



Financial Statements and Supplementary Information  
June 30, 2011 and 2010

**(With Independent Auditors' Report Thereon)**

## Board of Directors

<u>Name</u>	<u>District</u>
Rick Van Beveren, President	#1
Tiffany Sweitzer	#2
Steve Clark	#3
Consuelo Saragoza	#4
Dr. T. Allen Bethel	#5
Lynn Lehrbach	#6
Hakeem Olanrewaju	#7

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Board of Directors	4012 S.E. 17th Avenue Portland, Oregon 97202
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General Manager	Neil McFarlane 4012 S.E. 17th Avenue Portland, Oregon 97202
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General Counsel and Registered Agent	M. Brian Playfair 4012 S.E. 17th Avenue Portland, Oregon 97202
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## **Financial Section**



## 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, 2011 and 2010, and the statements of revenues, expenses, and changes in net assets of the Enterprise Fund for the years ended June 30, 2011 and 2010, and the statements of changes in plan net assets of the pension trust funds for the year ending June 30, 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, 2011 and 2010, the changes in financial position and cash flows for the Enterprise fund for the years ended June 30, 2011 and 2010, 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 year ended June 30, 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 28, 2011 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.

The management's discussion and analysis on pages 4 through 14, and the required supplementary information on page 48 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplemental budgetary schedules and property tax schedule on pages 50 through 54 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



James C Lanzarotta, Partner  
for Moss Adams LLP  
Portland, Oregon  
September 28, 2011

## **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, 2011 and 2010, 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 2011 and 2010 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 \$410,388 for fiscal year 2011, a decrease of 5.4 percent, during the fiscal year. Passenger revenue increased 3.4 percent, to \$96,890, during fiscal year 2011, as a result of a fare increase implemented in September 2010, an 8.2 percent increase in annual light rail ridership, offset in part by a 3.4 percent decrease in bus ridership.
- Total payroll and other tax revenues increased \$17,523, or 8.4 percent, compared to fiscal year 2010. Employer payroll tax revenue increased \$17,039, or 8.8 percent, while self employment and other tax revenues increased \$484, or 3.3 percent, over fiscal year 2010, due to the combined impact of tax rate increases, offset by the impact of economic difficulties in the region over the past two years, transitioning to a slow economic turnaround beginning in fiscal year 2011.

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 .006818 on January 1, 2010 and .006918 on January 1, 2011.

The 2009 Oregon Legislature gave the Board the authority to increase the payroll tax for employers and self-employed individuals to .008218. The increase must be phased in over a 10 year period and any incremental increase cannot exceed 0.0002. The increase may be on or after January 1, 2010. The Board may not adopt an ordinance increasing the tax unless the Board makes a finding that the economy in the District has recovered to an extent sufficient to warrant the increase in the tax. In making the finding, the Board must consider regional employment and income growth.

**Management’s Discussion and Analysis**

*continued*

(dollars in thousands)

- Grant revenue decreased \$44,558, or 52.9 percent, compared to fiscal year 2010, as a result of delays in Federal approval of preventive maintenance grants as the federal transportation program is operating under a series of short-term extensions which allow FTA to continue its current programs. The final federal approval of short-term extensions for this program occurred after TriMet’s fiscal year end. The remaining fiscal year 2011 grant applications were approved and funds were drawn down in August 2011.
- Total operating and non-operating expenses decreased 1.8 percent to \$548,307, during fiscal year 2011. Fringe benefits expense increased 5.0 percent or \$9,612 due primarily to costs associated with retiree pension and other post employment benefits. Materials and services expenses decreased 18.3 percent or \$16,499 due primarily to decreases in transit enhancement expense (\$3,090) and facilities maintenance (\$3,185) performed in association with receipt of Federal Stimulus funding, decreases in intergovernmental transfers (\$3,847), and other materials and services declines associated with overall budget reductions implemented in conjunction with reductions in service for the fiscal year.
- Total net assets at June 30, 2011, were \$1,753,127, a decrease of \$39,721 from 2010. The decrease in net assets is due primarily to an increase in the Other postemployment benefits (OPEB) liability. The net OPEB obligation at June 30, 2011 was \$222,847, an increase of \$70,266 over 2010. TriMet funds OPEB on a pay-as-you-go basis, funding benefits for current retirees, but does not make contributions towards the unfunded accrued OPEB liability.
- Total capital assets, net of accumulated depreciation, were \$2,066,735 at June 30, 2011, an increase of \$30,802 from 2010. 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, 2011, were \$1,753,127, a decrease of \$39,721 or 2.2 percent from June 30, 2010 (see Table 1). 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 regular debt service payments made during the year.

