



**Financial Statements and Supplementary Information
June 30, 2012 and 2011**

**(With Independent Auditors' Report Thereon and
Including Audit Comments and Disclosures
Required by State Regulations)**

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Financial Section

MOSS ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Tri-County Metropolitan Transportation District of Oregon

We have audited the accompanying balance sheets of the Enterprise Fund and statements of plan net assets of the Defined Benefit Retirement Plan for Management and Staff Employees Trust Fund and Pension Plan for Bargaining Unit Employees of TriMet Trust Fund (pension trust funds) of Tri-County Metropolitan Transportation District of Oregon (the District), as of June 30, 2012 and 2011, and the statements of revenues, expenses, and changes in net assets of the Enterprise Fund for the years ended June 30, 2012 and 2011, and the statements of changes in plan net assets of the pension trust funds for the years ending June 30, 2012 and 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 the District'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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Enterprise Fund, the Defined Benefit Retirement Plan for Management and Staff Employees Trust Fund and Pension Plan for Bargaining Unit Employees of TriMet Trust Fund as of June 30, 2012 and 2011, the changes in financial position and cash flows for the Enterprise fund for the years ended June 30, 2012 and 2011, and the changes in plan net assets for the Defined Benefit Retirement Plan for Management and Staff Employees Trust Fund and Pension Plan for Bargaining Unit Employees of TriMet Trust Fund for the years ended June 30, 2012 and 2011, in conformity with accounting principles generally accepted in the United States of America.

MOSS ADAMS LLP

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2012 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of funding progress and the budgetary comparison information on pages 4 through 13 and 47 through 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The schedule of property tax levies and collections, and schedule of property tax transactions and outstanding balances (statistical section) are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of property tax levies and collections, and schedule of property tax transactions and outstanding balances are fairly stated in all material respects in relation to the financial statements as a whole.



Julie Desimone, Partner
for Moss Adams LLP
Portland, Oregon
September 20, 2012

Management's Discussion and Analysis

(dollars in thousands)

Management's Discussion and Analysis (MD&A) provides a narrative overview and analysis of the financial performance of Tri-County Metropolitan Transportation District of Oregon ("TriMet" or "the District") for the fiscal years ended June 30, 2012 and 2011, including the District operations within the Enterprise Fund, the TriMet Defined Benefit Retirement Plan for Management and Staff Employees Trust Fund and the Pension Plan for Bargaining Unit Employees of TriMet Trust Fund ("the Trust funds"). The Enterprise Fund accounts for all activities and operations of the District except for the activities included within the Trust funds. The TriMet Defined Benefit Retirement Plan for Management and Staff Employees Trust Fund accounts for the assets of the non-union employee benefit plan held by the District in a trustee capacity. The Pension Plan for Bargaining Unit Employees of TriMet Trust Fund accounts for the assets of the union employee benefit plan held by the District in a trustee capacity. The MD&A is designed to assist readers of the financial statements in focusing on significant financial issues, provide an overview of the District's financial activity and identify changes in the District's financial position. As this information is presented in summary form, it should be read in conjunction with the financial statements including the notes to financial statements and other supplementary information that is provided in addition to this MD&A. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

TriMet, a public corporation in the State of Oregon, is a regional transit authority providing a high-capacity transportation system throughout parts of Multnomah, Washington and Clackamas Counties through light rail ("MAX"), commuter rail ("WES"), Streetcar, and bus transportation systems.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this annual report consists of three parts: MD&A, the basic financial statements, and the notes to the financial statements. The report includes the following three basic financial statements for the TriMet Enterprise Fund: the Balance Sheets, the Statements of Revenues, Expenses and Changes in Net Assets, and the Statements of Cash Flows. The report also includes the following two basic financial statements for each Trust Fund: Statements of Net Assets and Statement of Changes in Net Assets.

TriMet's financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America ("GAAP") as applied to governmental units. The 2012 and 2011 financial statements are presented using the economic resource measurement focus and accrual basis of accounting. In accordance with GAAP, all revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. All assets and liabilities associated with the operation of the District are included in the Enterprise Fund Balance Sheets, and depreciation of capital assets is recognized in the Statements of Revenues, Expenses and Changes in Net Assets.

ENTERPRISE FUND FINANCIAL HIGHLIGHTS

- Total operating and non-operating revenues were \$488,360 for fiscal year 2012, an increase of 19.0 percent. Passenger revenue increased 5.5 percent, to \$102,240, during fiscal year 2012, as a result of a fare increase implemented in September 2011, a 2.2 percent increase in annual light rail ridership, and a 2.0 percent increase in bus ridership.
- Total payroll and other tax revenues increased \$21,928, or 9.7 percent, compared to fiscal year 2011. Employer payroll tax revenue increased \$21,475, or 10.2 percent, while self employment and other tax revenues increased \$1,745, or 12.9 percent, over fiscal year 2011, due to the combined impact of tax rate increases, offset by the impact of economic difficulties in the region, transitioning to a slow economic turnaround beginning in fiscal year 2011 and continuing in fiscal year 2012.

In 2004, the TriMet Board of Directors (Board) adopted Ordinance No. 279 increasing TriMet's employer payroll and self employment tax rate. The increase went into effect January 1, 2005 and is being phased in over a 10 year period. The rate has increased by .0001 each January 1 since 2005 and will continue to increase until the rate reaches .007218 on January 1, 2014. The rate was .006918 on January 1, 2011 and .007018 on January 1, 2012.

In 2009, the Legislative Assembly gave the TriMet Board the authority to increase the rate for payroll and self-employment taxes by an additional .001, in addition to any increases resulting from withdrawals. That legislation requires that the additional increases be phased in over ten years, prohibits any annual increase from exceeding .0002, and requires the TriMet Board to find, before implementing any additional increase, that the economy in the District has recovered to an extent sufficient to warrant the increase in tax. As of June 30, 2012, the TriMet Board has not approved any increase authorized by the 2009 legislation.

Management's Discussion and Analysis*continued*

(dollars in thousands)

- Grant revenue increased \$51,780, or 130.6 percent, compared to fiscal year 2011, as a result of delays in Federal approval of preventive maintenance grants in fiscal year 2011. The final federal approval of short-term extensions for this program occurred in August 2011, resulting in receipt of \$30.8 million of 2011 preventive maintenance funds in fiscal year 2012.
- Total operating and non-operating expenses increased 1.0 percent to \$553,894, during fiscal year 2012. Fringe benefits expense increased 1.2 percent or \$2,398 due primarily to costs associated with retiree pension and union health insurance benefits. Materials and services expenses increased 6.5 percent or \$4,779 due primarily to increases in intergovernmental transfers (\$3,500), diesel fuel (\$2,306), maintenance costs associated with light rail vehicles (\$1,098), security services (\$1,130), and offset by decreases in transit enhancements (\$3,237) due to the completion of federal stimulus projects.
- Total net assets at June 30, 2012, were \$1,822,565, an increase of \$69,438 from 2011. The increase in net assets is due primarily to an increase in capital assets associated with the Portland to Milwaukie light rail project.
- Total capital assets, net of accumulated depreciation, were \$2,241,686 at June 30, 2012, an increase of \$174,951 from 2011. This increase was due primarily to the net impact of costs related to the Portland to Milwaukie light rail project, offset by depreciation expense related to existing capital assets currently in use.

ENTERPRISE FUND FINANCIAL SUMMARY**Net Assets**

The District's total net assets at June 30, 2012, were \$1,822,565, an increase of \$69,438 or 4.0 percent from June 30, 2011 (see Table 1). Total assets increased \$83,572, or 2.9 percent, and total liabilities increased \$14,134 or 1.2 percent. The increase in total assets is due primarily to increases in capital assets, offset by decreases in cash and investments of \$81,466 associated with the payment of debt service principal and interest and the utilization of restricted funds for construction costs related to the Portland to Milwaukie light rail project. The increase in total liabilities is due primarily to increases in Other postemployment benefits liability of \$67,707, partially offset by principal payments made on bonds during the year.

Net Assets							
As of June 30							
(dollars in thousands)							
	2012	2011	2010	Increase (decrease)	Percentage change	Increase (decrease)	Percentage change
				2012 - 2011	2012 - 2011	2011 - 2010	2011 - 2010
Assets							
Current and other assets	\$ 736,759	\$ 828,138	\$ 630,395	\$ (91,379)	(11.0)%	\$ 197,743	31.4%
Capital assets, net of depreciation	2,241,686	2,066,735	2,035,933	174,951	8.5%	30,802	1.5%
Total assets	<u>2,978,445</u>	<u>2,894,873</u>	<u>2,666,328</u>	<u>83,572</u>	<u>2.9%</u>	<u>228,545</u>	<u>8.6%</u>
Liabilities							
Current liabilities	353,022	368,844	246,550	(15,822)	(4.3)%	122,294	49.6%
Noncurrent liabilities	802,858	772,902	626,930	29,956	3.9%	145,972	23.3%
Total liabilities	<u>1,155,880</u>	<u>1,141,746</u>	<u>873,480</u>	<u>14,134</u>	<u>1.2%</u>	<u>268,266</u>	<u>30.7%</u>
Net assets							
Invested in capital assets, net of related debt	1,939,628	1,815,312	1,712,456	124,316	6.8%	102,856	6.0%
Restricted for capital projects	2,633	13,324	46,279	(10,691)	(80.2)%	(32,955)	(71.2)%
Restricted for debt service	56,531	101,721	133,677	(45,190)	(44.4)%	(31,956)	(23.9)%
Unrestricted	(176,227)	(177,230)	(99,564)	1,003	(0.6)%	(77,666)	78.0%
Total net assets	<u>1,822,565</u>	<u>1,753,127</u>	<u>1,792,848</u>	<u>69,438</u>	<u>4.0%</u>	<u>(39,721)</u>	<u>(2.2)%</u>
Total liabilities and net assets	<u>\$ 2,978,445</u>	<u>\$ 2,894,873</u>	<u>\$ 2,666,328</u>	<u>\$ 83,572</u>	<u>2.9%</u>	<u>\$ 228,545</u>	<u>8.6%</u>

Management's Discussion and Analysis

continued

(dollars in thousands)

Total net assets at June 30, 2011, were \$1,753,127, a decrease of \$39,721 or 2.2 percent from June 30, 2010. Total assets increased \$228,545, or 8.6 percent, and total liabilities increased \$268,266 or 30.7 percent. The increase in total assets is due primarily to increases in cash and investments of \$215,154 associated with the issuance of bonds and the receipt of the remaining funds from Oregon Lottery Bond proceeds restricted for use in funding the Portland to Milwaukie light rail project. The increase in total liabilities is due primarily to increases in unearned capital project revenue of \$131,238 related to the unspent portion of ODOT funds noted above and long term debt of \$87,991 which resulted from issuance of \$142,380 of capital grant receipt revenue bonds offset by principal payments made on bonds during the year.

Current and other assets decreased \$91,379, or 11.0 percent, in 2012, due primarily to the payment of debt service principal and interest and expenditures related to construction of the Portland to Milwaukie light rail project.

Current and other assets increased \$197,743, or 31.4 percent, in 2011, due primarily to the increase in cash and investments associated with the receipt of the remaining \$197 million of a State grant funded with Oregon Lottery Bond proceeds and restricted for the Milwaukie light rail project, and the issuance of bonds on June 30, 2011.

Current liabilities consist primarily of accounts payable, accrued compensation, current portion of bonds payable and unearned revenue. The decrease in current liabilities of \$15,822, or 4.3 percent, in 2012 was primarily a result of a decrease in the current portion of long term debt resulting from the final payment on the 2006 Capital Grant Revenue Bonds in May 2012, offset by increases in accrued payroll (\$7,451) due primarily to a liability for retroactive pay due to union employees and an increase in accrued pension obligation (\$17,182) due to timing of payment of the 2012 annually required contribution (in fiscal year 2011, a portion of the annually required contribution was paid early in June, while in fiscal year 2012, the entire payment was made after year end, in August 2012). The increase in current liabilities of \$122,294, or 49.6 percent, in 2011 was primarily a result of increases in unearned capital project revenue associated with receipt of the remaining \$197 million Oregon lottery bond funds noted above.

Noncurrent liabilities consist primarily of long-term debt, long-term lease liabilities and OPEB liabilities. Noncurrent liabilities increased \$29,956 or 3.9 percent in 2012, primarily due to an increase in OPEB liabilities, offset by decreases in long-term debt resulting from payment of principal on outstanding debt. Noncurrent liabilities increased \$145,972 or 23.3 percent in 2011, primarily due to the issuance of \$142,380 in bonds on June 30, 2011.

Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the amount of outstanding indebtedness attributable to the acquisition, construction, or improvement of those assets. When there are significant unspent bond proceeds, the proceeds are an offset to the related indebtedness. The amount restricted for capital projects represents the amount that will be used to finance construction projects.

Net assets restricted for debt service represents amounts restricted for principal and interest payments of amounts due related to outstanding revenue and general obligation bonds (discussed in Note 8), as well as restricted deposits related to the lease transactions (discussed in Note 11).

Unrestricted net assets have negative balances for both fiscal years 2012 and 2011. This resulted primarily from the adoption of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*. This statement established standards for the measurement, recognition, and presentation of other postemployment benefits in the District's financial statements. Prior to implementation of this statement in fiscal year 2008, the District recorded costs associated with other postemployment benefits on a pay-as-you-go basis. Other postemployment benefit liabilities recorded on the balance sheet in accordance with this statement totaled \$290,554 and \$222,847 for the years ended June 30, 2012 and 2011, respectively.

Changes in Net Assets

The District's total revenues increased \$77,972, or 19.0 percent, during fiscal year 2012 (see Table 2). Passenger revenue increased \$5,350, or 5.5 percent, Payroll and other tax revenue increased \$21,928, or 9.7%, and grant revenue increased \$51,780, or 130.6 percent, as discussed above.

Total revenues decreased \$23,221, or 5.4 percent, during fiscal year 2011. Passenger revenue increased \$3,161, or 3.4 percent, Payroll and other tax revenue increased \$17,523, or 8.4 percent, offset by a grant revenue decrease of \$44,558, or 52.9 percent, primarily due to delays in preventive maintenance grant approvals by the federal government.

Management’s Discussion and Analysis

continued
(dollars in thousands)

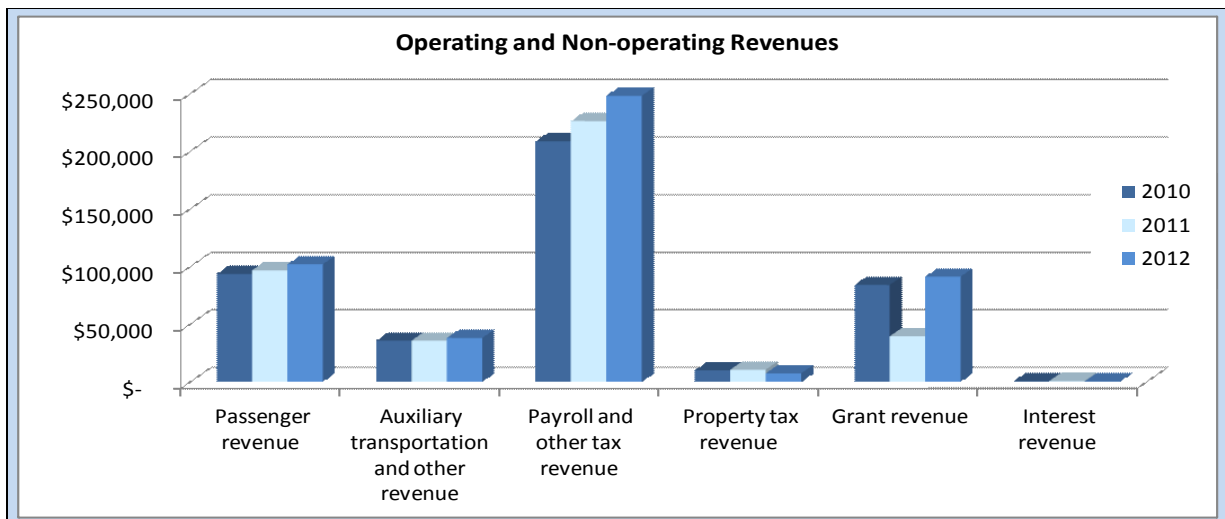
Table 2

Changes in Net Assets
For the Years Ended June 30
(dollars in thousands)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>Increase (decrease) 2012 - 2011</u>	<u>Percentage change 2012 - 2011</u>	<u>Increase (decrease) 2011 - 2010</u>	<u>Percentage change 2011 - 2010</u>
Revenues							
Operating revenues							
Passenger revenue	\$ 102,240	\$ 96,890	\$ 93,729	\$ 5,350	5.5%	\$ 3,161	3.4%
Auxiliary transportation and other revenue	38,273	35,862	35,872	2,411	6.7%	(10)	(0.0)%
Nonoperating revenues							
Payroll and other tax revenue	248,384	226,456	208,933	21,928	9.7%	17,523	8.4%
Property tax revenue	7,488	10,697	10,132	(3,209)	(30.0)%	565	5.6%
Grant revenue	91,439	39,659	84,217	51,780	130.6%	(44,558)	(52.9)%
Interest revenue	536	824	726	(288)	(35.0)%	98	13.5%
Total operating and nonoperating revenues	<u>488,360</u>	<u>410,388</u>	<u>433,609</u>	<u>77,972</u>	<u>19.0%</u>	<u>(23,221)</u>	<u>(5.4)%</u>
Expenses							
Labor	130,281	123,482	125,688	6,799	5.5%	(2,206)	(1.8)%
Fringe benefits	203,273	200,875	191,263	2,398	1.2%	9,612	5.0%
Materials and services	78,638	73,859	90,358	4,779	6.5%	(16,499)	(18.3)%
Utilities	7,885	7,687	7,682	198	2.6%	5	0.1%
Purchased transportation	38,494	37,105	36,359	1,389	3.7%	746	2.1%
Depreciation expense	78,168	82,585	82,452	(4,417)	(5.3)%	133	0.2%
Other operating expense	8,175	8,434	11,358	(259)	(3.1)%	(2,924)	(25.7)%
Net leveraged lease expense	1,058	3,080	85	(2,022)	(65.6)%	2,995	3,523.5%
Interest and other expense	7,922	11,200	12,999	(3,278)	(29.3)%	(1,799)	(13.8)%
Total expenses	<u>553,894</u>	<u>548,307</u>	<u>558,244</u>	<u>5,587</u>	<u>1.0%</u>	<u>(9,937)</u>	<u>(1.8)%</u>
Loss before contributions	(65,534)	(137,919)	(124,635)	72,385	(52.5)%	(13,284)	10.7%
Capital contributions	134,972	104,198	110,620	30,774	29.5%	(6,422)	(5.8)%
Special items	-	(6,000)	-	6,000	(100.0)%	(6,000)	100.0%
Increase (decrease) in net assets	<u>69,438</u>	<u>(39,721)</u>	<u>(14,015)</u>	<u>109,159</u>	<u>(274.8)%</u>	<u>(25,706)</u>	<u>183.4%</u>
Total net assets - beginning	<u>1,753,127</u>	<u>1,792,848</u>	<u>1,806,863</u>	<u>(39,721)</u>	<u>(2.2)%</u>	<u>(14,015)</u>	<u>(0.8)%</u>
Total net assets - ending	<u>\$1,822,565</u>	<u>\$1,753,127</u>	<u>\$1,792,848</u>	<u>\$ 69,438</u>	<u>4.0%</u>	<u>\$ (39,721)</u>	<u>(2.2)%</u>

The Oregon economy began slowing in fiscal year 2008, after experiencing strong growth from 2004 to 2007. In fiscal year 2009, the economic recession began to impact the District’s revenues, due to declining regional employment. This impact on revenues continued through fiscal year 2010. In fiscal years 2011 and 2012, revenues reflected an emerging economy characterized by slow job growth.

