
City of Milwaukie	100.00	2,705,000	2,705,000
City of Oregon City	100.00	3,790,000	3,790,000
City of West Linn	100.00	10,425,000	10,425,000
City of Wilsonville	100.00	4,100,000	730,000
Columbia County SD 1J (Scappoose)	7.20	169,922	169,922
Multnomah County	98.92	124,453,933	76,651,713
Port of Portland	91.54	50,001,967	50,001,967
Tri-Met	98.07	91,502,389	91,502,389
Multnomah County SD 1J (Portland)	99.58	34,529,746	34,529,746
Multnomah County SD 3 (Parkrose)	100.00	22,175,000	22,175,000
Multnomah County SD 7 (Reynolds)	100.00	64,330,000	64,330,000
Multnomah County SD 28J (Centennial)	100.00	34,212,634	34,212,634
Multnomah County SD 40 (David Douglas)	100.00	51,455,000	51,455,000
Multnomah County SD 51J (Riverdale)	100.00	8,575,000	8,575,000
Multnomah County SD 10J (Gresham-Barlow)	96.17	74,791,331	74,791,331
Multnomah County SD 10J (Orient 6 Bond)	70.25	845,249	845,249
Mount Hood Community College	87.25	100,342	100,342
Portland Community College	92.25	275,798,137	166,052,924
City of Fairview	100.00	4,735,000	2,190,000
City of Gresham	100.00	4,422,558	4,155,000
City of Portland	100.00	265,729,662	211,328,943

(Continued)

Schedule of Overlapping Bonded Debt - All Overlapping Governments, Continued

June 30, 2004
Unaudited

Overlapping government	Percent within District		Overlapping Gross bonded debt		Overlapping Net direct debt
City of Troutdale	100.00 %	$	13,180,000	$	13,180,000
City of Wood Village	100.00		625,000		290,000
Washington County	93.78		62,590,784		61,894,008
Tualatin Hills Park & Rec. District	99.96		17,823,563		17,823,563
Tualatin Valley Water District (Metzger Bond)	100.00		790,000		790,000
Tualatin Valley Water District (Wolf Creek Bond)	99.97		1,889,382		1,889,382
Forest Grove RFPD	11.14		37,306		37,306
Tualatin Valley Fire & Rescue District	96.88		6,229,262		6,229,262
Washington County SD 15 (Forest Grove)	76.59		43,627,101		43,627,101
Washington County SD 23J (Tigard-Tualatin)	99.39		127,472,677		127,472,677
Washington County SD 1J (Hillsboro 7 Bond)	93.08		1,577,757		1,577,757
Washington County SD 48J (Beaverton)	99.81		307,627,850		307,627,850
Washington County SD 88J (Sherwood)	80.04		36,274,264		36,274,264
Washington County SD 1J (Hillsboro)	89.99		130,162,243		130,162,243
Washington County SD 1J (Reedville Bond)	97.77		2,713,112		2,713,112
Washington County SD 1J (Farmington Bond)	0.03		70		70
City of Beaverton	100.00		18,690,000		18,690,000
City of Cornelius	92.86		1,063,231		1,063,231
City of Durham	100.00		1,920,000		1,920,000
City of Forest Grove	99.73		4,667,453		4,667,453
City of Sherwood	100.00		15,609,984		15,609,984
City of Tualatin	100.00		4,180,000		4,080,000
Sunrise Water Authority	100.00		1,705,000		1,705,000
City of Tigard	100.00		1,343,569		-
North Clackamas Park & Rec. District	100.00		7,710,000		-
Clackamas County Service District 1	100.00		335,424		-
Totals		$	2,411,923,451	$	2,183,271,972

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

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

METRO

Schedule of Revenue Bond Coverage
Solid Waste Fund

for the last ten fiscal years
Unaudited

Fiscal year ended June 30,	Operating revenue (1)	Operating expenses (1)	Net revenue available for debt service	Debt service requirement (2) (principal & interest)	Debt service coverage
1995	$ 60,335,046	$ 50,634,792	$ 9,700,254	$ 2,692,571	3.60
1996	62,517,647	50,920,352	11,597,295	2,694,011	4.30
1997	64,797,003	49,773,711	15,023,292	2,695,200	5.57
1998	57,867,670	48,363,946	9,503,724	2,699,783	3.52
1999	54,758,546	56,023,559	(1,265,013)	2,704,870	-0.47
2000	53,275,735	45,930,547	7,345,188	2,201,898	3.34
2001	50,297,847	43,537,879	6,759,968	2,908,669	2.32
2002	47,291,208	44,642,220	2,648,988	2,644,146	1.00
2003	49,037,072	45,362,166	3,674,906	1,923,981	1.91
2004	50,652,679	44,068,880	6,583,799	374,004	17.60

(1) Revenue and expense amounts exclude depreciation and amortization expense, post-closure costs and dedicated grant money.