	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>Increase (decrease) 2011 - 2010</b>	<b>Percentage change 2011 - 2010</b>	<b>Increase (decrease) 2010 - 2009</b>	<b>Percentage change 2010 - 2009</b>
<b>Assets</b>							
Current and other assets	\$ 828,138	\$ 630,395	\$ 548,435	\$ 197,743	31.4%	\$ 81,960	14.9%
Capital assets, net of depreciation	2,066,735	2,035,933	2,049,739	30,802	1.5%	(13,806)	(0.7)%
<b>Total assets</b>	<b>2,894,873</b>	<b>2,666,328</b>	<b>2,598,174</b>	<b>228,545</b>	<b>8.6%</b>	<b>68,154</b>	<b>2.6%</b>
<b>Liabilities</b>							
Current liabilities	355,702	246,550	211,064	109,152	44.3%	35,486	16.8%
Noncurrent liabilities	786,044	626,930	580,247	159,114	25.4%	46,683	8.0%
<b>Total liabilities</b>	<b>1,141,746</b>	<b>873,480</b>	<b>791,311</b>	<b>268,266</b>	<b>30.7%</b>	<b>82,169</b>	<b>10.4%</b>
<b>Net assets</b>							
Invested in capital assets, net of related debt	1,814,183	1,712,456	1,679,816	101,727	5.9%	32,640	1.9%
Restricted for capital projects	14,453	46,279	25,610	(31,826)	(68.8)%	20,669	80.7%
Restricted for debt service	101,721	133,677	133,620	(31,956)	(23.9)%	57	0.0%
Unrestricted	(177,230)	(99,564)	(32,183)	(77,666)	78.0%	(67,381)	209.4%
<b>Total net assets</b>	<b>1,753,127</b>	<b>1,792,848</b>	<b>1,806,863</b>	<b>(39,721)</b>	<b>(2.2)%</b>	<b>(14,015)</b>	<b>(0.8)%</b>
<b>Total liabilities and net assets</b>	<b>\$ 2,894,873</b>	<b>\$ 2,666,328</b>	<b>\$ 2,598,174</b>	<b>\$ 228,545</b>	<b>8.6%</b>	<b>\$ 68,154</b>	<b>2.6%</b>



## **Management's Discussion and Analysis**

*continued*

(dollars in thousands)

Total net assets at June 30, 2010, were \$1,792,848, a 0.8 percent decrease from June 30, 2009. Total assets increased \$68,154, or 2.6 percent, and total liabilities increased \$82,169 or 10.4 percent. The increase in total assets is due primarily to increases in cash and investments restricted for capital projects. The increase in total liabilities resulted from increases in unearned capital project revenue and OPEB liabilities.

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 and other assets increased \$81,960, or 14.9 percent, in 2010, due primarily to the increase in cash and investments associated with the receipt of final federal funding for the I205/Portland Mall light rail project, that are restricted for payment of outstanding revenue bonds used to finance the project, and receipt of the first portion of funding from the Oregon Lottery Bond proceeds restricted for the Milwaukie light rail project.

Current liabilities consist primarily of accounts payable, accrued compensation, current portion of bonds payable and unearned revenue. The increase in current liabilities of \$109,152, or 44.3 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. The increase in current liabilities of \$35,486, or 16.8 percent, in 2010, is primarily the result of increases in Accounts payable associated with pass-through funding of the Eastside Streetcar project for the City of Portland, and increases in unearned capital project revenue associated with Oregon lottery bond funding received for the Milwaukie light rail project.

Noncurrent liabilities consist primarily of long term debt, long term lease liabilities and OPEB liabilities. Noncurrent liabilities increased \$159,114 or 25.4 percent in 2011, primarily due to the issuance of \$142,380 in bonds on June 30, 2011. Noncurrent liabilities increased \$46,683, or 8.0 percent, in 2010, primarily due to an increase of \$61,328 in OPEB liabilities, offset by a decline in long term debt of \$16,069.

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 9), as well as restricted deposits related to the lease transactions (discussed in Note 12).

Unrestricted net assets have negative balances for both fiscal years 2011 and 2010. 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 \$222,847 and \$152,581 for the years ended June 30, 2011 and 2010, respectively.

### **Changes in Net Assets**

The District's total revenues decreased \$23,221, or 5.4 percent, during fiscal year 2011 (see Table 2). Passenger revenue increased \$3,161, or 3.4 percent, and grant revenue decreased \$44,558, or 52.9 percent, due to delays in preventive maintenance grant approvals by the federal government as discussed above.

Total revenues increased \$26,611, or 6.5 percent, during fiscal year 2010. Passenger revenue increased \$3,712, or 4.1 percent, and grant revenue increased \$20,618, or 32.4 percent.