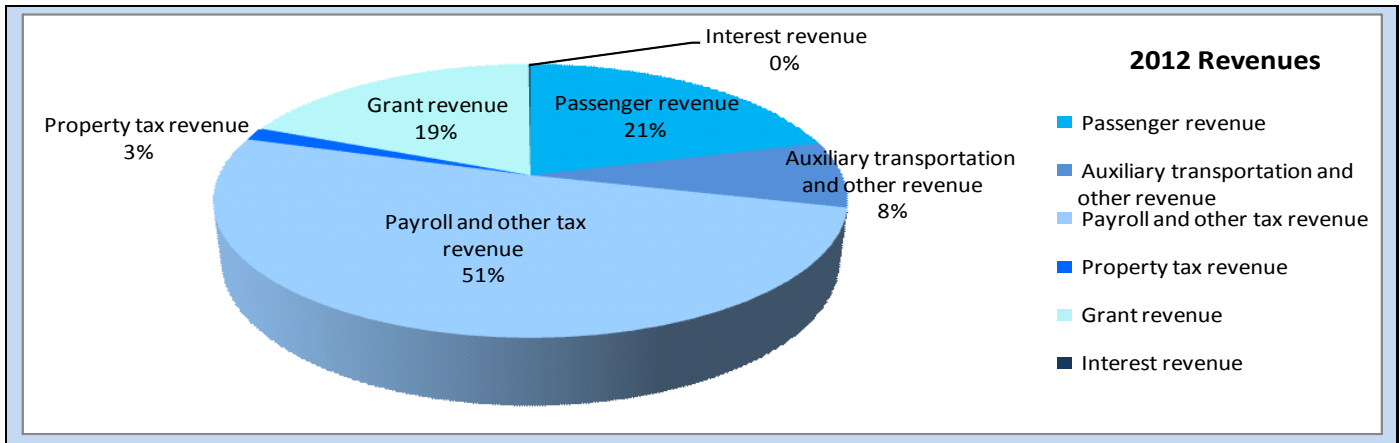
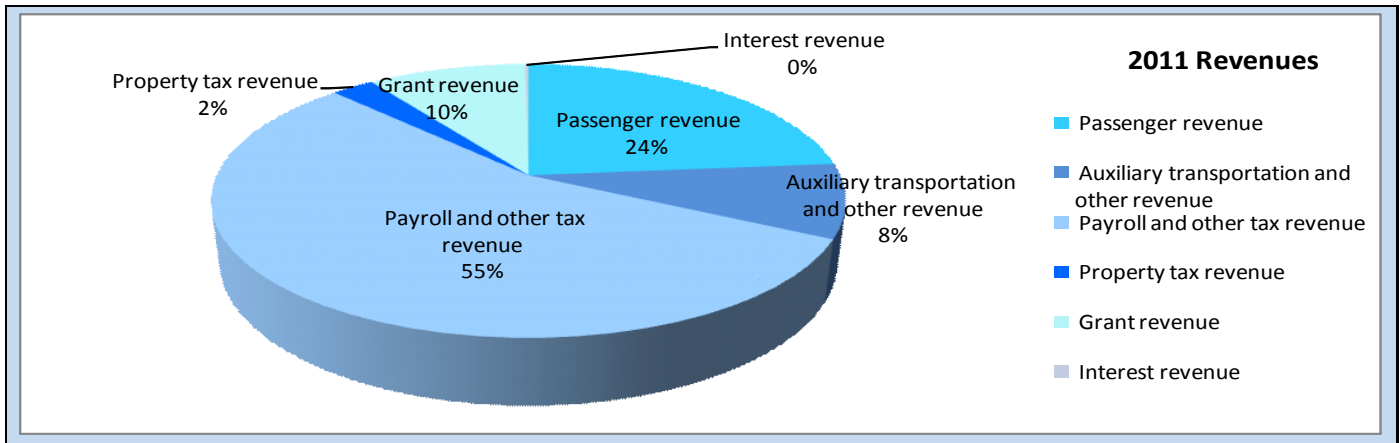
The following chart displays trends in Operating and Non-operating Revenues for the last three fiscal years:



Management's Discussion and Analysis

continued
(dollars in thousands)

The following charts display the allocation of District revenues for fiscal years 2011 and 2012:



Operating Revenues

Operating revenues are composed of passenger fares and other revenue related to operations.

Passenger Revenue

Passenger revenue includes fares earned from cash receipts from riders for the sale of passes and tickets, and employer paid pass and other group fare revenue programs. In fiscal year 2012, the District experienced overall growth in passenger revenue of 5.5 percent, due to increases in ridership and a rate increase in September 2011.

Auxiliary Transportation and Other Revenue

Auxiliary Transportation and Other Revenue includes revenue from the Medical Transportation Program, LIFT service, Streetcar operating revenues, Local grants and operating assistance from other local governments. In fiscal year 2012, auxiliary transportation and other revenues increased \$2,411, resulting from improved cost recovery for Streetcar maintenance of way, and increases in Medical Transportation revenues resulting from increases in the number of rides taken in this program.

Non-operating Revenues

Non-operating revenues include Payroll and other tax revenues, Property tax revenue restricted for debt service related to outstanding general obligation bonds, Grant revenue and Interest earnings.

Management's Discussion and Analysis

continued
(dollars in thousands)

Payroll and Other Tax Revenues

Payroll tax revenues are the District's main source of revenue. After six consecutive years of increases, Payroll tax revenues decreased for two consecutive years, in 2009 and 2010, before increasing again in 2011 and 2012. In fiscal year 2012, payroll tax revenues reflected an emerging economy characterized by slow job growth, resulting in an increase of \$21,928, or 9.7 percent, compared to fiscal year 2011. Payroll and other tax revenues increased \$17,523, or 8.4 percent in fiscal year 2011.

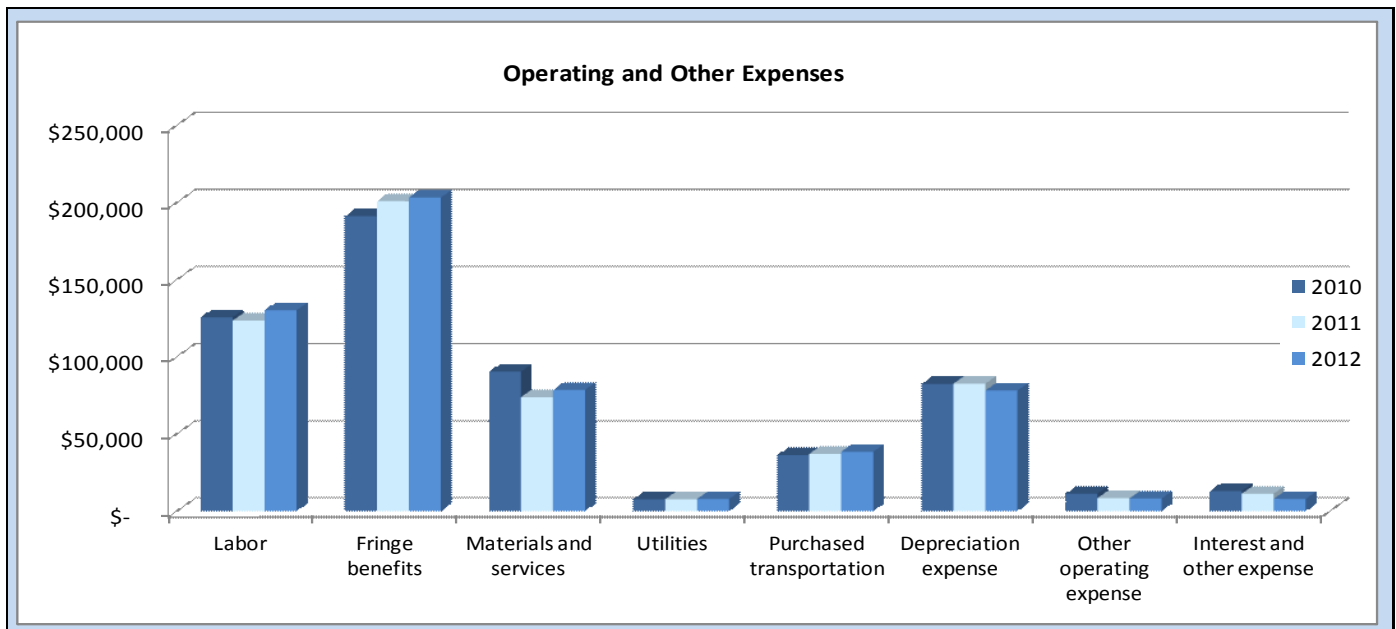
Operating and Other Expenses

Operating and Other Expenses include operations and maintenance costs, general and administrative expenses, purchased transportation costs associated with the Medical Transportation and LIFT programs, depreciation of capital assets, interest on outstanding debt and other costs.

Total expenses increased \$5,587, or 1.0 percent, during fiscal year 2012. Labor costs increased \$6,799, or 5.5 percent, resulting primarily from retroactive pay liabilities of \$6,229 recorded as part of the arbitration award for the union contract which ended in November 2009. Fringe benefits increased \$2,398, or 1.2 percent, due to continued increases in medical insurance premiums, and pension costs. Materials and services increased \$4,779, or 6.5 percent, due primarily to increases in vehicle maintenance costs. These cost increases were partially offset by decreases in Depreciation expense (\$4,417) and Interest expense (\$3,278).

Total expenses decreased \$9,937, or 1.8 percent, during fiscal year 2011. Labor costs decreased \$2,206, or 1.8 percent, resulting primarily from the impact of service cuts on staffing. Fringe benefits increased \$9,612, or 5.0 percent, due to continued increases in medical insurance premiums, and other postemployment benefit costs. Materials and services decreased \$16,499, or 18.3 percent, due primarily to declines in Facility maintenance costs that resulted from the completion of Federal Stimulus projects in 2010. Depreciation expense decreased \$4,417, or 5.3 percent, during fiscal year 2012, as depreciable assets continued to age and become fully depreciated. Depreciation increased \$133, or 0.2 percent, in fiscal year 2011.

The following chart displays trends in Operating and other expenses during the last three fiscal years:



Capital Contributions

Capital contributions include federal grants and other local government contributions restricted for purchase or construction of capital assets. Capital contributions increased \$30,774, or 29.5 percent, during fiscal year 2012, primarily as a result of the receipt of the first installment of federal funds under the Full Funding Grant Agreement for the Portland to Milwaukie light rail project. Capital contributions decreased \$6,422, or 5.8 percent, during fiscal year 2011.

Management's Discussion and Analysis

continued

(dollars in thousands)

Capital Assets

At June 30, 2012, the District had invested \$2,241,686, net of accumulated depreciation, in a variety of capital assets (see Table 3 and Note 5).

	2012	2011	2010	Increase (decrease) 2012 - 2011	Percentage change 2012 - 2011	Increase (decrease) 2011 - 2010	Percentage change 2011 - 2010
Land and other	\$ 208,485	\$ 187,877	\$ 147,331	\$ 20,608	11.0%	\$ 40,546	27.5%
Rail right-of-way and stations	1,247,420	1,294,836	1,341,256	(47,416)	(3.7)%	(46,420)	(3.5)%
Buildings	197,716	204,787	194,710	(7,071)	(3.5)%	10,077	5.2%
Transportation equipment	237,158	248,842	268,858	(11,684)	(4.7)%	(20,016)	(7.4)%
Furniture and other equipment	34,721	36,435	38,713	(1,714)	(4.7)%	(2,278)	(5.9)%
Construction in progress	316,186	93,958	45,065	222,228	236.5%	48,893	108.5%
Total capital assets	\$ 2,241,686	\$ 2,066,735	\$ 2,035,933	\$ 174,951	8.5%	\$ 30,802	1.5%

Total capital assets net of depreciation increased \$174,951, or 8.5 percent, during fiscal year 2012, due to construction costs associated with the Portland to Milwaukie light rail project, offset in part by the impact of depreciation of assets in service. Total capital assets net of depreciation increased \$30,802, or 1.5 percent, during fiscal year 2011, primarily due to preliminary engineering and right of way acquisition on the Milwaukie light rail line, offset in part by the impact of depreciation of assets in service. The Portland to Milwaukie Light Rail Project will extend TriMet's light rail system from Portland State University, to the South Waterfront, adding a new transit and pedestrian bridge across the Willamette River, and extending through Southeast Portland to the City of Milwaukie. The project is projected for completion in September 2015.

Long-Term Debt

Long-term debt includes revenue bonds and general obligation bonds. At June 30, 2012, the District had \$316,075 in revenue bonds outstanding and \$9,800 in general obligation bonds outstanding (see Note 8).

In June 2011, the District issued \$142,380 in capital grant receipt revenue bonds to pay for a portion of the costs of capital projects, including new buses, construction on the Milwaukie light rail project, and other regional projects. The bonds are secured by a pledge of Section 5307, Surface Transportation Program (STP), and Congestion Mitigation and Air Quality (CMAQ) federal grants, or replacement grant programs and amounts credited to a debt service account. The capital grant revenue bonds are not general obligations of the District.

The table below represents the District's bond ratings on its long-term debt as rated by Moody's Investor Services, Inc. (Moody's) and Standard & Poor's credit rating agencies:

	Original issue amount	Balance at June 30, 2012	Moody's	Standard & Poor's
General obligation bonds				
1999 Series A Refunding	\$ 79,965	\$ 9,800	Aaa	AAA
Revenue bonds				
Payroll Tax Revenue Bonds:				
2003 Series A Payroll Tax Refunding	19,705	8,355	Aa1	AAA
2005 Series A Payroll Tax Refunding	65,475	38,405	Aa1	AAA
2007 Series A Payroll Tax	45,450	39,470	Aa1	AAA
2009 Series A and B Payroll Tax	49,550	46,950	Aa1	AAA
Grant Receipt Bonds:				
2005 Series 2005 Capital Grant Receipt	79,320	40,515	A1	A
2011 Series A and B Capital Grant Receipt	142,380	142,380	A1	A

Management's Discussion and Analysis

continued

(dollars in thousands)

Lease Transactions

In prior years, TriMet entered into several lease-leaseback and sale-leaseback transactions with investors (see Note 11). During the 2008-2009 financial crisis, U.S. and global financial markets experienced extreme liquidity pressure, which led to the sale, bankruptcy, and takeover of some of the largest financial institutions in the country. Two financial institutions involved in TriMet lease transactions experienced rating downgrades that triggered collateralization requirements under the leases.

In July 2008, MBIA Inc. posted collateral with Wells Fargo Bank N.A. in compliance with their obligations under the Equity and Debt Payment Undertaking Agreements in the 2005 lease transaction. In February 2009, the District terminated the MBIA Equity Payment Undertaking Agreement and the MBIA Debt Payment Undertaking Agreement and MBIA provided TriMet with the liquidated value of the collateral. The District has purchased US Treasury securities with a portion of the liquidated collateral to cover all future Equity Payment obligations. The District was not required to collateralize the Debt Payment obligations, and will pay these future obligations with District resources. At June 30, 2012, total outstanding Debt Payment obligations relating to the 2005 lease transaction were \$20,145.

The District is not aware of any default, event of default or event of loss under any of the operative lease documents at June 30, 2012.