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

METRO

Schedule of Revenue Bond Coverage
Building Management Fund

for the last ten fiscal years (1)
Unaudited

Fiscal year ended June 30,	Operating revenue	Non-operating revenue	Total revenue available for debt service	Debt service requirements			Debt service coverage
				Principal	Interest	Total	
1995	$ 2,085,801	$ 347,807	$ 2,433,608	$ 200,000	$ 1,292,958	$ 1,492,958	1.63
1996	2,058,686	212,632	2,271,318	245,000	1,286,337	1,531,337	1.48
1997	2,737,107	166,849	2,903,956	310,000	1,276,993	1,586,993	1.83
1998	2,552,168	231,456	2,783,624	375,000	1,264,536	1,639,536	1.70
1999	2,545,140	224,606	2,769,746	545,000	1,246,605	1,791,605	1.55
2000	2,499,944	165,657	2,665,601	570,000	1,224,020	1,794,020	1.49
2001	2,394,766	242,381	2,637,147	590,000	1,199,650	1,789,650	1.47
2002	2,553,485	195,357	2,748,842	615,000	1,173,435	1,788,435	1.54
2003	2,500,709	146,211	2,646,920	640,000	1,145,505	1,785,505	1.48
2004	-	-	-	-	-	-	-

(1) Revenue bonds in the Building Management Fund were refunded in fiscal year 2004 by Full Faith and Credit bonds. Covenents requiring debt service coverage levels no longer apply.

METRO

Demographic Statistics

for the last ten fiscal years
Unaudited

Fiscal year ended June 30,	Population (1)	Per capita income (2)	Portland metropolitan unemployment rate (2)
1995	1,305,100	$ 24,924	3.7 %
1996	1,325,700	26,301	4.5
1997	1,341,700	27,672	4.3
1998	1,363,100	28,851	4.2
1999	1,378,450	29,858	4.5
2000	1,444,219	32,127	4.0
2001	1,467,300	32,326	5.9
2002	1,484,150	32,167	7.8
2003	1,503,900	N/A *	8.5
2004	N/A *	N/A *	N/A *

* Not available

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

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

Sources: Population Research Center, Portland State University.
Oregon Employment Department.

METRO

Construction Permits and Bank Deposits

for the last ten fiscal years
Unaudited

Fiscal year ended June 30,	Residential Construction Permits (1) Units	Value (in thousands)	Bank deposits (amounts in thousands)
1995	18,032	$ 1,757,677	$ 15,874,867
1996	18,260	1,771,820	16,149,419
1997	19,704	1,948,161	19,162,656
1998	17,900	1,840,091	18,032,911
1999	15,077	1,647,561	19,439,824
2000	12,962	1,623,152	21,733,572
2001	13,839	2,016,078	19,357,591
2002	14,331	2,142,423	23,407,349
2003	16,003	2,331,719	24,926,065
2004	N/A *	N/A *	18,459,415

* Not available

(1) Portland-Vancouver, OR-WA PMSA consisting of Clackamas, Columbia, Multnomah, Washington, and Yamhill counties in Oregon, and Clark County, Washington. Information is based upon the calendar year end that ended during the fiscal year shown.

Sources: U.S. Census Bureau.
Oregon Department of Consumer and Business Services, Division of Finance and Corporate Securities