**Management's Discussion and Analysis**

*continued*  
(dollars in thousands)

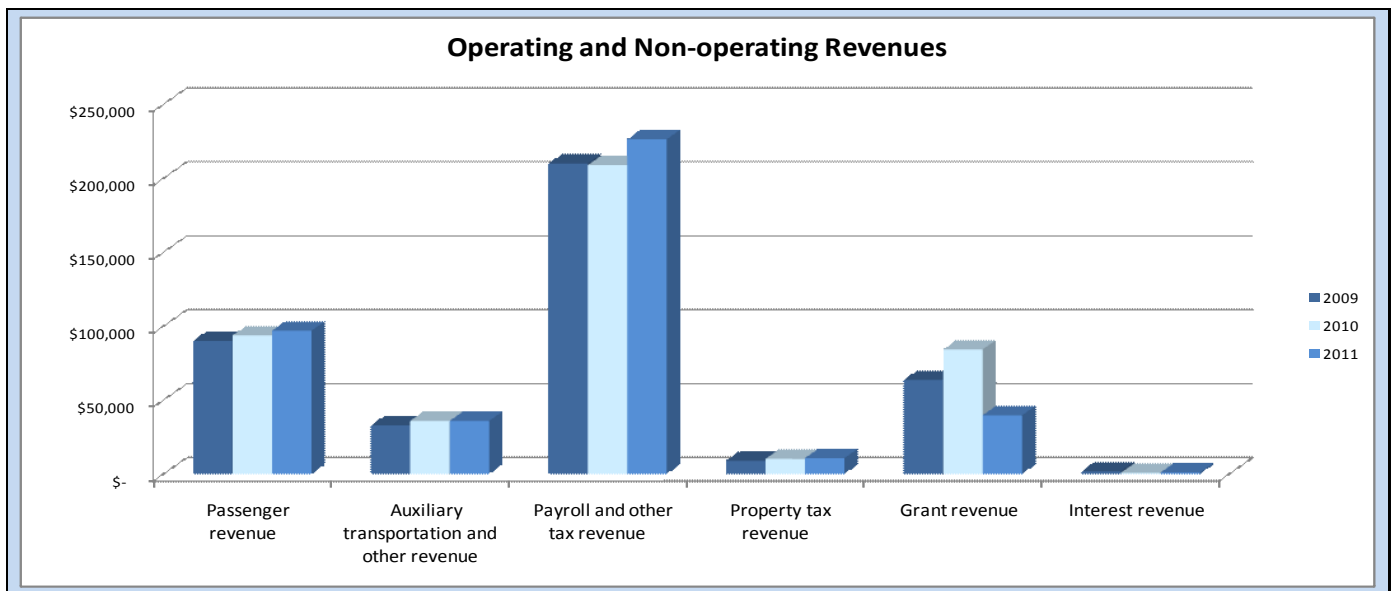
**Table 2**

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

	2011	2010	2009	Increase (decrease) 2011 - 2010	Percentage change 2011 - 2010	Increase (decrease) 2010 - 2009	Percentage change 2010 - 2009
<b>Revenues</b>							
Operating revenues							
Passenger revenue	\$ 96,890	\$ 93,729	\$ 90,017	\$ 3,161	3.4%	\$ 3,712	4.1%
Auxiliary transportation and other revenue	35,862	35,872	32,770	(10)	(0.0)%	3,102	9.5%
Nonoperating revenues							
Payroll and other tax revenue	226,456	208,933	209,937	17,523	8.4%	(1,004)	(0.5)%
Property tax revenue	10,697	10,132	8,908	565	5.6%	1,224	13.7%
Grant revenue	39,659	84,217	63,599	(44,558)	(52.9)%	20,618	32.4%
Interest revenue	824	726	1,767	98	13.5%	(1,041)	(58.9)%
Total operating and nonoperating revenues	410,388	433,609	406,998	(23,221)	(5.4)%	26,611	6.5%
<b>Expenses</b>							
Labor	123,482	125,688	127,309	(2,206)	(1.8)%	(1,621)	(1.3)%
Fringe benefits	200,875	191,263	163,588	9,612	5.0%	27,675	16.9%
Materials and services	73,859	90,358	85,143	(16,499)	(18.3)%	5,215	6.1%
Utilities	7,687	7,682	6,858	5	0.1%	824	12.0%
Purchased transportation	37,105	36,359	35,430	746	2.1%	929	2.6%
Depreciation expense	82,585	82,452	65,013	133	0.2%	17,439	26.8%
Other operating expense	8,434	11,358	8,391	(2,924)	(25.7)%	2,967	35.4%
Net leveraged lease (income) expense	3,080	85	(2,464)	2,995	3,523.5%	2,549	(103.4)%
Interest and other expense	11,200	12,999	4,068	(1,799)	(13.8)%	8,931	219.5%
Total expenses	548,307	558,244	493,336	(9,937)	(1.8)%	64,908	13.2%
Loss before contributions	(137,919)	(124,635)	(86,338)	(13,284)	10.7%	(38,297)	44.4%
Capital contributions	104,198	110,620	127,349	(6,422)	(5.8)%	(16,729)	(13.1)%
Special items	(6,000)	-	5,374	(6,000)	(100.0)%	(5,374)	100.0%
Increase (decrease) in net assets	(39,721)	(14,015)	46,385	(25,706)	183.4%	(60,400)	(130.2)%
Total net assets - beginning	1,792,848	1,806,863	1,760,478	(14,015)	(0.8)%	46,385	2.6%
Total net assets - ending	\$ 1,753,127	\$ 1,792,848	\$ 1,806,863	\$ (39,721)	(2.2)%	\$ (14,015)	(0.8)%