TRIMET DEFINED BENEFIT RETIREMENT PLAN FOR MANAGEMENT AND STAFF EMPLOYEES TRUST FUND

The TriMet Defined Benefit Retirement Plan for Management and Staff Employees Trust Fund accounts for the assets of the employee benefit plan held by TriMet in a trustee capacity. The plan covers most TriMet non-union employees hired before April 27, 2003. Covered employees who retire at or after age 62, with five years of service, are entitled to an annual retirement benefit, payable monthly for life, with annual cost of living increases. TriMet is required to maintain funds under the plan sufficient to pay benefits when due. The following chart displays assets, liabilities, and net assets of the trust fund as of June 30, 2012 and 2011:

	Fiscal year	
	2012	2011
Total trust assets	\$ 79,812	\$ 78,321
Total trust accounts payable for fund expenses	41	58
Total net assets held in trust	<u>\$ 79,771</u>	<u>\$ 78,263</u>

Total net assets as of June 30, 2012 increased by \$1,508 or 1.9 percent, due to employer contributions recorded in the plan of \$4,834 in fiscal year 2012, offset by the decrease in fair market value of investments and reductions due to payment of retirement benefits under the terms of the plan. TriMet funded the 2011 annual required contribution of \$4,576 in June and August 2011. The 2012 annual required contribution was funded in August 2012.

The following chart displays changes in net assets for the years ended June 30, 2012 and 2011:

	Fiscal year ended	
	June 30, 2012	June 30, 2011
Employer contributions	\$ 4,834	\$ 4,576
Investment earnings	(103)	12,436
Total additions	<u>4,731</u>	<u>17,012</u>
Benefit payments	3,134	2,731
Administrative expenses	89	97
Total deductions	<u>3,223</u>	<u>2,828</u>
Change in net assets	1,508	14,184
Net assets held in trust, beginning of year	78,263	64,079
Net assets held in trust, end of year	<u>\$ 79,771</u>	<u>\$ 78,263</u>

Additional information on the TriMet Defined Benefit Retirement Plan for Management and Staff Employees Trust Fund can be found in Note 15 in the accompanying notes to the financial statements.

Management's Discussion and Analysis

continued

(dollars in thousands)

THE PENSION PLAN FOR BARGAINING UNIT EMPLOYEES OF TRIMET TRUST FUND

The Pension Plan for Bargaining Unit Employees of TriMet Trust Fund accounts for the assets of the employee benefit plan held by TriMet in a trustee capacity. The plan covers all full-time and part-time employees represented by the Amalgamated Transit Union hired before August 1, 2012. Benefits under the plan are 100 percent vested after 10 years of service. Under the terms of the Bargaining Unit Pension Plan and Permanent Disability Agreement, covered members retiring at or after age 58 with 10 or more years of service will receive a monthly benefit for life with annual cost of living adjustments. TriMet is required to maintain funds under the plan sufficient to pay benefits when due. The following chart displays assets, liabilities, and net assets of the trust fund as of June 30, 2012 and 2011:

	Fiscal year	
	2012	2011
Total trust assets	\$ 315,683	\$ 305,016
Total trust accounts payable for fund expenses	727	202
Total net assets held in trust	<u>\$ 314,956</u>	<u>\$ 304,814</u>

Total net assets as of June 30, 2012 increased by \$10,142, or 3.3 percent, due to employer contributions to the plan of \$35,853 in fiscal year 2012, offset by the decrease in fair market value of investments and reductions due to payment of retirement benefits under the terms of the plan. TriMet funded the 2011 annual required contribution of \$33,929 in June and August 2011. The 2012 annual required contribution was funded in August 2012.

The following chart displays changes in net assets for the years ended June 30, 2012 and 2011:

	Fiscal year ended	
	June 30, 2012	June 30, 2011
Employer contributions	\$ 35,853	\$ 33,929
Investment earnings	50	47,239
Total additions	<u>35,903</u>	<u>81,168</u>
Benefit payments	25,496	22,869
Administrative expenses	265	269
Total deductions	<u>25,761</u>	<u>23,138</u>
Change in net assets	10,142	58,030
Net assets held in trust, beginning of year	304,814	246,784
Net assets held in trust, end of year	<u>\$ 314,956</u>	<u>\$ 304,814</u>

Additional information on the Pension Plan for Bargaining Unit Employees of TriMet Trust Fund can be found in Note 16 in the accompanying notes to the financial statements.

ACCOUNTING GUIDANCE AND RECLASSIFICATIONS

The District adopted GASB Statement No. 59, *Financial Instruments Omnibus*, during 2011. This statement updates and expands existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools.

Certain reclassifications have been recorded to prior year balances to provide consistent presentation with the current year financial statements.

Management's Discussion and Analysis

continued

(dollars in thousands)

ECONOMIC FACTORS AND FISCAL YEAR 2013 BUDGET

The District's Board of Directors adopted the fiscal year 2013 budget on June 13, 2012. The fiscal year 2013 budget includes \$506,108 for operating expenses, a 5.25 percent decrease from fiscal year 2012. This budget also includes \$446,411 for light rail construction projects and \$105,383 for other capital expenditures. As a result of the recession and costs which are growing faster than revenue, TriMet faced a revenue shortfall for the fiscal year 2013 budget of between \$12,000 and \$17,000. This shortfall was attributable primarily to: higher expenses related to the possible outcome of labor arbitration; lower revenue related to a reduction in forecast payroll tax revenue growth; and lower revenue related to a forecast reduction in fiscal year 2013 federal formula grant funds. The budget includes \$12,000 in net revenue increases and expenditure reductions, based upon a favorable arbitration decision. The changes include: eliminations of fare zones and creation of a flat fare system, anticipated to increase revenues; elimination of free light rail and Streetcar service in downtown Portland, anticipated to increase revenues; non-union staffing reductions; and reductions in funding for Streetcar and LIFT services. Interest arbitration related to the union contract was held in May 2012, and the arbitration decision was released on July 12, 2012 in TriMet's favor.

During fiscal year 2012, TriMet entered in to a Full Funding Grant Agreement (FFGA) with the Federal Transit Administration, related to the Portland to Milwaukie Light Rail Project. The first draw down on the grant of \$85,000 was received in June 2012. The project is budgeted to cost a total of \$1.49 billion, with 50% of the cost provided by the Federal New Starts program. The project is expected to open September 2015.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide readers with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact:

TriMet
Attn: Finance & Administration
4012 S.E. 17th Avenue
Portland, OR 97202
www.trimet.org

**Enterprise Fund
Balance Sheets**

June 30, 2012 and 2011
(dollars in thousands)

	2012	2011
Assets		
Current assets (unrestricted):		
Cash and cash equivalents	\$ 134,864	\$ 53,084
Investments	8,284	6,898
Taxes and other receivables, net	83,326	75,129
Grants receivable	4,429	8,683
Prepaid expenses	8,884	4,997
Prepaid lease expenses and deposits	13,556	15,376
Current assets (restricted):		
Cash and cash equivalents	26,474	102,808
Investments	224,141	312,439
Taxes and other receivables, net	893	698
Grants receivable	2,066	9,451
Total current assets	<u>506,917</u>	<u>589,563</u>
Capital assets		
Land and other	208,485	187,877
Construction in process	316,186	93,958
Property and equipment	2,828,588	2,824,562
Less accumulated depreciation	<u>(1,111,573)</u>	<u>(1,039,662)</u>
Net capital assets	<u>2,241,686</u>	<u>2,066,735</u>
Prepaid lease expenses	163,124	163,330
Long-term restricted lease deposit	41,790	52,393
Materials, supplies and other	20,640	20,225
Other assets	4,288	2,627
Total assets	<u>\$ 2,978,445</u>	<u>\$ 2,894,873</u>
Liabilities		
Current liabilities:		
Accounts payable	\$ 21,224	\$ 28,845
Accounts payable from restricted funds	34,949	22,881
Accrued payroll	26,555	19,104
Current portion of long-term debt	26,368	66,901
Accrued pension obligation	40,687	23,505
Current portion of noncurrent liabilities	6,030	5,580
Unearned revenue	14,833	16,997
Unearned capital project revenue	164,144	163,766
Other accrued liabilities	4,676	5,889
Unearned lease revenue, current portion	13,556	15,376
Total current liabilities	<u>353,022</u>	<u>368,844</u>
Noncurrent liabilities:		
Long-term debt	317,154	345,010
Unearned lease revenue	43,751	58,380
Long-term lease liability	143,595	139,070
Other postemployment benefits liability	290,554	222,847
Other long-term liabilities	7,804	7,595
Total noncurrent liabilities	<u>802,858</u>	<u>772,902</u>
Total liabilities	<u>1,155,880</u>	<u>1,141,746</u>
Net assets		
Invested in capital assets, net of related debt	1,939,628	1,815,312
Restricted for capital projects	2,633	13,324
Restricted for debt service	56,531	101,721
Unrestricted	<u>(176,227)</u>	<u>(177,230)</u>
Total net assets	<u>1,822,565</u>	<u>1,753,127</u>
Total liabilities and net assets	<u>\$ 2,978,445</u>	<u>\$ 2,894,873</u>

See accompanying notes to basic financial statements

Enterprise Fund
Statements of Revenues, Expenses and Changes in Net Assets
 For the Years Ended June 30, 2012 and 2011
 (dollars in thousands)

	2012	2011
Operating revenues		
Passenger revenue	\$ 102,240	\$ 96,890
Auxiliary transportation and other revenue	38,273	35,862
Total operating revenues	<u>140,513</u>	<u>132,752</u>
Operating expenses		
Labor	130,281	123,482
Fringe benefits	203,273	200,875
Materials and services	78,638	73,859
Utilities	7,885	7,687
Purchased transportation	38,494	37,105
Depreciation expense	78,168	82,585
Other operating expense	8,175	8,434
Total operating expenses	<u>544,914</u>	<u>534,027</u>
Operating loss	<u>(404,401)</u>	<u>(401,275)</u>
Non-operating revenues (expenses)		
Payroll and other tax revenue	248,384	226,456
Property tax revenue	7,488	10,697
Grant revenue	91,439	39,659
Interest income	536	824
Net leveraged lease expense	(1,058)	(3,080)
Interest and other expense	(7,922)	(11,200)
Total non-operating revenues, net	<u>338,867</u>	<u>263,356</u>
Loss before contributions and special items	(65,534)	(137,919)
Capital contributions	134,972	104,198
Special items	-	(6,000)
Changes in net assets	<u>69,438</u>	<u>(39,721)</u>
Total net assets - beginning	1,753,127	1,792,848
Total net assets - ending	<u>\$ 1,822,565</u>	<u>\$ 1,753,127</u>

See accompanying notes to basic financial statements

Enterprise Fund
Statements of Cash Flows
 For the Years Ended June 30, 2012 and 2011
 (dollars in thousands)

	2012	2011
Cash flows from operating activities		
Receipts from passengers	\$ 107,519	\$ 96,874
Receipts from other sources	30,906	40,108
Payments to employees	(243,700)	(269,553)
Payments to suppliers	(145,168)	(120,989)
Net cash used in operating activities	<u>(250,443)</u>	<u>(253,560)</u>
Cash flows from noncapital financing activities		
Receipts from payroll taxes	241,091	221,039
Receipts from operating grants	97,499	59,557
Net cash provided by noncapital financing activities	<u>338,590</u>	<u>280,596</u>
Cash flows from capital and related financing activities		
Receipts from capital grants	140,929	236,285
Receipts from property taxes	7,341	10,638
Payments to other sources	(353)	(6,369)
Receipts from sales or lease of capital assets	97	651
Acquisition and construction of capital assets	(235,291)	(128,252)
Proceeds from issuance of debt and capital leases	165	153,946
Principal payments on long-term debt	(66,905)	(60,551)
Interest payments on long-term debt activities	(16,201)	(19,360)
Net cash provided by capital and related financing activities	<u>(170,218)</u>	<u>186,988</u>
Cash flows from investing activities		
Purchases of investment securities	(406,435)	(561,238)
Proceeds from sales and maturities of investment securities	493,347	379,833
Interest received	605	1,130
Net cash used in investing activities	<u>87,517</u>	<u>(180,275)</u>
Net increase in cash and cash equivalents	5,446	33,749
Cash and cash equivalents, beginning of year	<u>155,892</u>	<u>122,143</u>
Cash and cash equivalents, end of year	<u>\$ 161,338</u>	<u>\$ 155,892</u>
Reconciliation of cash and cash equivalents		
Unrestricted cash and cash equivalents	\$ 134,864	\$ 53,084
Restricted cash and cash equivalents	<u>26,474</u>	<u>102,808</u>
Total cash and cash equivalents	<u>\$ 161,338</u>	<u>\$ 155,892</u>

See accompanying notes to basic financial statements

Enterprise Fund
Statements of Cash Flows
 For the Years Ended June 30, 2012 and 2011
 (dollars in thousands)
continued

	2012	2011
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (404,401)	\$ (401,275)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	78,168	82,585
(Gain) Loss on disposal of capital assets	(9)	438
Increase in taxes and other receivables	(904)	(100)
Increase in materials, supplies and other	(415)	(1,825)
(Increase) decrease in prepaid and other assets	(6,096)	1,635
Increase (decrease) in operating accounts payable	(7,621)	9,289
Increase in accrued payroll	7,451	171
Increase (decrease) in unearned revenue	(2,164)	3,718
Increase (decrease) in pension obligation	17,182	(15,337)
Increase in other postemployment benefit obligation	67,707	70,266
Increase (decrease) in other liabilities	659	(3,125)
Total adjustments	<u>153,958</u>	<u>147,715</u>
Net cash used in operating activities	<u>\$ (250,443)</u>	<u>\$ (253,560)</u>

**Supplemental Disclosures of Non-Cash Operating,
 Investing and Financing Activities**
 (dollars in thousands)

	2012	2011
Lease income (expense) - net	\$ (1,058)	\$ (3,080)
Accretion/amortization of investments	2,659	1,440
Fiber optic lease	289	288
Amortization of bond issue cost, premium/discount, and deferred amounts	(2,049)	(985)

See accompanying notes to basic financial statements

Trust Fund
Statements of Pension Plan Net Assets
 June 30, 2012 and 2011
 (dollars in thousands)

	2012			2011		
	TriMet Defined Benefit Retirement Plan for Management and Staff Employees	Pension Plan for Bargaining Unit Employees of TriMet Trust Fund	Total Trust Funds	TriMet Defined Benefit Retirement Plan for Management and Staff Employees	Pension Plan for Bargaining Unit Employees of TriMet Trust Fund	Total Trust Funds
Assets						
Cash and cash equivalents	\$ 188	\$ 2,654	\$ 2,842	\$ 1,855	\$ 18,243	\$ 20,098
Investments:						
Domestic Large/Mid Cap Equity	24,905	94,553	119,458	21,764	86,812	108,576
Domestic Small Cap Equity	2,424	11,790	14,214	2,440	10,580	13,020
International Equity	9,534	41,378	50,912	13,025	54,538	67,563
US Governmental Obligations	791	-	791	10,969	-	10,969
Domestic Fixed Income	13,756	-	13,756	5,657	-	5,657
Foreign Fixed Income	1,467	-	1,467	762	-	762
Tactical Asset Allocation	10,682	74,775	85,457	10,369	71,183	81,552
Real Estate	2,341	11,156	13,497	2,312	8,533	10,845
Absolute Return	6,991	28,959	35,950	4,072	21,333	25,405
Private Equity	1,680	14,004	15,684	1,927	13,059	14,986
Total investments	<u>74,571</u>	<u>276,615</u>	<u>351,186</u>	<u>73,297</u>	<u>266,038</u>	<u>339,335</u>
Receivables:						
Employer contributions receivable	4,834	35,853	40,687	2,976	20,529	23,505
Investment earnings receivable	219	561	780	193	206	399
Total receivables	<u>5,053</u>	<u>36,414</u>	<u>41,467</u>	<u>3,169</u>	<u>20,735</u>	<u>23,904</u>
Total assets	<u>79,812</u>	<u>315,683</u>	<u>395,495</u>	<u>78,321</u>	<u>305,016</u>	<u>383,337</u>
Liabilities						
Retiree payables	-	606	606	-	-	-
Accounts payable	41	121	162	58	202	260
Total liabilities	<u>41</u>	<u>727</u>	<u>768</u>	<u>58</u>	<u>202</u>	<u>260</u>
Net assets						
Held in trust for pension benefits	<u>\$ 79,771</u>	<u>\$ 314,956</u>	<u>\$ 394,727</u>	<u>\$ 78,263</u>	<u>\$ 304,814</u>	<u>\$ 383,077</u>

See accompanying notes to basic financial statements

Trust Fund
Statement of Changes in Pension Plan Net Assets
 For the Years Ended June 30, 2012 and 2011
 (dollars in thousands)

	2012			2011		
	Benefit Retirement Plan for Management and Staff Employees	Pension Plan for Bargaining Unit Employees of TriMet Trust Fund	Total Trust Funds	Benefit Retirement Plan for Management and Staff Employees	Pension Plan for Bargaining Unit Employees of TriMet Trust Fund	Total Trust Funds
Additions						
Employer contributions	\$ 4,834	\$ 35,853	\$ 40,687	\$ 4,576	\$ 33,929	\$ 38,505
Investment earnings:						
Interest	437	-	437	441	111	552
Dividends	1,265	6,211	7,476	1,104	4,403	5,507
Gain on investments sold	790	6,256	7,046	1,947	13,022	14,969
Other income	126	592	718	-	-	-
Net increase (decrease) in fair value of investment	(2,525)	(12,117)	(14,642)	9,249	30,730	39,979
Less investment expense	(196)	(892)	(1,088)	(305)	(1,027)	(1,332)
Total investment earnings	<u>(103)</u>	<u>50</u>	<u>(53)</u>	<u>12,436</u>	<u>47,239</u>	<u>59,675</u>
Total additions	<u>4,731</u>	<u>35,903</u>	<u>40,634</u>	<u>17,012</u>	<u>81,168</u>	<u>98,180</u>
Deductions						
Benefits	3,134	25,496	28,630	2,731	22,869	25,600
Administrative expenses	<u>89</u>	<u>265</u>	<u>354</u>	<u>97</u>	<u>269</u>	<u>366</u>
Total deductions	<u>3,223</u>	<u>25,761</u>	<u>28,984</u>	<u>2,828</u>	<u>23,138</u>	<u>25,966</u>
Change in Net Assets	1,508	10,142	11,650	14,184	58,030	72,214
Net assets held in trust for pension benefits:						
Beginning of year	<u>78,263</u>	<u>304,814</u>	<u>383,077</u>	<u>64,079</u>	<u>246,784</u>	<u>310,863</u>
End of year	<u>\$ 79,771</u>	<u>\$314,956</u>	<u>\$394,727</u>	<u>\$ 78,263</u>	<u>\$304,814</u>	<u>\$383,077</u>

See accompanying notes to basic financial statements

Notes to Financial Statements

June 30, 2012
(dollars in thousands)

1. Organization and Summary of Significant Accounting Policies

The Tri-County Metropolitan Transportation District of Oregon (TriMet or the District) was organized under the provisions of Oregon Revised Statutes (ORS) Chapter 267 to provide mass transit services to the Portland metropolitan area. Formation of the District, which includes parts of Multnomah, Clackamas, and Washington counties, was effective October 14, 1969 with the assumption of the operations of a privately owned bus system. Under ORS 267, the District is authorized to levy taxes and charge fares to pay for the operations of the District. TriMet is also authorized to issue general obligation bonds and revenue bonds.