METRO

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

June 30, 2004
Unaudited

Taxpayer account	Type of business		Assessed valuation	Percent of total valuation	
Multnomah County:					
Qwest Corporation	Telephone utility	$	439,035	1.02	%
Portland General Electric Co.	Electric utility		328,291	0.77	
Pacificorp (PP&L)	Electric utility		271,599	0.63	
Wacker Siltronic Corp.	Semiconductor Manufacturing		211,842	0.49	
Northwest Natural Gas Co.	Natural gas utility		149,728	0.35	
Boeing Company	Aircraft manufacturing		143,486	0.33	
Oregon Steel Mills, Inc.	Steel products		135,061	0.32	
Freightliner Corporation	Commercial vehicle manufacturing		131,603	0.31	
LC Portland LLC	Commercial rental partnership		130,197	0.30	
Fred Meyer Stores, Inc.	Retailer		147,487	0.34	
All other taxpayers	-		40,754,795	95.14	
	Total	$	42,843,124	100.00	%
Washington County:					
Intel Corporation	Computer Electronics	$	1,057,565	3.35	%
Nike, Inc.	Athletic apparel		334,825	1.06	
Verizon Northwest, Inc.	Telecommunications		331,660	1.05	
Portland General Electric Co.	Electric utility		247,291	0.78	
Pacific Realty Associates	Real estate		206,631	0.66	
Northwest Natural Gas Co.	Natural gas utility		180,801	0.57	
PS Business Parks LP	Commercial property manager		140,896	0.45	
Novellus Systems Inc.	semiconductor production equipment manufacturing		125,487	0.40	
Tektronix, Inc.	Computer Electronics		121,924	0.39	
Maxim Integrated Products, Inc.	Semiconductor Manufacturing		119,073	0.38	
All other taxpayers	-		28,668,604	90.91	
	Total	$	31,534,757	100.00	%
Clackamas County:					
Portland General Electric Co.	Electric utility	$	151,010	0.82	%
Fred Meyer, Inc.	Retailer		132,858	0.72	
General Growth Properties, Inc.	Real estate		114,732	0.62	
Northwest Natural Gas Co.	Natural gas utility		95,374	0.52	
Qwest Corporation	Telephone utility		88,277	0.48	
Xerox Corporation	Document management		68,553	0.37	
PCC Structurals, Inc.	Metal castings and machining		66,009	0.36	
Mentor Graphics Corp.	Electronics		55,744	0.30	
Deloitte & Touche LLP	Professional services		52,335	0.29	
Prime Property Capital Inc.	Apartment owner/manager		47,328	0.26	
All other taxpayers	-		17,487,758	95.26	
	Total	$	18,359,978	100.00	%

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

METRO

Insurance in Force

June 30, 2004
Unaudited

Insurance company	Amount of policy	Type of coverage	Expiration date (1)	Premium
Allendale	$ 439,599,391	"All Risk" property coverage includes a wide range of related coverages including earthquake, flood, and boiler and machinery	June 30, 2004	$ 360,000
Insurance Company of State of PA	3,000,000	Excess liability	June 30, 2004	50,000
Lexington Insurance Company	1,000,000	Liquor liability coverage	June 30, 2004	10,673
Hartford Insurance Company	500,000	Crime coverage/employee faithful performance	June 30, 2004	9,926
SAIF Corporation	Statutory	Workers' compensation	June 30, 2004	79,764
American Family Insurance	varies	Property, liability coverage for homes owned by Open Spaces Program	February 14, 2005	4,868
Western World	2,000,000	Liability-Park dwellings	June 30, 2004	15,864

(1) Coverage renewed through June 30, 2005

Source: Metro Finance and Administrative Services Department, Risk Management Division.

METRO

Solid Waste Tonnage by Waste Type and Destination (1)

for the last ten fiscal years
Unaudited

Fiscal year ended June 30,	Waste (2) Metro-Owned Facilities	Waste (2) Percent of Total	Waste (2) Privately-Owned Facilities	Waste (2) Total	Wood (3) Metro-Owned Facilities	ECU (4) Privately-Owned Facilities	Regional Total All Waste Types
1995	750,519	71.1 %	305,603	1,056,122	1,354	13,928	1,071,404
1996	755,077	67.9	357,618	1,112,695	1,551	23,028	1,137,274
1997	759,683	63.3	440,847	1,200,530	5,936	46,413	1,252,879
1998	744,908	62.1	455,459	1,200,367	6,532	27,089	1,233,988
1999	706,343	58.4	503,008	1,209,351	9,535	31,567	1,250,453
2000	698,535	56.5	538,760	1,237,295	9,478	28,318	1,275,091
2001	641,220	53.9	547,429	1,188,649	8,542	32,180	1,229,371
2002	603,946	50.6	589,111	1,193,057	8,612	45,320	1,246,989
2003	570,165	47.5	628,973	1,199,138	7,615	151,178	1,357,931
2004	564,337	45.6	673,500	1,237,837	8,407	312,587	1,558,831

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

(2) "Waste" is general mixed waste.

(3) "Wood" is clean, source-separated wood waste, yard debris and compostable food waste.

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

Source: Metro Solid Waste and Recycling Department.