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 year 2011, revenues reflected an emerging economy characterized by slow job growth.

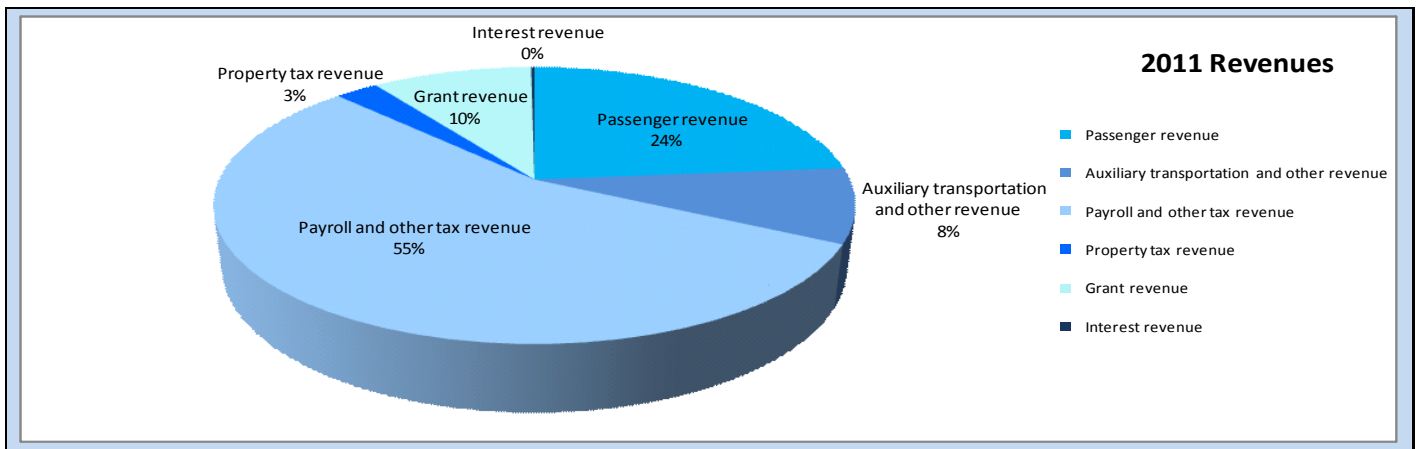
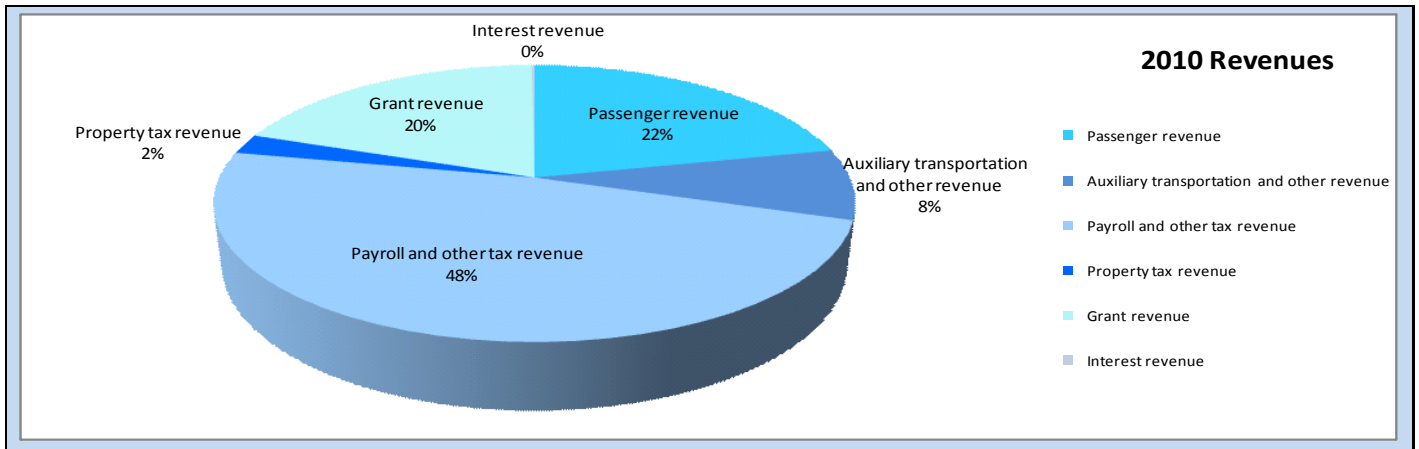
The following chart displays trends in Operating and Non-operating Revenues for the last three fiscal years:



**Management's Discussion and Analysis**

*continued*  
(dollars in thousands)

The following charts display the allocation of District revenues for fiscal years 2010 and 2011:



**Operating Revenues**

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

**Passenger Revenue**

Passenger revenue includes fares earned from the sale of passes, tickets, ticket vending machine and farebox receipts from riders. In fiscal year 2011, the District experienced overall growth in passenger revenue of 3.4 percent, due to increases in ridership and a rate increase in September 2010. TriMet budgeted an increase of 1.5 percent in light rail ridership while actual ridership increased 8.2 percent for the fiscal year. Bus ridership for the fiscal year declined 3.4 percent, slightly better than the budget assumption of a 5% decline in bus ridership resulting from fewer people commuting to jobs due to recession and service reductions in 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 2011, TriMet experienced consistent auxiliary transportation and other revenues as compared to 2010, resulting from improved cost recovery for Streetcar maintenance of way, improved recoveries associated with workers compensation and accidents, and other reimbursements, offset by decreases in Medical Transportation revenues resulting from decreases 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. In fiscal year 2011, payroll tax revenues reflected an emerging economy characterized by slow job growth, resulting in an increase of \$17,523, or 8.4 percent, compared to fiscal year 2010. After six consecutive years of increases, Payroll tax revenues decreased for two consecutive years, before increasing again in 2011. Payroll and other tax revenues decreased \$1,004, or 0.5 percent in fiscal year 2010, while they decreased \$5,196, or 2.4 percent, in fiscal year 2009.

### Operating and Other Expenses

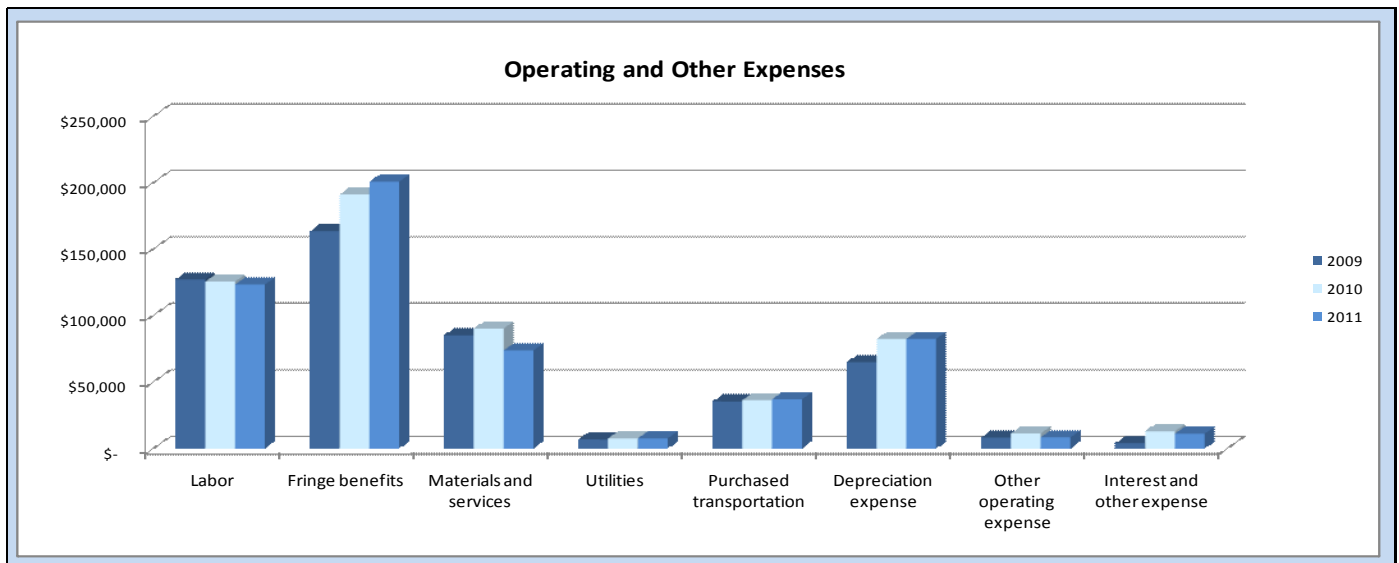
Operating and Other Expenses include operations and maintenance costs, general and administrative expenses, purchased transportation costs associated with the Medical Transportation and LIFT programs, depreciation of capital assets, interest on outstanding debt and other costs.