The District is governed by a seven-member Board of Directors appointed by the Governor of the State of Oregon. Board members represent and must live in certain geographical sub-districts. The Board of Directors set District policy, levy taxes, appropriate funds, adopt budgets, serve as contract board, and perform other duties required by state and federal law.

The District uses two budgetary funds to account for its operating activities: General and Debt Service. The General Fund accounts for the financial resources associated with operating the District. Principle sources of revenue in the General Fund are passenger fares, employer payroll and self employment taxes, State of Oregon payroll assessments (“in lieu”), federal grants, and interest. Primary expenditures in the General Fund are personal services, materials and services, and principal and interest on debt secured by General Fund revenues. The Debt Service Fund accounts for the servicing of general obligation bond debt. The principle source of revenue in the Debt Service Fund is an ad valorem tax. The primary expenditures in the Debt Service Fund are principal repayments and interest expense. The District also has fiduciary responsibility for two pension trust accounts: The TriMet Defined Benefit Plan for Management and Staff Employees Trust Fund, and the Pension Plan for Bargaining Unit Employees of TriMet Trust Fund. The investment, pension funding and benefit payment activity in these funds and pension plan net assets are reported in the Trust Fund.

(a) Financial reporting entity

Accounting principles generally accepted in the United States of America require that the reporting entity include the primary government, all organizations for which the primary government is financially accountable and other organizations that, by the nature and significance of their relationship with the primary government, would cause the financial statements to be incomplete or misleading if excluded. Based on these criteria, TriMet is considered a primary government and does not have any component unit relationships. Conversely, TriMet is not considered a component unit of any primary government.

(b) Basis of accounting and revenue recognition

The financial statements have been prepared using the economic resources measurement focus and accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, depreciation of assets is recognized as an expense in the statements of revenues, expenses and changes in net assets, and all assets and liabilities associated with the operation of the District are included in the balance sheets.

Operating revenues consist primarily of passenger fares. The District also recognizes operating revenue for contracted service revenue and transit advertising revenue. Operating expenses include the costs of operating the District, including depreciation on capital assets. Capital contributions include grant revenue and other contributions related to capital asset acquisitions or construction. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, requires that governments’ proprietary activities apply all GASB pronouncements, as well as the pronouncements of the Financial Accounting Standards Board (FASB) and its predecessors issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. As allowed by GASB Statement No. 20, the District has elected not to implement FASB Statements and Interpretations issued after November 30, 1989. GASB Statement No. 62 supersedes GASB Statement No. 20, and is effective for periods beginning after December 15, 2011. TriMet has not elected early adoption of this statement.

Notes to Financial Statements

June 30, 2012
(dollars in thousands)

(c) Restricted assets

Restricted assets are assets set aside to meet externally imposed legal and contractual obligations. Restricted assets are used in accordance with their requirements and where both restricted and unrestricted resources are available for use, restricted resources are used first, and then unrestricted resources as they are needed. Restricted assets include certain proceeds of the District's revenue bonds, as well as certain resources set aside for their repayment, and capital contributions restricted for costs of certain capital projects.

(d) Tax revenues

Funding of day-to-day operations is primarily provided by the payroll tax imposed by TriMet pursuant to ORS 267.380 and the self employment tax imposed by TriMet pursuant to ORS 267.385. The payroll tax is imposed on employers with respect to wages earned within the TriMet service district. An employer is not permitted to deduct any portion of the tax from the wages of an employee. The self employment tax is imposed on self-employed individuals with respect to their net earnings generated within the TriMet service district. TriMet currently imposes these taxes at a rate of 0.7018 percent of the wages paid to individuals (for the payroll tax) and the net earnings from self-employed individuals (for the self employment tax). The taxes are collected on TriMet's behalf by the Department of Revenue of the State of Oregon under an agreement entered into pursuant to ORS 305.620. Imposed tax revenues are recorded as assets and revenues in the period that the obligation is incurred by the employers and the self-employed individuals. Amounts accrued are estimated based upon current cash receipts and are trueed up in the period that cash is collected. TriMet records an allowance for past due amounts that have not been collected as of year-end.

Annually, TriMet levies an *ad valorem* property tax on all the taxable property within the boundaries of the District in an amount sufficient to pay the annual principal and interest on all voter-approved general obligation bonds (see Note 8). Uncollected property taxes are shown on the balance sheet as receivables. Property is valued at January 1. Taxes are assessed and become property liens on July 1, annually. Property tax statements are mailed in October, and taxes are due in three installments on November 15, February 15, and May 15. Discounts, less than or equal to 3.0 percent, are offered to those paying early.

(e) Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues and expenses as of and for the years ended June 30, 2012 and 2011. Actual results may differ from those estimates.

(f) Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits in the State of Oregon Local Government Investment Pool and financial institutions, and marketable securities with original maturities of three months or less.

(g) Investments

ORS Chapter 294 authorizes the District to invest in obligations of the U.S. Treasury and U.S. Government agencies and instrumentalities, certain bankers' acceptances and corporate indebtedness, and repurchase agreements.

Investments with original maturities of less than one year are accounted for at amortized cost in accordance with GASB Statement No. 31. Remaining investments are accounted for at fair value.

(h) Materials and supplies

Materials and supplies are stated at cost determined on a moving average basis.

(i) Prepaid expenses

Prepaid expenses include amounts paid to vendors for services to be received in future.

(j) Other assets

Other assets include costs incurred in conjunction with the issuance of revenue bonds. These costs are being amortized over the life of the bonds.

Notes to Financial Statements

June 30, 2012
 (dollars in thousands)
continued

(k) Receivables

Taxes and other receivables. Taxes and other receivables are shown net of an allowance for uncollectible accounts. Uncollectible amounts for payroll taxes, self employment taxes and property taxes are based on the District's experience and management's judgment over recent years. The allowance for returns for trade accounts are based upon the District's experience of returns in the most recent year.

Grants receivable. Grants receivable are recorded in accordance with the non-exchange guidance contained in GASB Statement No. 33. Accordingly, receivables are recorded when all eligibility criteria have been met.

(l) Capital assets and depreciation

Capital assets are stated at cost, except for donated capital assets, which are stated at the fair market value on the date of donation. Expenditures for additions and improvements, with a value in excess of \$5 and a useful life of more than one year, are capitalized. Expenditures for maintenance, repairs and minor improvements are charged to operating expense as incurred. Upon disposal of capital assets, the accounts are relieved of the related costs and accumulated depreciation and the resulting gains or losses are reflected in the statement of revenues, expenses and changes in net assets as operating revenue.

Interest costs are capitalized to the extent that interest costs exceed interest earned on related temporary investments, from the date of borrowing until assets are ready for their intended use. Depreciation of capital assets is recorded using the straight-line method over the estimated useful lives of the assets.

Capital assets are assigned the following estimated useful lives:

Rail right-of-way and stations	5-40 years
Buildings	40 years
Transportation equipment	5-30 years
Furniture and other equipment	3-20 years

(m) Self insurance liabilities

Liabilities for workers' compensation, employee dental insurance, and public liability and property damage claims are recognized as incurred on the basis of the estimated cost to the District upon resolution. Estimated liabilities for injury and damage claims are charged to operations in the year the claim event occurs.

Self-insured liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Since self insured claims depend on complex factors such as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are evaluated on a case-by-case basis and are re-evaluated periodically to take into consideration historical experience of recently settled claims, the frequency of claims, and other economic and social factors.

(n) Compensated absences

Vacation leave that has been earned but not paid has been accrued. Vacation pay and floating holidays are payable upon termination, retirement or death for both union and non-union employees. Sick leave is accrued as benefits are earned, but only to the extent the District will compensate the employee through a cash payment conditional on the employee's termination or death. Pursuant to the TriMet Defined Contribution Retirement Plan for Management and Staff Employees (the Management DC Plan), the District contributes 60 percent of unused sick leave when the employee leaves TriMet. The District has recorded a liability in the accompanying financial statements related to the unused sick leave for employees covered by the Management DC Plan of \$1,207 and \$968 at June 30, 2012 and 2011, respectively. Unused sick leave benefits that enhance either defined benefit pension plan discussed in Note 5 are included in the actuarial accrued liability in accordance with GASB Statement No. 16 and GASB Statement No. 27.

Notes to Financial Statements

June 30, 2012
(dollars in thousands)
continued

(o) Restricted resources

When both restricted and unrestricted resources are available for use, it is TriMet's policy to use restricted resources first and then unrestricted resources, as they are needed.

(p) New pronouncements

During 2011, TriMet implemented the following GASB pronouncement:

GASB Statement No. 59, *Financial Instruments Omnibus*. This statement updates and expands existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools.

2. Reclassifications

Certain reclassifications have been recorded to prior year balances to provide consistent presentation with the current year financial statements.

3. Cash and Investments

Cash and Investments at June 30 consisted of the following:

	2012			2011		
	Fair value	% of portfolio	Weighted average maturity (years)	Fair value	% of portfolio	Weighted average maturity (years)
Cash and investments:						
Cash on hand	\$ 125	0.0%	-	\$ 125	0.0%	-
Demand deposits with financial institutions	37,456	9.5%	-	81,355	17.1%	-
State of Oregon local government investment pool	44,502	11.3%	-	37,934	8.0%	-
Federal Farm Credit Bank	29,982	7.6%	0.39	7,769	1.6%	0.58
Federal Agricultural Mortgage Corp.	6,023	1.5%	0.14	-	0.0%	-
Federal Home Loan Bank	114,325	29.0%	0.19	66,734	14.0%	0.04
Federal Home Loan Mortgage Corp.	62,981	16.0%	0.27	108,882	22.9%	0.48
Federal National Mortgage Association	63,429	16.1%	0.16	127,437	26.8%	0.45
U.S. Treasuries	14,988	3.8%	0.90	44,993	9.5%	0.86
Temporary Liquidity Guarantee Program (TLGP) Commercial paper	10,947	2.8%	0.26	-	0.0%	-
Commercial paper	9,005	2.3%	0.12	-	0.0%	-
Total cash and investments	<u>\$ 393,763</u>			<u>\$ 475,229</u>		
Cash and investments are reflected in the balance sheets as follows:						
Cash and cash equivalents						
Unrestricted	\$ 134,864			\$ 53,084		
Restricted	26,474			102,808		
Investments						
Unrestricted	8,284			6,898		
Restricted	224,141			312,439		
Total cash and investments	<u>\$ 393,763</u>			<u>\$ 475,229</u>		

TriMet's demand deposits are covered by the Federal Deposit Insurance Corporation ("FDIC") or by collateral held by the State of Oregon. Cash held in the State of Oregon local government investment pool is managed by the State of Oregon Treasurer's office.

Notes to Financial Statements

June 30, 2012
(dollars in thousands)
continued

Interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, TriMet manages its exposure to declines in fair values by limiting the maximum maturity of its investment portfolio to 5 years, with a weighted average maturity of less than 2.0 years. At June 30, 2012, the weighted average maturity of the investment portfolio was 0.2 years.

Credit risk. Credit risk is the risk that an issuer will fail to pay principal or interest in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause the fair value of the investment to decline. TriMet's investment policy, which is in compliance with Oregon State law (ORS 294 and 295), limits investment in corporate indebtedness on the settlement date to a rating of P-1 or Aa or better by Moody's Investors Service or A-1 or AA or better by Standard & Poor's Corporation or equivalent rating by any nationally recognized statistical rating organization. All investments identified in the ORS are included as permitted investments in the District's investment policy.

The Local Government Investment Pool (LGIP) is an open-ended, diversified portfolio offered to eligible participants including Oregon municipalities and political subdivisions. The Oregon State Treasurer's Office manages the LGIP in the same manner it oversees the management of the State's funds and in accordance with the prudent investor rule. The LGIP is commingled with the State's short-term funds in the Oregon Short-Term Fund (OSTF). The OSTF is not managed as a stable net asset value fund, and it is not currently rated by an independent rating agency. The OSTF is an external investment pool as defined by GASB 59. The net asset value per share is calculated by the Oregon State Treasurer's Office and approximates fair value. The LGIP is not registered with the U.S. Securities and Exchange Commission. The State's investment policies are governed by Oregon Revised Statutes and the Oregon Investment Council (Council). The State Treasurer is the investment officer for the Council. Investments in the LGIP are further governed by portfolio guidelines issued by the Fund Board.

Concentration of credit risk. Concentration of credit risk is the risk associated with the lack of diversification or having too much invested in a few individual issues. TriMet's investment policy sets forth the procedures, guidelines, and criteria for the operation of TriMet's investment program. This policy governs the investment of all TriMet funds, except funds held in trust for pensions and deferred compensation. The investment policy establishes maximum amounts, either as a percentage of total portfolio or fixed dollar amount, that may be invested in investment types and any single issuer including U.S. government securities (no limit), agency securities (35% maximum with any one agency, 90% maximum of the total portfolio), local government investment pool (limited to maximum per ORS 294.810), FDIC guaranteed issues (35% maximum with any issuer, 90% maximum of the total portfolio), corporate indebtedness (5% maximum with any issuer, 20% maximum of the total portfolio) and commercial paper, bankers acceptances, bank demand deposits (5% maximum with any issuer, 15% maximum of the total portfolio), and municipal debt obligations (5% maximum with any issuer, 10% maximum of the total portfolio). At June 30, 2012, the District had 3.8 percent invested in U.S. government securities, 70.3 percent in agency securities, 5.1 percent in commercial paper, 9.5 percent in demand deposits, and 11.3 percent in local government investment pool.

Custodial credit risk - deposits and investments. For deposits, this is the risk that in the event of a bank failure, TriMet's deposits may not be returned. ORS Chapter 295 governs the collateralization of certain Oregon public funds and provides the statutory requirements for the Public Funds Collateralization Program. Bank depositories are required to pledge collateral against any public funds deposits in excess of Federal deposit insurance amounts. The Oregon Public Funds Collateralization Program does not cover monies held in trust for debt service. All banks holding funds in TriMet's name that are not held in trust for debt service are included on the list of qualified depositories maintained by the Oregon State Treasurer.

All investments purchased by the District are held and registered in TriMet's name by a safekeeping bank acting as safekeeping agent. A portion of TriMet's funds are invested in an external investment pool, held by the State of Oregon in the Local Government Investment Pool (LGIP), as described above. TriMet also deposits funds in two bank savings accounts. Balances in these accounts are in compliance with TriMet investment policy limits and are collateralized in accordance with ORS Chapter 295.