METRO

Miscellaneous Statistical Data

June 30, 2004
Unaudited

Created by Oregon Legislature	1977
Metro Charter effective date	January 1, 1993
Metro Charter amendment date	January 1, 2003
Metro's form of government:	Elected Council President, elected six member District Council, and elected Auditor
Metro Area - Square miles	461.80
Number of full-time equivalent employees budgeted for fiscal year 2003-04	689.73

Oregon Zoo attendance for last ten fiscal years ended June 30,	Total Attendance
1995	1,151,444
1996	1,052,810
1997	945,013
1998	1,004,795
1999	1,047,279
2000	1,226,002
2001	1,367,940
2002	1,319,459
2003	1,293,597
2004	1,318,458

Ten largest cities in the Metro District at July 1, 2003	Population
Portland	545,140
Gresham	93,660
Hillsboro	79,340
Beaverton	79,010
Tigard	45,130
Lake Oswego	35,860
Oregon City	28,100
Tualatin	24,790
West Linn	23,820
Milwaukie	20,580

Source: Oregon Zoo.
Population Research Center, Portland State University.

AUDIT COMMENTS AND DISCLOSURES
REQUIRED BY STATE REGULATIONS

Oregon Administrative Rules 162-10-050 through 162-10-320 incorporated in the Minimum Standards for Audits of Oregon Municipal Corporations, as prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy, enumerate the financial statements, schedules, comments and disclosures required in audit reports. The required financial statements and schedules are set forth in the preceding sections of this report. Required comments and disclosures related to the audit of such statements and schedules are set forth on the following pages.

Report of Independent Certified Public Accountants on Metro's Compliance and Certain Items Based on an Audit of Basic Financial Statements Performed in Accordance with Federal and Oregon Auditing Standards

The Council, Council President and Auditor of Metro
Portland, Oregon

We have audited the basic financial statements of Metro, as of and for the year ended June 30, 2004, and have issued our report thereon dated November 15, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the provisions of the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State, and *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 basic financial statements are free of material misstatement.

Compliance with laws, regulations, contracts and grants applicable to Metro is the responsibility of Metro's management. As part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we performed tests of Metro's compliance with certain provisions of laws, regulations, contracts and grants. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. Certain areas covered, as required by Oregon Administrative Rules 162-10-230 through 162-10-320 included, but were not limited to the following:

Accounting and Internal Control Structure - Our report on the accounting and internal control structure is presented separately under this cover.

Programs Funded from Outside Sources – Our report related to such programs is presented separately under this cover.

Financial Reporting Requirements - Whether financial reports and related data filed with other governmental agencies in conjunction with programs funded wholly or partially by such agencies were in agreement with or supported by the accounting records.

Compliance with Legal or Other Requirements

Accounting Records – Pertaining to the condition and adequacy of accounting records.

Collateral - Pertaining to the amount and adequacy of collateral pledged by depositories to secure the deposit of public funds (see requirements for public fund deposits as specified in Oregon Revised Statues (ORS) 295).

Indebtedness - Relating to debt and the limitation on the debt amount, liquidation of debt within the prescribed period of time, and compliance with provisions of indentures or agreements, including restrictions on the use of monies available to retire indebtedness.

Insurance - Relating to insurance and fidelity bond coverage.

Investments - Pertaining to the investment of public funds (see ORS Chapter 294.035 to 294.046).

Budget - Relating to the preparation, adoption and execution of the annual budget for the current fiscal year and the preparation and adoption of the budget for the next succeeding fiscal year (see ORS 294.305 to 294.565).

Public Contracts and Purchasing - Pertaining to (as contained in ORS Chapter 279) the awarding of public contracts and the construction of public improvements.

The results of our tests indicate that, with respect to the items tested, Metro complied, in all material respects, with the provisions referred to above except for the following:

There were instances where expenditures exceeded appropriations, as listed in Note 2 of the Notes to Required Supplementary Information.

Metro did not have sufficient collateral as required in ORS 295 for one bank account during the entire year.

Metro violated Oregon Budget Law by increasing expenditures in one fund for their 2004-2005 budget by more than 10% after the budget had been approved by the budget committee. This was corrected by resolutions subsequent to June 30, 2004.

With respect to items not tested, nothing came to our attention that caused us to believe that Metro had not complied, in all material respects, with those provisions.

This report is intended solely for the information and use of management, the Metro Councilors and the Secretary of State, Division of Audits, of the State of Oregon and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

Portland, Oregon
November 15, 2004

Report of Independent Certified Public Accountants on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Basic Financial Statements Performed in Accordance with Government Auditing Standards

The Council, Council President and Auditor of Metro
Portland, Oregon

We have audited the basic financial statements of Metro as of and for the year ended June 30, 2004, and have issued our report thereon dated November 15, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether Metro's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Metro's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, in our separate letter dated November 15, 2004, we noted matters that we considered to be a significant deficiency. A significant deficiency is an internal control deficiency that could adversely affect the entity's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

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This report is intended solely for the information and use of management, Metro's Councilors and the Secretary of State, Division of Audits, of the State of Oregon and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

Portland, Oregon
November 15, 2004