Total expenses 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 post-employment benefit costs. Materials and services decreased \$16,499, or 18.3 percent, due primarily to declines in Facility maintenance resulting from completion of Federal Stimulus projects.

Total expenses increased \$64,908, or 13.2 percent, during fiscal year 2010. Labor costs decreased \$1,621, or 1.3 percent, primarily due to service cuts and decreases in staffing. Fringe benefits increased \$27,675, or 16.9 percent, due to increased costs of medical premiums, other post-employment benefits costs and pension funding requirements. Materials and services increased \$5,215, or 6.1 percent, primarily due to increases related to Federal stimulus funded projects.

Depreciation expense increased \$133, or 0.2 percent, during fiscal year 2011 and \$17,439, or 26.8 percent, in fiscal year 2010, due to the addition of the WES commuter rail and the I-205/Portland Mall Light Rail line to operations during fiscal years 2009 and 2010.

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 decreased \$6,422, or 5.8 percent, during fiscal year 2011, primarily as a result of declines on Federal contributions related to completion of stimulus projects, offset in part by recognition of earned contributions related to the Milwaukie light rail project. Capital contributions decreased \$16,729, or 13.1 percent, during fiscal year 2010.

**Management's Discussion and Analysis***continued*

(dollars in thousands)

**Capital Assets**

At June 30, 2011, the District had invested \$2,066,735, net of accumulated depreciation, in a variety of capital assets (see Table 3 and Note 6).

	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>Increase (decrease) 2011 - 2010</b>	<b>Percentage change 2011 - 2010</b>	<b>Increase (decrease) 2010 - 2009</b>	<b>Percentage change 2010 - 2009</b>
Land and other	\$ 187,877	\$ 147,331	\$ 145,414	\$ 40,546	27.5%	\$ 1,917	1.3%
Rail right-of-way and stations	1,294,836	1,341,256	1,019,966	(46,420)	(3.5)%	321,290	31.5%
Buildings	204,787	194,710	118,777	10,077	5.2%	75,933	63.9%
Transportation equipment	248,842	268,858	204,534	(20,016)	(7.4)%	64,324	31.4%
Furniture and other equipment	36,435	38,713	22,550	(2,278)	(5.9)%	16,163	71.7%
Construction in progress	93,958	45,065	538,498	48,893	108.5%	(493,433)	(91.6)%
<b>Total capital assets</b>	<b>\$ 2,066,735</b>	<b>\$ 2,035,933</b>	<b>\$ 2,049,739</b>	<b>\$ 30,802</b>	<b>1.5%</b>	<b>\$ (13,806)</b>	<b>(0.7)%</b>

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. Total capital assets net of depreciation decreased \$13,806, or 0.7 percent, during fiscal year 2010, primarily due to completion the I-205/Portland Mall Light Rail Project and the impact of depreciation of the related assets beginning with the opening of the light rail line in September 2009.

The I-205/Portland Mall Light Rail Project began operation in September 2009, expanding TriMet's light rail system by adding 6.5 miles of track and eight stations, from the Clackamas Town Center along Interstate 205 (I-205) to the existing Gateway Transit Center. Additionally, the Project extended light rail through downtown Portland on 5<sup>th</sup> and 6<sup>th</sup> Avenues between Portland State University and Union Station. The 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, 2011, the District had \$373,863 in revenue bonds outstanding and \$19,115 in general obligation bonds outstanding (see Note 9).

During fiscal year 2007, the District issued \$230,000 in payroll tax and grant receipt revenue bonds to finance construction costs related to the I-205/Portland Mall Light Rail Project. The bonds are secured by a pledge of federal grant funds and a subordinated lien of payroll and self employment tax revenues. The grant receipt revenue bonds are not general obligations of the District. During fiscal year 2008, \$42,987 in grant funds were placed in a debt service account. During fiscal year 2009, the District received \$80,784 in grant funds that were placed in a debt service account with the bond trustee solely for funding optional redemption of eligible term bonds and scheduled bond payments. The 2008 and 2009 funds were used to redeem \$77,230 in eligible term bonds in May 2009 and \$27,400 in eligible term bonds in July 2009. The District received the final draw on grant funds pledged as security on these bonds in 2010, a portion of the funds were used to pay a scheduled debt service payment in May 2011, and the remaining funds are invested in a restricted account for payment of final debt service maturity on the bonds in 2012.