Notes to Financial Statements

June 30, 2012
(dollars in thousands)
continued

4. Receivables

At June 30, 2012 and 2011, the District had the following receivables under various federal and state grant agreements:

<u>2012</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Federal pass through	\$ 293	\$ 1,981	\$ 2,274
Other federal	781	-	781
State grants	3,101	85	3,186
Local governments	254	-	254
	<u>\$ 4,429</u>	<u>\$ 2,066</u>	<u>\$ 6,495</u>
<u>2011</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Federal pass through	\$ 375	\$ 8,685	\$ 9,060
Other federal	928	149	1,077
State grants	3,732	130	3,862
Local governments	3,648	487	4,135
	<u>\$ 8,683</u>	<u>\$ 9,451</u>	<u>\$ 18,134</u>

Taxes and other receivables at June 30, 2012 and 2011, including the applicable allowances for uncollectible accounts, are as follows:

<u>2012</u>	<u>Receivable</u>	<u>Allowance for uncollectible accounts</u>	<u>Net receivable</u>
Unrestricted:			
Payroll tax	\$ 61,001	\$ 1,976	\$ 59,025
Self-employment tax	7,238	744	6,494
Trade accounts	6,553	400	6,153
Other	11,654	-	11,654
Total unrestricted	86,446	3,120	83,326
Restricted:			
Property tax	853	182	671
Other	222	-	222
Total restricted	1,075	182	893
Total taxes and other receivables	<u>\$ 87,521</u>	<u>\$ 3,302</u>	<u>\$ 84,219</u>
<u>2011</u>	<u>Receivable</u>	<u>Allowance for uncollectible accounts</u>	<u>Net receivable</u>
Unrestricted:			
Payroll tax	\$ 55,980	\$ 2,950	\$ 53,030
Self-employment tax	6,762	1,437	5,325
Trade accounts	9,800	400	9,400
Other	7,374	-	7,374
Total unrestricted	79,916	4,787	75,129
Restricted:			
Property tax	573	48	525
Other	173	-	173
Total restricted	746	48	698
Total taxes and other receivables	<u>\$ 80,662</u>	<u>\$ 4,835</u>	<u>\$ 75,827</u>

Notes to Financial Statements

June 30, 2012
(dollars in thousands)
continued

5. Capital Assets

Capital assets at June 30 consisted of the following:

2012	Lives (in years)	Beginning balance	Additions	Deletions	Transfers	Ending balance
Capital assets, not being depreciated						
Land and other		\$ 187,877	\$ 66,846	\$ -	\$ (46,238)	\$ 208,485
Construction in process		93,958	185,239	-	36,989	316,186
Total capital assets, not being depreciated		<u>281,835</u>	<u>252,085</u>	<u>-</u>	<u>(9,249)</u>	<u>524,671</u>
Capital assets, being depreciated						
Rail right-of-way and stations	5-40	1,832,113	-	(8)	821	1,832,926
Buildings	40	360,546	-	(60)	928	361,414
Transportation equipment	5-30	500,646	39	(4,444)	6,971	503,212
Furniture and other equipment	3-20	131,257	1,084	(1,834)	529	131,036
Total capital assets, being depreciated		<u>2,824,562</u>	<u>1,123</u>	<u>(6,346)</u>	<u>9,249</u>	<u>2,828,588</u>
Less accumulated depreciation for						
Rail right-of-way and stations		(537,277)	(48,236)	8	-	(585,505)
Buildings		(155,759)	(8,001)	60	-	(163,700)
Transportation equipment		(251,804)	(18,605)	4,355	-	(266,054)
Furniture and other equipment		(94,822)	(3,326)	1,834	-	(96,314)
Total accumulated depreciation		<u>(1,039,662)</u>	<u>(78,168)</u>	<u>6,257</u>	<u>-</u>	<u>(1,111,573)</u>
Total capital assets, being depreciated, net		<u>1,784,900</u>	<u>(77,045)</u>	<u>(89)</u>	<u>9,249</u>	<u>1,717,015</u>
Total capital assets, net		<u>\$ 2,066,735</u>	<u>\$ 175,040</u>	<u>\$ (89)</u>	<u>\$ -</u>	<u>\$ 2,241,686</u>
2011	Lives (in years)	Beginning balance	Additions	Deletions	Transfers	Ending balance
Capital assets, not being depreciated						
Land and other		\$ 147,331	\$ 22,587	\$ -	\$ 17,959	\$ 187,877
Construction in process		45,065	91,097	-	(42,204)	93,958
Total capital assets, not being depreciated		<u>192,396</u>	<u>113,684</u>	<u>-</u>	<u>(24,245)</u>	<u>281,835</u>
Capital assets, being depreciated						
Rail right-of-way and stations	5-40	1,828,504	-	(500)	4,109	1,832,113
Buildings	40	347,081	6	(6,075)	19,534	360,546
Transportation equipment	5-30	506,979	-	(6,750)	417	500,646
Furniture and other equipment	3-20	130,970	858	(756)	185	131,257
Total capital assets, being depreciated		<u>2,813,534</u>	<u>864</u>	<u>(14,081)</u>	<u>24,245</u>	<u>2,824,562</u>
Less accumulated depreciation for						
Rail right-of-way and stations		(487,248)	(50,047)	18	-	(537,277)
Buildings		(152,371)	(8,852)	5,464	-	(155,759)
Transportation equipment		(238,121)	(20,433)	6,750	-	(251,804)
Furniture and other equipment		(92,257)	(3,253)	688	-	(94,822)
Total accumulated depreciation		<u>(969,997)</u>	<u>(82,585)</u>	<u>12,920</u>	<u>-</u>	<u>(1,039,662)</u>
Total capital assets, being depreciated, net		<u>1,843,537</u>	<u>(81,721)</u>	<u>(1,161)</u>	<u>24,245</u>	<u>1,784,900</u>
Total capital assets, net		<u>\$ 2,035,933</u>	<u>\$ 31,963</u>	<u>\$ (1,161)</u>	<u>\$ -</u>	<u>\$ 2,066,735</u>

Notes to Financial Statements

June 30, 2012
(dollars in thousands)
continued

6. Enterprise Fund Pension Benefits

Management Defined Contribution Plan

TriMet contributes to a single employer defined contribution plan - the TriMet Defined Contribution Retirement Plan for Management and Staff Employees ("the Management DC Plan").

A third party administrator, ICMA-RC, provides administration of the Management DC Plan trust. The TriMet Board of Directors ("Board") has appointed a committee to oversee the Management DC Plan. Funding of the defined contribution plan is done on a perpetual basis as part of the District's normal payroll processes.

Plan description

Effective April 27, 2003, the District adopted the Management DC Plan in accordance with Internal Revenue Code (IRC) Section 401(a). Participation in the Management DC Plan is mandatory for all non-union employees hired after April 26, 2003. All non-union employees hired before April 27, 2003 were required to make an irrevocable election to (1) stay in TriMet Defined Benefit Retirement Plan for Management and Staff Employees ("the Management DB Plan"), (2) freeze their credited service as of April 27, 2003 in the Management DB Plan (but not their final average salary) and be covered by the Management DC Plan for all service after April 26, 2003, or (3) transfer the present value of their accrued benefit under the Management DB Plan as of April 27, 2003 to the Management DC Plan and be covered by the Management DC Plan for all service after April 26, 2003.

Under the Management DC Plan, the District contributes 8.0 percent of considered compensation each pay period. Considered compensation is taxable compensation plus employee elected deferrals, less overtime pay, bonuses, commissions, or other extraordinary pay and cash-out of unused vacation. Within 30 days of becoming eligible for the Management DC Plan, employees make a one-time irrevocable election to contribute between zero and 15 percent of their compensation to the Plan on a pretax basis. Voluntary, after-tax employee contributions, up to 15 percent of compensation, are allowed and may be adjusted by the employee at any time. Plan participants fully vest in the District's contributions after three years of service with the District. Upon severance from employment, TriMet will contribute 60 percent of the employee's unused sick leave (up to a maximum of 1,700 hours) to the employees account. The TriMet Board has authority over amendments to plan benefit and contribution provisions.

Basis of accounting

The Management DC Plan uses the accrual basis of accounting. Employer and plan member contributions are recognized in the period that the contributions are due.

Method used to value investments

Plan investments are reported at fair value. Fair value of securities is determined by the plan asset managers.

As of June 30, 2012 and 2011 there were 225 and 198 active employees, respectively, covered by the Management DC Plan. District contributions to the Management DC Plan were \$1,093 and \$1,159 for the years ending June 30, 2012 and 2011, respectively. Employee contributions to the Management DC Plan were \$627 and \$581 for the years ending June 30, 2012 and 2011, respectively.

7. Other Employee Benefits

Deferred compensation plan

The District offers all employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457(b). The plan permits employees to defer a portion of their current salary until termination, retirement, death or financial hardship. All assets and income of the plan are in a trust for the exclusive benefit of the participants and their beneficiaries. Plan participant investments are determined by the employee participants. The Board appoints a committee to perform the administrative and fiduciary responsibilities of the employer under the plan.

Notes to Financial Statements

June 30, 2012
 (dollars in thousands)
continued

Compensated absences

Union employees receive paid vacation benefits in accordance with the Working and Wage Agreement. Employees are eligible for one to six weeks of vacation depending on their years of service with the District. Non-union employees receive similar vacation benefits as prescribed by TriMet's personnel policies. As of June 30, 2012 and 2011, the District's vacation pay liability was \$10,068 and \$9,908, respectively, all of which was classified as a current liability in Accrued payroll.

Postemployment benefits other than pension

Plan description

TriMet provides postemployment health care and life insurance benefits (OPEB), in accordance with the Working and Wage Agreement for union employees and TriMet's personnel policies to all eligible employees and their qualified dependents, who retire from the District on or after attaining age 55 with service of at least 10 years for union employees and five years for non-union employees hired before April 27, 2003 and 10 years for non-union employees hired before May 1, 2009. The District pays a portion the premiums for primary medical and hospitalization, dental and vision benefits for eligible retirees and spouses. TriMet-provided benefits are secondary to Medicare benefits, where applicable. The District provides a \$10 life insurance benefit to union retirees and \$7.5 to non-union retirees. The District's postemployment insurance plan does not issue a financial report.

Funding policy

The District has a trust fund for future net OPEB obligations. In fiscal year 2012, the District funded \$400 into the trust fund. The District pays for the premiums for eligible retirees. Retirees may not convert the benefit into an in lieu payment to secure coverage under independent plans. There were 1,908 and 1,873 union and non-union retirees, dependents, and surviving spouses receiving the postemployment health care and life insurance benefits, at June 30, 2012 and 2011, respectively. The District's contribution covers actual pay-as-you-go funding requirements. The District contributed costs of postemployment health care and life insurance benefits totaling \$16,255 and \$15,936 in fiscal year 2012 and 2011, respectively.

Annual OPEB cost and net OPEB obligation

The District's annual OPEB cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the guidance of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize unfunded actuarial liabilities over a closed period of 30 years. A schedule of the components of the District's annual OPEB cost is presented below:

	2012	2011	2010
Annual required contribution (ARC)	\$ 83,279	\$ 77,664	\$ 75,402
Interest on net OPEB obligation	9,810	8,538	4,107
Adjustment to annual required contribution	<u>(8,727)</u>	<u>-</u>	<u>(3,935)</u>
Annual OPEB cost	84,362	86,202	75,574
Contributions made	<u>(16,655)</u>	<u>(15,936)</u>	<u>(14,256)</u>
Increase in net OPEB obligation	67,707	70,266	61,318
Net OPEB obligation - beginning of year	222,847	152,581	91,263
Net OPEB obligation - end of year	<u>\$ 290,554</u>	<u>\$ 222,847</u>	<u>\$ 152,581</u>
Percentage of annual OPEB cost contributed	20%	18%	19%

Notes to Financial Statements

June 30, 2012
 (dollars in thousands)
continued

Funded status and funding progress

The schedule of funding progress is presented below:

Schedule of funding progress			
	January 1, 2012	January 1, 2010	January 1, 2008
Actuarial valuation date			
Actuarial value of assets	\$ -	\$ -	\$ -
Actuarial accrued liability (AAL)	900,541	816,544	632,204
Unfunded AAL (UAAL)	900,541	816,544	632,204
Funded ratio	0%	0%	0%
Covered payroll	\$ 151,448	\$ 137,869	\$ 130,726
UAAL as a percentage of covered payroll	595%	592%	484%

Actuarial methods and assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the January 1, 2012 actuarial valuation, the funding method used to develop the actuarial required contribution is entry age normal, with normal cost developed as a level percentage of payroll. Significant actuarial assumptions used in the valuation include a discount rate of 4.5%, and health care cost rates trending down from 9% in 2012 to 5% in 2020 for the major medical component, which is representative of the entire plan. The District's UAAL is being amortized using the level-dollar method with a closed group 30 year amortization methodology. At June 30, 2012 there are 26 years of amortization remaining.

Notes to Financial Statements

June 30, 2012
(dollars in thousands)
continued

8. Long-Term Debt

Debt at June 30 consists of the following:

2012	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Long-term debt:					
General Obligation Bonds:					
1999 General Obligation Refunding Bonds, Series A	\$ 19,115	\$ -	\$ (9,315)	\$ 9,800	\$ 9,800
Payroll Tax Bonds:					
2001 Revenue Refunding Bonds, Series A	1,750	-	(1,750)	-	-
2003 Revenue Refunding Bonds, Series A	9,835	-	(1,480)	8,355	1,535
2005 Revenue Refunding Bonds, Series A	41,700	-	(3,295)	38,405	3,465
2007 Revenue Bonds, Series A	40,755	-	(1,285)	39,470	1,330
2009 Revenue Bonds, Series A and B	48,270	-	(1,320)	46,950	1,360
2006 Payroll Tax and Grant Receipts Revenue Bonds	40,000	-	(40,000)	-	-
Capital Grant Receipt Revenue Bonds:					
Capital Grant Receipt Revenue Bonds, Series 2005	48,885	-	(8,370)	40,515	8,775
2011 Capital Grant Receipt Revenue Bonds, Series A and	142,380	-	-	142,380	-
Capital Leases:					
Other	288	300	(89)	499	103
	<u>392,978</u>	<u>300</u>	<u>(66,904)</u>	<u>326,374</u>	<u>26,368</u>
Add (deduct):					
Unamortized bond premium	21,714	-	(2,597)	19,117	
Unamortized bond discount	(1)	-	1	-	
Deferred amount on legal defeasance	(2,780)	-	811	(1,969)	
Current portion	(66,901)			(26,368)	
Long-term debt, net	<u>\$ 345,010</u>			<u>\$ 317,154</u>	
2011	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Long-term debt:					
General Obligation Bonds:					
1999 General Obligation Refunding Bonds, Series A	\$ 27,960	\$ -	\$ (8,845)	\$ 19,115	\$ 9,315
Payroll Tax Bonds:					
2001 Revenue Refunding Bonds, Series A	4,295	-	(2,545)	1,750	1,750
2003 Revenue Refunding Bonds, Series A	11,260	-	(1,425)	9,835	1,480
2005 Revenue Refunding Bonds, Series A	44,835	-	(3,135)	41,700	3,295
2007 Revenue Bonds, Series A	41,995	-	(1,240)	40,755	1,285
2009 Revenue Bonds, Series A and B	49,550	-	(1,280)	48,270	1,320
2006 Payroll Tax and Grant Receipts Revenue Bonds	80,000	-	(40,000)	40,000	40,000
Capital Grant Receipt Revenue Bonds:					
Capital Grant Receipt Revenue Bonds, Series 2005	56,875	-	(7,990)	48,885	8,370
2011 Capital Grant Receipt Revenue Bonds, Series A and	-	142,380	-	142,380	-
Capital Leases:					
Other	160	290	(162)	288	86
	<u>316,930</u>	<u>142,670</u>	<u>(66,622)</u>	<u>392,978</u>	<u>66,901</u>
Add (deduct):					
Unamortized bond premium	10,335	13,276	(1,897)	21,714	
Unamortized bond discount	(7)	-	6	(1)	
Deferred amount on legal defeasance	(3,686)	-	906	(2,780)	
Current portion	(66,553)			(66,901)	
Long-term debt, net	<u>\$ 257,019</u>			<u>\$ 345,010</u>	

Total interest cost on all outstanding debt was \$14,005 and \$13,314 in fiscal years 2012 and 2011, respectively. During fiscal year 2012, \$6,083 of interest cost was capitalized and \$7,922 was charged to expense, while during fiscal year 2011, \$2,114 of interest cost was capitalized and \$11,200 was charged to expense.

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continued

The District is required to comply with certain bond covenants related to the operations of the District. Significant covenants include timely payment of principal and interest, levy of specified taxes and to budget appropriate funds needed to pay all debt service obligations.

Under U.S. Treasury Department regulations, all governmental tax exempt debt issued after August 31, 1986 is subject to arbitrage rebate requirements. The requirements stipulate, in general, that the yield on earnings from the investment of tax exempt bond proceeds, which exceed yield on related bonds, must be remitted to the Federal Government on every fifth anniversary of each bond issue. The District has evaluated each bond issue and has recognized an arbitrage liability of \$0 and \$2,297 as of June 30, 2012 and 2011, respectively. This arbitrage liability is reported in other accrued liabilities.

General Obligation Bonds

1999 General Obligation Refunding Bonds, Series A

On April 13, 1999, TriMet refunded and defeased, in substance, future principal and interest payments on its 1992 General Obligation Bonds, Series A, of \$84,005 and \$57,265, respectively. Final payment on the 1992 bonds has been completed. The 1999 General Obligation Refunding Bonds, Series A (1999 G.O. Bonds) carry an original face amount of \$79,965 and mature serially each July 1, beginning July 1, 2000 through 2012. Interest is payable semiannually on July 1 and January 1, and fixed interest rates range from 4.0 percent to 5.25 percent on various maturities.

The 1999 G.O. Bonds are payable with proceeds from TriMet's ad valorem property tax levied each year and are payable through fiscal year ending June 30, 2013. The principal and interest remaining on the bonds is \$10,056. Principal and interest paid for the current year and total property tax revenues were \$10,072 and \$7,488, respectively.

Future maturities of the 1999 General Obligation Refunding Bonds, Series A, are as follows:

Fiscal year ending June 30:	Principal	Interest
2013	\$ 9,800	\$ 256
	<u>\$ 9,800</u>	<u>\$ 256</u>

Payroll Tax Bonds

TriMet has six series of Revenue Bonds outstanding which are backed by Payroll Tax Revenues: 2000 Revenue Bonds Series A; 2001 Revenue Refunding Bonds Series A, 2003 Revenue Refunding Bonds Series A, 2005 Revenue Refunding Bonds Series A, 2007 Revenue Bonds Series A, and 2009 Revenue Bonds Series A and B. The Revenue Bonds are payable from and secured by a pledge of the employer payroll and self employment taxes levied by the District.

2001 Revenue Refunding Bonds, Series A

On April 18, 2001, TriMet refunded and legally defeased future principal and interest payments on its 1992 Revenue Refunding Bonds, Series A, of \$24,510 and \$10,116, respectively, with the issuance of the 2001 Revenue Refunding Bonds, Series A (2001 Revenue Bonds). Final payment on the 1992 bonds has been completed. The 2001 Revenue Bonds carry an original face amount of \$23,090 and mature serially each September 1, beginning September 1, 2001 through 2011. Interest is payable semiannually on September 1 and March 1, and fixed interest rates range from 3.5 percent to 4.25 percent on various maturities. The 2001 Revenue Bonds were paid off in fiscal year 2012.

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2003 Revenue Refunding Bonds, Series A

On January 21, 2003, TriMet refunded and legally defeased future principal and interest payments on its 1995 Revenue Bonds, Series A, of \$21,570 and \$9,099, respectively, with the issuance of the 2003 Revenue Refunding Bonds, Series A (2003 Revenue Bonds). Final payment on the 1995 bonds has been completed. The 2003 Revenue Bonds carry a face amount of \$19,705 and mature serially each September 1, beginning September 1, 2003 through 2016. Interest is payable semiannually on September 1 and March 1, and fixed interest rates on outstanding maturities range from 3.25 percent to 5.0 percent on various maturities.

The 2003 Revenue Bonds are payable through fiscal year 2017. The total remaining principal and interest on the 2003 Revenue Bonds is \$9,363. Principal and interest paid for the current year and total employer payroll and self employment tax revenues were \$1,879 and \$245,207, respectively.

Future maturities of the 2003 Revenue Refunding Bonds, Series A, are as follows:

Fiscal year ending June 30:	Principal	Interest
2013	\$ 1,535	\$ 339
2014	1,595	277
2015	1,665	211
2016	1,735	135
2017	1,825	46
	<u>\$ 8,355</u>	<u>\$ 1,008</u>

2005 Revenue Refunding Bonds, Series A

On March 29, 2005, TriMet refunded and legally defeased future principal and interest payments on its 1999 Revenue Bonds, Series A, of \$30,345 and \$12,724, and its 2000 Revenue Bonds, Series A, of \$35,235 and \$13,295, respectively, with the issuance of the 2005 Revenue Refunding Bonds, Series A (2005 Revenue Bonds). Final payment on the 1999 and 2000 bonds has been completed. The 2005 Revenue Bonds carry a face amount of \$65,475 and mature serially each September 1, beginning September 1, 2005 through 2020. Interest is payable semiannually on September 1 and March 1, and fixed interest rates range from 4.0 percent to 5.0 percent on outstanding maturities.

The 2005 Revenue Bonds are payable through fiscal year 2021. The total remaining principal and interest on the 2005 Revenue Bonds is \$47,684. Principal and interest paid for the current year and total employer payroll and self employment tax revenues were \$5,298 and \$245,207, respectively.

Future maturities of the 2005 Revenue Refunding Bonds, Series A, are as follows:

Fiscal year ending June 30:	Principal	Interest
2013	\$ 3,465	\$ 1,834
2014	3,645	1,656
2015	3,830	1,469
2016	4,025	1,273
2017	4,230	1,066
2018-2021	19,210	1,981
	<u>\$ 38,405</u>	<u>\$ 9,279</u>

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2007 Revenue Bonds, Series A

On January 23, 2007, TriMet issued \$45,450 in limited tax pledge 2007 Revenue Bonds, Series A (2007 Revenue Bonds) to fund the District’s share of the I-205/Portland Mall Light Rail Project and other capital projects.

The 2007 Revenue Bonds are payable through fiscal year 2032. The total remaining principal and interest on the Revenue Bonds is \$58,468. Principal and interest paid for the current year and total employer payroll and self employment taxes were \$3,031 and \$245,207, respectively. The 2007 Revenue Bonds are not general obligations of the District.

The 2007 Revenue Bonds mature serially each September 1, beginning September 1, 2007 through 2026, with a \$13,025 term bond due September 1, 2031. The term bond is subject to mandatory sinking fund requirements annually on September 1, 2027 through 2031. Interest is payable semiannually on March 1 and September 1 and fixed interest rates range from 4.0 percent to 5.0 percent on various maturities. The 2007 Revenue Bonds are subject to redemption prior to maturity in whole or in part at the option of TriMet on any date on or after March 1, 2017 at a price of par (100%) plus accrued interest thereon to the date of redemption.

Future maturities of the 2007 Revenue Bonds, Series A, are as follows:

Fiscal year ending June 30:	Principal	Interest
2013	\$ 1,330	\$ 1,681
2014	1,380	1,613
2015	1,430	1,543
2016	1,485	1,470
2017	1,545	1,394
2018-2022	8,675	5,936
2023-2027	10,600	3,931
2028-2032	13,025	1,430
	<u>\$ 39,470</u>	<u>\$ 18,998</u>

2009 Revenue Bonds, Series A and B

On October 27, 2009, TriMet issued \$37,020 in limited tax pledge 2009 Revenue Bonds, Series A and \$12,530 in 2009 Build America Bonds, Series B (2009 Revenue Bonds) to fund the District’s repayment of funds drawn on interim financing and other capital projects.

The 2009 Revenue Bonds are payable through fiscal year 2034. The total remaining principal and interest on the Revenue Bonds is \$77,096. Principal and interest paid for the current year and total employer payroll and self employment taxes were \$3,504 and \$245,207, respectively. The 2009 Revenue Bonds are not general obligations of the District.

The 2009 Series A Revenue Bonds mature serially each September 1, beginning September 1, 2010 through 2025, with a \$16,405 term bond due September 1, 2029. The term bond is subject to mandatory sinking fund requirements annually on September 1, 2025 through 2029. The 2009 Series B Revenue Bonds mature September 1, 2033, and are subject to mandatory sinking fund requirements annually on September 1, 2030 through 2033. Interest is payable semiannually on March 1 and September 1 and fixed interest rates range from 3.0 percent to 5.73 percent on various maturities. The 2009 Series A Revenue Bonds are subject to redemption prior to maturity in whole or in part at the option of TriMet on any date on or after September 1, 2019 at a price of par (100%) plus accrued interest thereon to the date of redemption. The 2009 Series B Revenue Bonds are subject to redemption prior to maturity in whole or in part at the option of TriMet at the higher of 100 percent of outstanding principal or the present value of the outstanding principal and interest payment remaining at redemption.

Notes to Financial Statements

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Future maturities and mandatory sinking fund requirements of the 2009 Revenue Bonds, Series A and B, are as follows:

Fiscal year ending June 30:	Principal	Interest
2013	\$ 1,360	\$ 2,144
2014	1,405	2,102
2015	1,445	2,060
2016	1,490	2,016
2017	1,540	1,962
2018-2022	8,630	8,891
2023-2027	10,760	6,763
2028-2032	13,700	3,823
2033-2034	6,620	385
	<u>\$ 46,950</u>	<u>\$ 30,146</u>

Payroll Tax and Grant Receipt Bonds

Payroll Tax and Grant Receipt Revenue Bonds, Series 2006

On September 6, 2006, TriMet issued \$230,000 in Payroll Tax and Grant Receipt Revenue Bonds, Series 2006 (Payroll Tax and Grant Receipt Revenue Bonds) to provide interim financing for the I-205/Portland Mall Light Rail Project. Bond proceeds were used to provide project cash flow in advance of federal grants.

The Payroll Tax and Grant Receipt Revenue Bonds are payable from and secured solely by Section 5309 federal grant funds related to the I-205/Portland Mall Light Rail Project, a subordinated pledge of the employer and self employment taxes levied by the District, and debt service account and originally matured through fiscal year 2014. The Payroll Tax and Grant Receipt Revenue Bonds were paid off in fiscal year 2012. Principal and interest paid for the current year and total Section 5309 federal grant funds related to the I-205/Portland Mall Light Rail Project were \$41,890 and \$135,949, respectively.

Capital Grant Receipt Bonds

TriMet has issued two series of Capital Grant Receipt Revenue Bonds: Capital Grant Receipt Revenue Bonds Series 2005 and 2011 Capital Grant Receipt Revenue Bonds. The Grant Receipt Revenue Bonds are payable from and secured solely by a pledge of Section 5307, Surface Transportation Program (STP), and Congestion Mitigation and Air Quality (CMAQ) federal grants, or replacement grant programs and amounts credited to a debt service account.

Capital Grant Receipt Revenue Bonds, Series 2005

On June 23, 2005, TriMet issued \$79,320 in Capital Grant Receipt Revenue Bonds, Series 2005 (Grant Receipt Revenue Bonds) to finance a portion of capital cost and improvements of the transit system, including the Washington County Commuter Rail and I-205/Portland Mall Light Rail projects, Portland Streetcar extension, and to acquire transit buses.

The Grant Receipt Revenue Bonds are payable through fiscal year 2018. The total remaining principal and interest on the Revenue Bonds is \$44,861. Principal and interest paid for the current year and total Section 5307, STP, and CMAQ grant receipts for the District were \$10,515 and \$89,989, respectively. The Grant Receipt Revenue Bonds are not general obligations of the District.

The Grant Receipt Revenue Bonds mature serially each October 1, beginning October 1, 2006 through 2017. Interest is payable semiannually on April 1 and October 1, and fixed interest rates range from 3.25 percent to 5.0 percent on outstanding maturities.

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Future maturities of the 2005 Capital Grant Receipt Revenue Bonds, Series 2005, are as follows:

Fiscal year ending June 30:	Principal	Interest
2013	\$ 8,775	\$ 1,736
2014	9,200	1,307
2015	9,660	846
2016	10,150	354
2017	1,335	77
2018	1,395	26
	<u>\$ 40,515</u>	<u>\$ 4,346</u>

2011 Capital Grant Receipt Revenue Bonds

On June 20, 2011, TriMet issued \$142,380 in 2011 Capital Grant Receipt Revenue Bonds to pay for a portion of the costs of capital projects, including new buses, construction on the Milwaukie light rail project, and other regional projects.

The 2011 Revenue Bonds are payable through fiscal year 2028. The total remaining principal and interest on the Revenue Bonds is \$215,849. Interest paid for the current year and total Section 5307, STP, and CMAQ grant receipts for the District were \$5,139 and \$89,989, respectively. The 2011 Revenue Bonds are not general obligations of the District.

The 2011 Revenue Bonds mature serially each October 1, beginning October 1, 2017 through 2027. Interest is payable semiannually on April 1 and October 1 and fixed interest rates range from 2.5 percent to 5.0 percent on various maturities. The 2011 Revenue Bonds are subject to redemption prior to maturity in whole or in part at the option of TriMet on any date on or after October 1, 2021 at a price of par (100%) plus accrued interest thereon to the date of redemption.

Future maturities of the 2011 Revenue Bonds, Series A, are as follows:

Fiscal year ending June 30:	Principal	Interest
2013	\$ -	\$ 6,826
2014	-	6,826
2015	-	6,826
2016	-	6,826
2017	9,170	6,686
2018-2022	51,970	26,766
2023-2027	66,005	12,333
2028	15,235	380
	<u>\$ 142,380</u>	<u>\$ 73,469</u>

Other

Interim Financing

On June 22, 2009, the District entered into a revolving credit agreement to provide interim financing for capital project costs or for working capital. The District renewed the credit agreement in June 2011. The Revolving credit agreement provides for up to \$50,000 in advances. Under the agreement, TriMet may make tax-exempt or taxable draws at either fixed or variable rates. As of June 30, 2012 and 2011, there were no balances due or draws on the credit line.

Notes to Financial Statements

June 30, 2012
(dollars in thousands)
continued

9. Risk Management

In conjunction with its normal operations, the District is exposed to various risks related to the damage or destruction of its assets, tort/liability claims, injuries to personnel, and errors and omissions. To this end, the District has developed a comprehensive risk management program, utilizing insurance and self insurance resources, to provide protection from these exposures.

The District is self-insured for all public liability claims, which are limited to \$566 per claim and \$1,134 per event occurrence by Oregon SB 311. The District is self-insured to the extent of the first \$2,000 per occurrence for industrial accident claims. The District provides for the estimated losses to be incurred from the pending and potential claims that result from industrial and public liability accidents occurring prior to year end. The liabilities include estimated claims that have been incurred but not reported and development of existing claims of \$3,140 for 2012 and 2011. The District's policy is to record claims incurred but not reported at the estimated level of the undiscounted liability. The liabilities are based on the ultimate cost of settling the claims, including the effects of inflation and other legal and economic factors.

The Oregon Tort Claims Act (the Act) is the common law sovereign immunity from suit for public bodies in Oregon, including TriMet. Prior to July 1, 2009, the Act capped the liability of public bodies, including TriMet, at \$200 for individual claims. In addition, the public body may be substituted as a defendant in lieu of individual employees of the public body, thereby limiting recovery for claims against individual employees to the limits applicable to public bodies. Under the Act, TriMet currently indemnifies its employees for any liability that they incur within the scope of their work. Effective July 1, 2009, Oregon SB 311 increased the per claim damage limits under the Oregon Tort Claims Act to \$500 and the per occurrence damage limit to \$1,000, for events occurring after July 1, 2009. The new limits are subject to per claims increases of \$33 and per occurrence increases of \$67 per year, until 2015. At June 30, 2012, the per claims limit was \$566 and the per occurrence limit was \$1,134.

Changes in the District's public liability and industrial accident claims liabilities are as follows for the years ended June 30, 2012 and 2011:

	2012		2011	
	Industrial accident claims	Public liability	Industrial accident claims	Public liability
Liability at beginning of year	\$ 5,265	\$ 3,766	\$ 6,070	\$ 5,984
Current year claims	2,117	854	2,015	613
Changes in estimates for claims of prior periods	824	126	1,050	224
Payments of claims	(2,935)	(847)	(3,870)	(3,055)
Liability at end of year	<u>\$ 5,271</u>	<u>\$ 3,899</u>	<u>\$ 5,265</u>	<u>\$ 3,766</u>

Based on historical experience, the District has classified \$6,030 and \$5,580 of the industrial accident and public liability claims liabilities as current liabilities, at June 30, 2012 and 2011, respectively.

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continued

10. Other Long-term Liabilities

Other long-term liabilities include public liability and industrial accident claims liabilities, unearned lease revenue, rent payable, and long-term employee sick leave as follows:

	Balance			Balance		
	June 30, 2011	Additions	Reductions	June 30, 2012	Current portion	Long-term balance
Uninsured claims liability:						
Industrial accident claims	\$ 5,265	\$ 2,941	\$ (2,935)	\$ 5,271	\$ 2,866	\$ 2,405
Employee Dental Insurance	-	250	-	250	250	-
Public liability	3,766	980	(847)	3,899	2,914	985
Total uninsured claims liability	<u>9,031</u>	<u>4,171</u>	<u>(3,782)</u>	<u>9,420</u>	<u>6,030</u>	<u>3,390</u>
Long-term employee sick leave	1,743	283	-	2,026	-	2,026
Rent payable	54	11	-	65	-	65
Deferred Lease	<u>2,347</u>	<u>-</u>	<u>(24)</u>	<u>2,323</u>	<u>-</u>	<u>2,323</u>
Total other long-term liabilities	<u>\$ 13,175</u>	<u>\$ 4,465</u>	<u>\$ (3,806)</u>	<u>\$ 13,834</u>	<u>\$ 6,030</u>	<u>\$ 7,804</u>

11. Lease Transactions**(a) Office and equipment leases**

The District leases office space under non-cancelable operating leases. Total costs for such leases were \$847 and \$1,205 in 2012 and 2011, respectively. The future minimum lease payments for these leases are as follows:

Fiscal year ending June 30:	
2013	\$ 977
2014	1,009
2015	770
2016	156
2017	8
Thereafter	649
	<u>\$ 3,569</u>

(b) 1997 and 1998 Lease transactions

During fiscal years 1997 and 1998, the District entered into sale-leaseback transactions for 31 light rail vehicles with a foreign investor. Additionally, in fiscal years 1997 and 1998, the District entered into a series of lease-leaseback transactions with domestic investors for the same 31 light rail vehicles, plus an additional 41 light rail vehicles and two rail maintenance facilities.

Equipment sales to the foreign investor resulted in original proceeds to the District of \$80,600. The investor leased all assets back to the District for a period of 18 years. The leases qualify for accounting treatment as operating leases. Using the proceeds of the sales, the District fully funded payment agreements with American International Group, Inc. and its subsidiaries (AIG) totaling \$65,849. Under the payment agreements, AIG is obligated to make all required lease payments. The prepayments by the District to AIG are recorded as prepaid lease expense in the accompanying balance sheets and are expensed over the term of the lease. The payment agreements do not constitute legal defeasance. Thus, if AIG fails to fulfill its contractual obligation to make future lease payments, the District may be required to meet all financial obligations required under the lease transaction.

Notes to Financial Statements

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Under the foreign sale-leaseback agreement, the foreign investor has a put option which requires the District to buy back the leased equipment if exercised. If the investor does not exercise the put option, the District may offer to buy the equipment pursuant to the terms of the lease agreement and the lessor shall accept such offer. The District also deposited \$11,995 with AIG, which represents the present value of the options at the buy back dates. These deposits earn interest at rates ranging from 5.3 percent to 5.9 percent and are recorded as long-term restricted lease deposits on the District's balance sheets. The interest earned on the restricted deposits is recorded as a component of net leveraged lease expense on the statements of revenues, expenses and changes in net assets. The arrangement discussed in this paragraph does not constitute legal defeasance. Thus, if AIG fails to fulfill its contractual obligation to fund TriMet's buy back of the vehicles, the District may be required to complete the buy back with other funds.

In simultaneous transactions, the District leased its leasehold interest (the Head Leases) in the equipment to domestic third party investors (the Leasehold Investors) under the 1998 and 1997 leasehold agreements for a period of 36 and 30 years, respectively. The Head Leases qualify for accounting treatment as operating leases. The Leasehold Investors prepaid all required lease payments totaling \$175,849, which have been recorded as unearned lease revenue on the accompanying balance sheets. The unearned revenue is recognized over the terms of the leases.

The 1998 and 1997 Leasehold Investors sublet all assets back to the District for a period of 18 and 15 years, respectively. The subleases also qualify as operating leases. TriMet used the proceeds of the lease transactions to fully fund payment agreements with AIG totaling \$130,562. Under the terms of the payment agreements, AIG is required to make all sublease payments. The prepayments are recorded as prepaid lease expenses in the accompanying balance sheets and are expensed over the terms of the leases.

In addition, the District deposited the present value of the Head Lease purchase options with AIG. The deposits accrete interest at rates ranging from 5.8 percent to 7.1 percent and are recorded as restricted lease deposits on the District's balance sheets. The payment agreements and the funding of the purchase option price do not constitute legal defeasance. Thus, if AIG fails to fulfill its contractual obligation to make future payments, the District may be required to meet all financial obligations required under the lease transaction.