During fiscal year 2010, the District issued \$49,550 in limited tax pledge revenue bonds to pay for a portion of the costs of capital projects. The bonds are secured by a senior lien of payroll, state in lieu and self employment tax revenues. The limited tax pledge revenue bonds are not general obligations of the District.

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.

**Management's Discussion and Analysis**

*continued*

(dollars in thousands)

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:

	<b>Original issue amount</b>	<b>Balance at June 30, 2011</b>	<b>Moody's</b>	<b>Standard &amp; Poor's</b>
<b>General obligation bonds</b>				
1999 Series A Refunding	\$ 79,965	\$ 19,115	Aaa	AAA
<b>Revenue bonds</b>				
<b>Payroll Tax Revenue Bonds:</b>				
2001 Series A Senior Lien Payroll Tax Refunding	23,090	1,750	Aa2	AAA
2003 Series A Payroll Tax Refunding	19,705	9,835	Aa2	AAA
2005 Series A Payroll Tax Refunding	65,475	41,700	Aa2	AAA
2007 Series A Payroll Tax	45,450	40,755	Aa2	AAA
2009 Series A and B Payroll Tax	49,550	48,270	Aa2	AAA
<b>Grant Receipt Bonds:</b>				
2005 Series 2005 Capital Grant Receipt	79,320	48,885	A1	A
2006 Series 2006 Payroll Tax and Grant Receipt	230,000	40,000	Aa3	A+
2011 Series A and B Capital Grant Receipt	142,380	142,380	A1	A

**Lease Transactions**

In prior years, TriMet entered into several lease-leaseback and sale-leaseback transactions with investors (see Note 12). 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, 2011, total outstanding Debt Payment obligations relating to the 2005 lease transaction were \$20,498.

In November 2008, American International Group, Inc. (AIG) was required to collateralize obligations pursuant to the terms of the 1997 and 1998 lease transactions, and has continued to meet payment and collateralization obligations. In February 2009, the District negotiated an early termination of four United States lease-leaseback transactions where AIG had been the provider of guarantees. 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, 2011.

**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 all 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. 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, 2011 and 2010:

	Fiscal year	
	2011	2010
Total trust assets	\$ 78,321	\$ 64,108
Total trust accounts payable for fund expenses	58	29
Total net assets held in trust	\$ 78,263	\$ 64,079

**Management's Discussion and Analysis**

*continued*

(dollars in thousands)

Total net assets as of June 30, 2011 increased by \$14,184 or 22.1 percent, due to employer contributions recorded in the plan of \$4,576 in fiscal year 2011, and the increase in fair market value of investments resulting from favorable market conditions compared to 2010. TriMet funded the annually required contribution of \$4,015 in September 2010, and contributed \$1,600 towards the 2011 annually required contribution in June 2011. The remaining portion of the annual required contribution for 2011 was funded in August 2011.

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

	Fiscal year June 30, 2011
Employer contributions	\$ 4,576
Investment earnings	12,436
Total additions	<u>17,012</u>
Benefit payments	2,731
Administrative expenses	97
Total deductions	<u>2,828</u>
Change in net assets	14,184
Net assets held in trust, beginning of year	64,079
Net assets held in trust, end of year	<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.

**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. 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. 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, 2011 and 2010:

	Fiscal year	
	2011	2010
Total trust assets	\$ 305,016	\$ 246,871
Total trust accounts payable for fund expenses	202	87
Total net assets held in trust	<u>\$ 304,814</u>	<u>\$ 246,784</u>

Total net assets as of June 30, 2011 increased by \$58,030, or 23.5 percent, due to employer contributions to the plan of \$33,929 in fiscal year 2011, and the increase in fair market value of investments resulting from favorable market conditions compared to 2010. TriMet funded the annually required contribution of \$34,028 in September 2010, and contributed \$13,400 towards the 2011 annually required contribution in June 2011. The remaining portion of the annual required contribution for 2011 was funded in August 2011.

**Management's Discussion and Analysis**

*continued*

(dollars in thousands)

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

	Fiscal year June 30, 2011
Employer contributions	\$ 33,929
Investment earnings	47,239
Total additions	<u>81,168</u>
Benefit payments	22,869
Administrative expenses	269
Total deductions	<u>23,138</u>
Change in net assets	58,030
Net assets held in trust, beginning of year	246,784
Net assets held in trust, end of year	<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. 51, *Accounting and Financial Reporting for Intangible Assets*, in fiscal year 2010. The statement requires that all intangible assets not specifically excluded by scope provisions of the statement should be classified as capital assets.