The operative documents of the 1997 and 1998 transactions were reviewed and approved by the U.S. Department of Transportation acting through the Federal Transit Administration. In exchange for its participation in the transactions discussed above, the District received net cash proceeds of \$15,953, which were recorded as unearned revenue and are amortized over the lease terms.

In the event AIG's ratings are downgraded by Standard & Poors below "AA" or by Moody's below "Aa3", AIG is required to pledge collateral equal to the present value of AIG's future obligations under those agreements. In September 2008, AIG was downgraded to A- by Standard & Poors and A2 by Moody's, thus triggering the collateral requirement. By November 2008, AIG had met all collateralization requirements. As of June 30, 2012 and 2011, a third party custodian is holding securities with a market value of \$30,880 and \$33,408, respectively, in satisfaction of AIG's collateralization requirements. In addition, TriMet was required to replace three standby letters of credit issued by AIG. In lieu of replacing the letters of credit, and with consent of the equity investors, TriMet pledged supplemental collateral held by a third party totaling \$600, which is recorded as a restricted investment on the Balance Sheet. AIG is rated A- by Standard & Poors, and Baa1 by Moody's at June 30, 2012.

In the 1997 leases, in the event that TriMet's Payroll Tax Bond ratings are downgraded by Standard & Poors below "A+" or by Moody's below "A2" and TriMet's ratio of Specified tax revenues for the fiscal year compared to the total of the equity portion of the basic rent payments plus the equity portion of the purchase price option is less than 4:1, then TriMet will be required to provide an irrevocable letter of credit valued not less than the equity portion of the termination value as stated in the lease documents. TriMet's Payroll Tax Bonds are rated AAA by Standard & Poors and Aa1 by Moody's at June 30, 2012.

As of June 30, 2012, TriMet is not aware of any default, event of default or event of loss under any of the operative documents.

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(c) 2005 Lease transaction

In November 2005, the District entered into a series of agreements related to 28 light rail vehicles. The District had initially purchased the vehicles as part of the expansion of the light rail system, primarily with grants from the Federal Transit Administration.

In simultaneous transactions, the District leased the 28 light rail vehicles (the Head Lease) to a trust (TriMet 2005 Statutory Trust) for the benefit of a third party investor (2005 Equity Investor) for a basic term of 28 or 29 years, depending on the age of the vehicles. The Head Lease qualifies for accounting treatment as a capital lease. The trust subleased all 28 vehicles back to the District (the Lease Agreement) for a period of 28 or 29 years. The sublease also is recorded as a capital lease. The District received all required lease payments totaling \$123,700, which have been recorded in the accompanying balance sheets as deferred gain of \$12,557 (before expenses of \$911) and a long-term lease liability for lease payments of \$111,143. The liability is reduced as lease payments are made over the term of the lease.

TriMet used \$111,143 of the proceeds from the Head Lease transaction to fully fund three payment agreements (\$84,382 to Premier International Funding Co. for the Series A Payment Agreement and \$26,761 to MBIA Inc. for the Equity Payment Undertaking Agreement and the Debt Payment Undertaking Agreement). The obligations of Premier International Funding Co. are unconditionally and irrevocably guaranteed by Financial Security Assurance Inc. (FSA), which has subsequently been acquired by Assured Guaranty Ltd. The obligations of MBIA Inc. were unconditionally and irrevocably guaranteed by MBIA Insurance Corporation.

The District's prepayment of the payment agreements is recorded within prepaid lease expenses in the accompanying balance sheets and is reduced as payments are made over the term of the lease. The payment agreements do not constitute legal defeasance.

The District's net benefit from the 2005 transactions was \$11,646. The net benefit is recorded as unearned lease revenue and is recognized over the basic term of the lease. Leased assets are included within Capital Assets and depreciation of the leased assets is recorded over the term of the lease. The Federal Transit Administration reviewed the operative documents and approved the transaction.

In June 2008, Moody's downgraded MBIA Insurance Corporation to A2. In July 2008, MBIA Inc. posted collateral in compliance with their obligations under the Equity and Debt Payment Undertaking agreements in the 2005 lease transaction. In February 2009, TriMet terminated the MBIA Equity Payment Undertaking agreement and received \$28,033 and terminated the Debt Payment Undertaking Agreement and received \$14,528. Simultaneously, TriMet purchased and placed in trust US Treasury securities for \$28,399 to collateralize all future equity payment obligations. Net of transaction expenses, the 2009 MBIA termination created \$13,954 in net benefit. The net benefit is recorded as unearned revenue and is recognized over the remaining term of the lease.

The 2005 leases include the following trigger events relating to TriMet: (1) outstanding General Obligation Bond ratings are downgraded by Standard & Poors below "A+" or by Moody's below "A1", or if General Obligation Bonds are no longer rated, long-term senior payroll tax revenue bonds are downgraded by Standard & Poors below "A+" or by Moody's below "A1", or (2) TriMet becomes eligible to be a debtor under Bankruptcy code, or (3) TriMet loses its taxing authority related to payroll and self-employment taxes. If a trigger event occurs, TriMet is required to provide equity strip collateral in amounts defined in the lease agreements. TriMet's General Obligation Bonds are rated AAA by Standard & Poors and Aaa by Moody's at June 30, 2012.

As of June 30, 2012, TriMet is not aware of any default, event of default or event of loss under any of the operative documents.

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continued

(d) Legislative and regulatory activities

Pursuant to the terms of the tax indemnity agreements of TriMet's 1997 and 1998 lease transactions, unless an indemnification event occurs, the District bears no liability for the related adverse U.S. federal income tax consequence to the domestic investors. As of June 30, 2012 no indemnity claims have been made against TriMet. With respect to TriMet's 1997 and 1998 lease transactions, the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA), as codified in Section 4965 of the Internal Revenue Code of 1986 as amended (Code), the guidance provided by the Internal Revenue Service (IRS) in IRS Notice 2007-18 published on February 7, 2007 and the Proposed and Temporary Regulations released on July 6, 2007 subsequently thereto, TriMet does not have a TIPRA excise tax liability.

(e) Financial Statement Summary

The accompanying financial statements include the following amounts related to the lease transactions as of June 30:

	2012	2011
Assets:		
Prepaid lease expense - current	\$ 13,556	\$ 15,376
Prepaid lease expense	163,124	163,330
Long-term restricted lease deposit	41,790	52,393
Total assets	<u>\$ 218,470</u>	<u>\$ 231,099</u>
Liabilities:		
Unearned lease revenue - current	\$ 13,556	\$ 15,376
Unearned lease revenue	43,751	58,380
Long-term lease liability	143,595	139,070
Total liabilities	<u>\$ 200,902</u>	<u>\$ 212,826</u>
Net leveraged lease expense	\$ 1,058	\$ 3,080

12. Commitments and Contingencies

TriMet has active light rail construction and other capital projects, as well as other funding commitments. Authorized expenditures unexpended as of June 30, 2012 were \$608,721.

The District is a defendant in various legal actions resulting from normal transit operations. Although the outcome of such actions cannot presently be determined, it is the opinion of management and legal counsel that settlement of these matters will not have a material adverse affect on the District's financial position, results of operations or cash flows.

13. Special Items

In June 2011, the District transferred \$6,000 of Capital Grant Revenue Bond proceeds to Metro, pursuant to an Intergovernmental Agreement, to support alternatives analysis and project development activities for the Southwest Corridor Project.

14. Subsequent Events***Union Defined Contribution Plan***

In July 2012, TriMet received a favorable arbitration ruling related to the contract with ATU 757. As part of the ruling, a new defined contribution retirement plan was created - the TriMet Defined Contribution Retirement Plan for Union Employees ("the Union DC Plan"). The plan is a single employer defined contribution plan. A third party administrator, ICMA-RC, will provide administration of the Union DC Plan trust. The TriMet Board of Directors ("Board") has appointed a committee to oversee the Union DC Plan. Funding of the defined contribution plan will be performed on a perpetual basis as part of the District's normal payroll processes.

Notes to Financial Statements

June 30, 2012
 (dollars in thousands)
continued

Plan description

Effective July 13, 2012, the District adopted the Union DC Plan in accordance with Internal Revenue Code (IRC) Section 401(a). Participation in the Union DC Plan is mandatory for all union employees hired on or after August 1, 2012. Under the Union DC Plan, the District will contribute 8.0 percent of considered compensation each pay period. Considered compensation is taxable compensation plus employee elected pre-tax deferrals, less overtime pay, bonuses, commissions, or other extraordinary pay and cash-out of unused vacation. Within 30 days of becoming eligible for the Union DC Plan, employees will make a one-time irrevocable election to contribute between zero and 15 percent of their compensation to the Plan on a pretax basis. Voluntary, after-tax employee contributions, up to 15 percent of compensation, are allowed and may be adjusted by the employee at any time. Plan participants fully vest in the District's contributions after three years of service with the District. Upon severance from employment, TriMet will contribute 60 percent of the employee's unused sick leave (up to a maximum of 1,700 hours) to the employees account. The TriMet Board has authority over amendments to plan benefit and contribution provisions, in conjunction with the Working and Wage Agreement.

Defined Benefit Retirement Plan Funding

In August 2012, the District funded annually required contributions in two pension trust funds, as follows:

<u>Pension Trust</u>	<u>ARC Funded August 2012</u>
TriMet Defined Benefit Retirement Plan for Management and Staff Employees Trust Fund	\$ 4,834
Pension Plan for Bargaining Unit Employees of TriMet Trust Fund	34,826

2012 Revenue Bonds, Series A

On August 30, 2012, TriMet issued \$93,290 in Senior Lien Payroll Tax Revenue Bonds, Series 2012A (2012 Revenue Bonds) to fund the District's share of the Portland to Milwaukie Light Rail Project and other capital projects.

The 2012 Revenue Bonds are payable through fiscal year 2038. The total remaining principal and interest on the Revenue Bonds is \$164,899. The 2012 Revenue Bonds are not general obligations of the District. The 2012 Revenue Bonds mature serially each September 1, beginning September 1, 2013 through 2032, with \$28,705 in term bonds maturing on September 1, 2037. Interest is payable semiannually on March 1 and September 1 and fixed interest rates range from 1.0 percent to 5.0 percent on various maturities. The 2012 Revenue Bonds are subject to redemption prior to maturity in whole or in part at the option of TriMet on any date on or after September 1, 2022, at a price of par (100%) plus accrued interest thereon to the date of redemption.

Future maturities of the 2012 Revenue Bonds, Series A, are as follows:

Fiscal year ending June 30:	<u>Principal</u>	<u>Interest</u>
2013	\$ -	\$ 2,246
2014	2,050	4,455
2015	2,090	4,414
2016	2,165	4,340
2017	2,265	4,241
2018-2022	13,050	19,476
2023-2027	16,610	15,925
2028-2032	21,325	11,206
2033-2037	27,390	5,147
2038	6,345	159
	<u>\$ 93,290</u>	<u>\$ 71,609</u>

Notes to Financial Statements

June 30, 2012
 (dollars in thousands)
continued

15. TriMet Defined Benefit Retirement Plan for Management and Staff Employees Trust Fund

The TriMet Defined Benefit Retirement Plan for Management and Staff Employees Trust Fund accounts for the assets of the employee benefit plan held by TriMet in a trustee capacity. TriMet is the sole administrator for the TriMet Defined Benefit Retirement Plan for Management and Staff Employees (“Management DB Plan”). The Management DB Plan is a governmental plan maintained and operated solely by TriMet. The TriMet Board has appointed four people to oversee the Management DB Plan. TriMet’s annual required contributions under the Management DB Plan are actuarially determined and recognized in the current reporting period. TriMet funds the Management DB Plan based upon the annual required contribution and in accordance with the assumptions included under the plan.

Summary of accounting policies

The financial statements are prepared using the accrual basis of accounting. TriMet contributions are recognized in the period in which the contributions are earned. Benefits are recognized when due and payable in accordance with the terms of the plan.

Investment policy and method to value investments

The Management DB Plan investment policy allows the plan to utilize multiple professional investment management firms to implement the investment program. The long-term performance objective of the plan is to achieve a compound rate of return on invested assets consistent with the forward looking return assumptions adopted annually by the trustees of the plan. Eligible investments include the following: Domestic equities, International equities, Fixed income securities, Tactical Asset Allocation Strategy funds, Real estate investments, Absolute return investment funds, and Private equity investments. Plan investments are reported at fair value. Fair value of securities is determined by the plan asset managers.

Investments – concentration of credit risk

The plan trustees have adopted an Investment Policy which defines target allocations in each class of investment. The target allocations are based upon asset liability studies, which are performed every five years. As of June 30, 2012 and 2011, the plan had the following investments of more than 10% of the total Plan investments:

	2012	2011
Fidelity Institutional Trust US Equity Index Fund	0.00%	15.20%
Vanguard Russell 1000 Fund	15.56%	0.00%
State Street RAFI	17.66%	0.00%
PIMCO All Asset Fund	14.25%	14.10%

Plan description

The Management DB Plan is a single-employer defined benefit plan. The plan covers all TriMet non-union employees hired before April 27, 2003 who are not covered by the Management DC Plan. Participation began at the date of hire with benefits being 100 percent vested after five years of service. Covered employees who retire at or after age 62, with five years of service, are entitled to an annual retirement benefit, payable monthly for life. Benefits vary based on final average salary, job classification and date of hire. Vested non-union employees convert unused sick leave to monthly pension benefits at a rate of final average salary (stated on an hourly basis) multiplied by one-half of unused sick leave (up to a maximum of 850 hours) divided by 101.9. Benefits in payout status are increased annually by 90 percent of the percentage increase in the U.S. Consumer Price Index. The Management DB Plan is contained in a plan document originally adopted on December 7, 1970, restated as of June 30, 1988, restated as of December 31, 2002, and subsequently amended as of January 1, 2004, March 22, 2005, July 1, 2005, July 1, 2006 and restated as of January 1, 2008. TriMet is required to maintain funds under the Management DB Plan sufficient to pay benefits when due. No employee contributions are required or permitted under the Management DB Plan.

Notes to Financial Statements

June 30, 2012
(dollars in thousands)
continued

Funding policy and annual pension cost

The funding policy of the Management DB Plan provides for an actuarially computed required contribution determined using the individual entry age normal actuarial cost method. The required contribution consists of normal cost and an amortization of the unfunded actuarial accrued liability. The normal cost is determined as the level percentage of pay basis over the service of the active employee between entry age and assumed exit age. Until June 30, 2003, past service liabilities were amortized in level payments over a 40 year period, which began July 1, 1985. In 2003, the Management DB Plan was closed to new participants and past service liabilities were funded over the following periods: seven years in fiscal year 2008, and eight years in 2007 and 2006. Prior to the June 30, 2009 actuarial valuation, the plan costs were determined using the frozen entry age normal method. In fiscal year 2009, the District adopted changes recommended by the plan actuary, resulting in funding of past service obligations over a closed twenty year period and adoption of the entry age normal cost method.

Schedule of Funding Progress			
	Actuarial valuation date		
	June 30, 2012	June 30, 2011	June 30, 2010
Management DB Plan			
Actuarial value of plan assets	\$ 76,728	\$ 72,170	\$ 67,689
Actuarial accrued liability (AAL)	113,750	105,750	98,834
Unfunded AAL	37,022	33,580	31,145
Funded ratio	67.5%	68.2%	68.5%
Annual covered payroll	\$ 14,869	\$ 15,099	\$ 15,626
Unfunded AAL as a percentage of covered payroll	249.0%	222.4%	199.3%

Actuarial methods and assumptions

Significant actuarial assumptions used in the valuation include a rate of return on the investment of present and future assets of 7.0 percent, an annual cost of living increase of 4.0 percent and annual salary increases of 5.0 percent. The actuarial value of plan assets is calculated as the market value of assets held in trust, plus accrued contributions for the prior plan year, plus recognition of each year's actuarial gain or loss on plan assets recognized over a five-year period. As of June 30, 2012, the actuarial value of plan assets was less than the market value of plan assets by \$1.7 million.

Schedule of Annual Required Contributions			
	Actuarial valuation date		
	June 30, 2012	June 30, 2011	June 30, 2010
Management DB Plan			
Annual required contribution (ARC)	\$ 4,834	\$ 4,576	\$ 3,962
ARC Contributions made by June 30	-	1,600	-
Contributions made as a percentage of ARC	0.0%	35.0%	0.0%
Contributions made as a percentage of covered payroll	0.0%	10.6%	0.0%
Net pension obligation	\$ 4,834	\$ 2,976	\$ 3,962

A portion of the annual required contribution was deposited to the Management DB Plan subsequent to June 30, 2012 and 2011 and, accordingly, an equivalent amount is reflected in the accompanying balance sheet within accrued pension obligation.

Notes to Financial Statements

June 30, 2012
(dollars in thousands)
continued

Schedule of Annual Pension Costs and Payments			
Management DB Plan	Fiscal year		
	2012	2011	2010
Annual required contribution (ARC)	\$ 4,834	\$ 4,576	\$ 3,962
Interest on annual contribution	30	53	55
Annual cost	4,864	4,629	4,017
Contributions made towards obligation	(3,006)	(5,615)	(4,143)
Change in net pension obligation (NPO)	1,858	(986)	(126)
Beginning net pension obligation	2,976	3,962	4,088
Ending net pension obligation	<u>\$ 4,834</u>	<u>\$ 2,976</u>	<u>\$ 3,962</u>
Contributions made as a percentage of NPO	101.0%	141.7%	101.3%
Contributions made as a percentage of covered payroll	19.9%	35.9%	26.5%

16. Pension Plan for Bargaining Unit Employees of TriMet Trust Fund

The Pension Plan for Bargaining Unit Employees of TriMet Trust Fund accounts for the assets of the employee benefit plan held by TriMet in a trustee capacity. TriMet is the sole administrator for the Pension Plan for Bargaining Unit Employees of TriMet (“Bargaining Unit DB Plan”). The Bargaining Unit DB Plan is a governmental plan maintained and operated solely by TriMet. Three trustees appointed by the TriMet Board and three union representatives appointed by the Amalgamated Transit Union (“Union”) oversee the Bargaining Unit DB Plan. TriMet’s annual required contributions under the plan are actuarially determined and recognized in the current reporting period. TriMet funds the plan based upon the annual required contribution and in accordance with the assumptions included under the plan.

Summary of accounting policies

The financial statements are prepared using the accrual basis of accounting. TriMet contributions are recognized in the period in which the contributions are earned. Benefits are recognized when due and payable in accordance with the terms of the plan.

Investment policy and method to value investments

The Bargaining Unit DB Plan investment policy allows the plan to utilize multiple professional investment management firms to implement the investment program. The long-term performance objective of the plan is to achieve a compound rate of return on invested assets consistent with the forward looking return assumptions adopted annually by the Board. Eligible investments include the following: Domestic equities, International equities, Fixed income securities, Tactical Asset Allocation Strategy funds, Real estate investments, Absolute return investment funds, and Private equity investments. Plan investments are reported at fair value. Fair value of securities is determined by the plan asset managers.

Investments – concentration of credit risk

The plan trustees have adopted an Investment Policy which defines target allocations in each class of investment. The target allocations are based upon asset liability studies, which are performed every five years. As of June 30, 2012 and 2011, the plan had the following investments of more than 10% of the total Plan investments:

	2012	2011
Aurora Offshore Fund	10.35%	10.66%
PIMCO All Asset Fund	10.78%	10.23%
Vanguard Russell 2000 Fund	27.00%	0.00%
PIMCO Total Return Fund	15.94%	16.52%

Notes to Financial Statements

June 30, 2012
 (dollars in thousands)
continued

Plan description

The Bargaining Unit DB Plan is a single-employer defined benefit plan. The Bargaining Unit DB Plan covers all full-time and part-time employees represented by the Amalgamated Transit Union hired in a union position before August 1, 2012. Eligible union employees begin to participate on their date of hire, with benefits being 100 percent vested after 10 years of service. Under the terms of the Bargaining Unit Pension Plan and Permanent Disability Agreement, covered members retiring at or after age 58 with 10 or more years of service will receive a monthly benefit for life with annual cost of living adjustments. Pension benefits for covered members retiring after February 1, 2012 are \$78.97 per month, per year of service. Effective with the current Working and Wage agreement, each February 1, the retirement benefit is adjusted based on the amount of any general wage adjustments received by bargaining unit employees during the previous 12 months. Pension benefits for retirees in payout status are adjusted each February 1, also based on the general wage adjustments during the prior 12 months. Effective July 12, 2012, pension benefits for retirees in payout status will be adjusted each May 1, based upon the U.S. Urban Wage Earners and Clerical Workers Consumer Price Index (CPI) (annual average). Provisions of the Working and Wage Agreement between TriMet and the Union effective December 1, 2009, requires vested union employees to convert any unused accumulated sick leave (up to a maximum of 1,700 hours) to monthly pension benefits at a rate of 25 cents per hour. No employee contributions are required or permitted under the Bargaining Unit DB Plan. Benefit provisions are established and amended through provisions of the Working and Wage Agreement between TriMet and the Union.

Funding policy and annual pension cost

Pursuant to the terms of the Working and Wage Agreement, TriMet is required to fund the Bargaining Unit DB Plan in accordance with actuarial principles, amortizing past service liabilities over a period of 40 years or less. Effective June 30, 2010, TriMet is amortizing past service liabilities over a 20 year open period. The funding policy of the Bargaining Unit DB Plan provides for an actuarially computed annual required contribution. The required contribution consists of a normal cost and an amortization of the unfunded actuarial accrued liability. The normal cost is determined as the sum of the actuarial present value of the projected benefits earned by each participant during the year.

Bargaining Unit DB Plan	Schedule of Funding Progress		
	Actuarial valuation date		
	July 1, 2012	July 1, 2011	July 1, 2010
Actuarial value of plan assets	\$ 290,642	\$ 289,425	\$ 255,279
Actuarial accrued liability (AAL)	557,131	517,979	491,495
Unfunded AAL	266,489	228,554	236,216
Funded ratio	52.2%	55.9%	51.9%
Annual covered payroll	\$ 125,142	\$ 119,166	\$ 121,124
Unfunded AAL as a percentage of covered payroll	212.9%	191.8%	195.0%

Actuarial methods and assumptions

Significant actuarial assumptions used in the valuation include a rate of return on the investment of present and future assets of 7.75 percent, a benefits in payment status annual increase of 3.0 percent, and a 2.7 percent annual rate to determine the normal retirement benefit for active employees retiring after August 1, 2012. The actuarial value of plan assets is calculated as the market value of assets held in trust, plus investment returns using a smoothing technique. This method recognizes the difference in actual investment return and the assumed 7.75 percent rate of return over a five year period. The resulting actuarial valuation cannot be less than 80 percent or greater than 120 percent of the market value of plan assets on the valuation date. As of June 30, 2012, the actuarial value of plan assets was less than the market value of plan assets by \$9.8 million. The asset valuation method is consistent with the method described in IRS Revenue Procedure 2000-40.

Notes to Financial Statements

June 30, 2012
 (dollars in thousands)
continued

	Actuarial valuation date		
	July 1, 2012	July 1, 2011	July 1, 2010
Bargaining Unit DB Plan			
Annual required contribution (ARC)	\$ 34,826	\$ 32,224	\$ 34,028
ARC Contributions made by June 30	-	13,400	-
Contributions made as a percentage of ARC	0.0%	41.6%	0.0%
Contributions made as a percentage of covered payroll	0.0%	11.2%	0.0%
Net pension obligation	\$ 34,826	\$ 18,824	\$ 34,028

A portion of the annual required contribution is deposited to the Bargaining Unit DB Plan subsequent to June 30, 2012 and 2011 and, accordingly, an equivalent amount is reflected in the accompanying balance sheet within accrued pension obligation.

	Fiscal year		
	2012	2011	2010
Bargaining Unit DB Plan			
Annual required contribution (ARC)	\$ 34,826	\$ 32,224	\$ 34,028
Contribution made towards obligation	(18,824)	(47,428)	(28,051)
Change in net pension obligation (NPO)	16,002	(15,204)	5,977
Beginning net pension obligation	18,824	34,028	28,051
Ending net pension obligation	\$ 34,826	\$ 18,824	\$ 34,028
Contributions made as a percentage of NPO	100.0%	139.4%	100.0%
Contributions made as a percentage of covered payroll	15.8%	39.2%	22.7%



Required Supplementary Information

Schedules of Funding Progress

(dollars in thousands)

Other postemployment benefits						
Actuarial valuation date	Actuarial value of assets	Actuarial liability (AAL)	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
January 1, 2012	\$ -	\$ 900,541	\$ 900,541	0%	\$ 151,448	595%
January 1, 2010	-	816,544	816,544	0%	137,869	592%
January 1, 2008	-	632,204	632,204	0%	130,726	484%

Management DB Plan						
Actuarial valuation date	Actuarial value of assets	Actuarial liability (AAL)	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
June 30, 2012	\$ 76,728	\$ 113,750	\$ 37,022	67%	\$ 14,869	249%
June 30, 2011	72,170	105,750	33,580	68%	15,099	222%
June 30, 2010	67,689	98,834	31,145	68%	15,626	199%
June 30, 2009	65,202	96,749	31,547	67%	17,130	184%
June 30, 2008	59,066	84,974	25,908	70%	17,842	145%
June 30, 2007	61,016	75,616	14,600	81%	19,644	74%
June 30, 2006	50,212	69,383	19,171	72%	19,920	96%
June 30, 2005	46,241	60,325	14,084	77%	19,355	73%
June 30, 2004	41,734	50,639	8,905	82%	19,642	45%

Bargaining Unit DB Plan						
Actuarial valuation date	Actuarial value of assets	Actuarial liability (AAL)	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
June 30, 2012	\$ 290,642	\$ 557,131	\$ 266,489	52%	\$ 125,142	213%
June 30, 2011	289,425	517,979	228,554	56%	119,166	192%
June 30, 2010	255,279	491,495	236,216	52%	121,124	195%
June 30, 2009	217,113	460,333	243,220	47%	123,784	196%
June 30, 2008	238,883	427,305	188,422	56%	116,418	162%
June 30, 2007	209,392	399,237	189,845	52%	111,877	170%
June 30, 2006	178,157	370,711	192,554	48%	106,705	180%
June 30, 2005	155,828	345,396	189,568	45%	106,578	178%
June 30, 2004	143,184	319,829	176,645	45%	104,778	169%



Supplementary Information

**Reconciliation of Revenues and Expenses (Budget Basis) to
Schedule of Revenues and Expenses (GAAP Basis)**

For The Year Ended June 30, 2012
(dollars in thousands)

	General fund	G.O. Bond debt service fund	District total
Budget basis			
Revenues	\$ 651,334	\$ 7,508	\$ 658,842
Expenses	754,415	10,020	764,435
Revenues under expenses	<u>(103,081)</u>	<u>(2,512)</u>	<u>(105,593)</u>
Add (subtract) budget activity not qualifying as revenues/expenses under GAAP:			
Principal payments on long-term debt	57,942	9,315	67,257
Issuance of Capital Lease	(290)	-	(290)
Capital asset additions	253,208	-	253,208
Add (subtract) additional adjustments required by GAAP:			
Depreciation	(78,168)	-	(78,168)
Net leveraged lease expense	(1,058)	-	(1,058)
Leveraged lease principal payments	353	-	353
Amortization of Bond Premiums/Discounts	1,436	-	1,436
Unfunded OPEB Costs	(67,707)	-	(67,707)
Subtract budget resources not qualifying as revenues under GAAP:			
Federal, state and local government contributions	<u>(134,972)</u>	<u>-</u>	<u>(134,972)</u>
GAAP basis (loss) income before contributions and special items presented in statement of revenues, expenses and changes in net assets	<u>\$ (72,337)</u>	<u>\$ 6,803</u>	<u>\$ (65,534)</u>

**Reconciliation of fund balance (Budget Basis) to
Net assets (GAAP Basis)**

June 30, 2012
(dollars in thousands)

Budget basis ending fund balance	
General fund	\$ 179,137
G.O. bond debt service fund	11,776
	<u>190,913</u>
Reconciliation to GAAP basis:	
Net capital assets	2,241,686
Capital related debt	(337,048)
Other postemployment benefits	(290,554)
Prepaid lease expense	163,124
Long term restricted lease deposit	41,790
Long term deferred lease revenue	(43,751)
Long term lease liability	<u>(143,595)</u>
GAAP basis net assets	<u>\$ 1,822,565</u>

**Schedule of Revenues and Expenses
Budget (Budget Basis) and Actual**
For The Year Ended June 30, 2012
(dollars in thousands)

GENERAL FUND

	Original budget	Final budget	Actual	Variance from final budget over (under)
Revenues				
Operating revenue	\$ 134,671	\$ 134,671	\$ 135,070	\$ 399
Tax revenue	232,314	232,314	248,078	15,764
Operating grant and other revenue	105,112	105,112	97,704	(7,408)
Capital program resources	64,081	64,081	5,727	(58,354)
Light rail program resources	293,198	293,198	129,138	(164,060)
Other non-operating resources	37,859	37,859	35,617	(2,242)
Total revenues	<u>867,235</u>	<u>867,235</u>	<u>651,334</u>	<u>(215,901)</u>
Expenses				
Operating program:				
Office of the general manager	2,518	2,518	2,385	(133)
Communications and technology	15,781	15,856	14,686	(1,170)
Finance and administration	9,076	9,136	8,948	(188)
General counsel/human resources	3,787	3,787	3,774	(13)
Operations	310,405	316,370	314,760	(1,610)
Capital projects and facilities	19,954	19,954	8,943	(11,011)
Debt service	38,535	38,535	23,703	(14,832)
Pension	44,351	45,851	45,542	(309)
Project Interim Financing	41,890	41,890	41,457	(433)
Pass-through requirements	37,859	37,859	37,009	(850)
Contingency	10,000	2,400	-	(2,400)
Total operating program	<u>534,156</u>	<u>534,156</u>	<u>501,207</u>	<u>(32,949)</u>
Capital programs				
Communications and technology	27,986	28,186	15,916	(12,270)
Finance and administration	315	115	7	(108)
Operations	36,408	36,408	9,195	(27,213)
Capital projects and facilities	6,590	6,590	2,459	(4,131)
Total capital programs	<u>71,299</u>	<u>71,299</u>	<u>27,577</u>	<u>(43,722)</u>
Light rail programs				
205/Portland Mall Light Rail Project	3,117	3,117	2,136	(981)
Milwaukie Light Rail Project	293,816	293,816	223,495	(70,321)
Total light rail programs	<u>296,933</u>	<u>296,933</u>	<u>225,631</u>	<u>(71,302)</u>
Total expenses	<u>902,388</u>	<u>902,388</u>	<u>754,415</u>	<u>(147,973)</u>
Revenues over(under) expenses	(35,153)	(35,153)	(103,081)	(67,928)
Beginning fund balance	131,298	131,298	282,218	145,505
Ending fund balance	<u>\$ 96,145</u>	<u>\$ 96,145</u>	<u>\$ 179,137</u>	<u>\$ 77,577</u>

Schedule of Revenues and Expenses
Budget (Budget Basis) and Actual
 For The Year Ended June 30, 2012
 (dollars in thousands)

G.O. BOND DEBT SERVICE FUND

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	Variance from final budget over (under)
Revenues				
Previously levied taxes estimated to be received	\$ 100	\$ 100	\$ 481	\$ 381
Interest income	20	20	20	-
Other Resources	-	-	-	-
Taxes necessary to balance	<u>7,006</u>	<u>7,006</u>	<u>7,007</u>	<u>1</u>
Total revenues	<u>7,126</u>	<u>7,126</u>	<u>7,508</u>	<u>382</u>
Expenses				
Redemption of principal	9,315	9,315	9,315	-
Interest expense	<u>757</u>	<u>757</u>	<u>705</u>	<u>(52)</u>
Total expenses	<u>10,072</u>	<u>10,072</u>	<u>10,020</u>	<u>(52)</u>
Revenues over(under) expenses	(2,946)	(2,946)	(2,512)	434
Beginning fund balance	<u>13,003</u>	<u>13,003</u>	<u>14,288</u>	<u>4,473</u>
Ending fund balance	<u>\$ 10,057</u>	<u>\$ 10,057</u>	<u>\$ 11,776</u>	<u>\$ 4,907</u>

Schedule of Property Tax Levies and Collections
Last Five Fiscal Years
 For The Year Ended June 30, 2012
 (dollars in thousands)

Fiscal year ended June 30	Tax levy for the fiscal year	Collected within the fiscal year of levy		Collections in subsequent years	Total collections to date	
		Amount	Percentage of levy		Amount	Percentage of levy
2012	\$ 7,494	\$ 6,724	90%	\$ -	\$ 6,724	90%
2011	10,908	10,259	94%	167	10,426	96%
2010	10,422	9,765	94%	272	10,037	96%
2009	9,344	8,722	93%	354	9,076	97%
2008	9,514	8,969	94%	304	9,273	97%

Schedule of Property Tax Transactions and Outstanding Balances

For The Year Ended June 30, 2012

(dollars in thousands)

Tax year	Beginning balance	Levy extended by assessor	Discounts	Interest	Adjustments	Collections	Ending balance
2011-12	\$ -	\$ 7,494	\$ (220)	\$ 2	\$ -	\$ (6,724)	\$ 552
2010-11	371	-	-	2	(41)	(167)	165
2009-10	112	-	-	2	23	(43)	94
2008-09	55	-	-	2	13	(44)	26
2007-08	20	-	-	1	5	(25)	1
2006-07	-	-	-	-	5	(2)	3
2005-06	3	-	-	-	-	(1)	2
2004-05	2	-	-	-	-	-	2
2003-04	1	-	-	-	-	-	1
2002-03	2	-	-	-	-	-	2
2001-02	2	-	-	-	-	(1)	1
2000-01 & prior	5	-	-	-	-	(1)	4
	<u>\$ 573</u>	<u>\$ 7,494</u>	<u>\$ (220)</u>	<u>\$ 9</u>	<u>\$ 5</u>	<u>\$ (7,008)</u>	<u>\$ 853</u>



Audit Comments and Disclosures Required by State Regulations

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

Board of Directors
Tri-County Metropolitan Transportation District of Oregon

We have audited the basic financial statements of Tri-County Metropolitan Transportation District of Oregon (District), as of and for the year ended June 30, 2012 and have issued our report thereon dated September 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

Compliance

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grants, including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules OAR 162-10-0000 to 162-10-0330, as set forth below, noncompliance with which could have a direct and material effect on the determination of financial statement amounts:

- The accounting records and related internal control structure.
- The use of various depositories to secure the deposit of public funds.
- The requirements relating to debt.
- The requirements relating to the preparation, adoption and execution of the annual budgets for fiscal years 2013 and 2012.
- The requirements relating to insurance and fidelity bond coverage.
- The appropriate laws, rules and regulations pertaining to programs funded wholly or partially by other governmental agencies.
- The statutory requirements pertaining to the investment of public funds.
- The requirements pertaining to the awarding of public contracts and the construction of public improvements.

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

Budget (OAR 162-010-0260)

Per ORS 294.426(5), if the notice of the budget committee meeting is to be published once in the newspaper and once on the municipal corporation's website, the newspaper notice must contain the website address at which the notice is posted. The District chose to provide notice of their budget committee meeting both in an advertisement in a newspaper as well as on their website for the 2012-2013 budget. However, the District did not include the internet website address in the newspaper advertisement as required by statute.

Internal Control over Financial Reporting

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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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



Julie Desimone, Partner
for Moss Adams LLP
Portland, Oregon
September 20, 2012