TriMet elected to adopt GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, during 2009. This statement requires measurement of derivative instruments at fair value in the balance sheet.

The District adopted GASB Statement No. 59, *Financial Instruments Omnibus*, during 2011. This statement updates and improves 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. In fiscal year 2010, all costs associated with Other post-employment benefits, including funding of current retiree medical costs, are recorded as part of fringe benefits. In 2010, amounts related to capitalization of labor and fringe benefits are recorded as offsets to labor and fringe benefits. These costs and offsets were recorded in other operating expense in the prior year.

**ECONOMIC FACTORS AND FISCAL YEAR 2012 BUDGET**

The District's Board of Directors adopted the fiscal year 2012 budget on June 22, 2011. The fiscal year 2012 budget includes \$534,156 for operating expenses, an 8.0 percent decrease from fiscal year 2011 due primarily to reductions in pass through requirements. This budget also includes \$296,933 for light rail construction projects and \$71,299 for other capital expenditures. The budget reflects funding for safety initiatives, restoration of a small amount of bus and light rail service to reduce crowding, and restarting of annual bus replacements to provide better customer service and control maintenance costs.

During fiscal year 2009, TriMet was granted permission by FTA to enter preliminary engineering on the Portland to Milwaukie Light Rail Project. TriMet expects to enter in to a Full Funding Grant Agreement (FFGA) related to the project with the Federal Transit Administration mid-year 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.



**Management's Discussion and Analysis**

*continued*

(dollars in thousands)

**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](http://www.trimet.org)

**Enterprise Fund**  
**Balance Sheets**  
 June 30, 2011 and 2010  
 (dollars in thousands)

	2011	2010
<b>Assets</b>		
Current assets (unrestricted):		
Cash and cash equivalents	\$ 53,084	\$ 94,877
Investments	6,898	250
Taxes and other receivables, net	75,129	69,612
Grants receivable	8,683	8,660
Prepaid expenses	4,997	7,375
Prepaid lease	2,234	2,234
Current assets (restricted):		
Cash and cash equivalents	102,808	27,266
Investments	312,439	137,682
Taxes and other receivables, net	698	945
Grants receivable	9,451	27,167
Total current assets	<u>576,421</u>	<u>376,068</u>
Capital assets		
Land and other	187,877	147,331
Construction in process	93,958	45,065
Property and equipment	2,824,562	2,813,534
Less accumulated depreciation	(1,039,662)	(969,997)
Net capital assets	<u>2,066,735</u>	<u>2,035,933</u>
Prepaid lease expenses	163,330	168,973
Long-term restricted lease deposit	65,535	61,655
Long-term restricted receivable	-	3,054
Materials, supplies and other	20,225	18,400
Other assets	<u>2,627</u>	<u>2,245</u>
Total assets	<u>\$ 2,894,873</u>	<u>\$ 2,666,328</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	\$ 28,845	\$ 19,556
Accounts payable from restricted funds	22,881	38,699
Accrued payroll	19,104	18,933
Current portion of long-term debt	66,901	66,553
Accrued pension obligation	23,505	38,842
Current portion of noncurrent liabilities	5,580	8,614
Unearned revenue	16,997	13,279
Unearned capital project revenue	163,766	32,528
Other accrued liabilities	5,889	7,312
Unearned lease revenue, current portion	2,234	2,234
Total current liabilities	<u>355,702</u>	<u>246,550</u>
Noncurrent liabilities:		
Long-term debt	345,010	257,019
Unearned lease revenue	71,522	74,830
Long-term lease liability	139,070	134,814
Other postemployment benefits liability	222,847	152,581
Other long-term liabilities	7,595	7,686
Total noncurrent liabilities	<u>786,044</u>	<u>626,930</u>
Total liabilities	<u>1,141,746</u>	<u>873,480</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	1,814,183	1,712,456
Restricted for capital projects	14,453	46,279
Restricted for debt service	101,721	133,677
Unrestricted	(177,230)	(99,564)
Total net assets	<u>1,753,127</u>	<u>1,792,848</u>
Total liabilities and net assets	<u>\$ 2,894,873</u>	<u>\$ 2,666,328</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, 2011 and 2010  
 (dollars in thousands)

	2011	2010
<b>Operating revenues</b>		
Passenger revenue	\$ 96,890	\$ 93,729
Auxiliary transportation and other revenue	35,862	35,872
Total operating revenues	<u>132,752</u>	<u>129,601</u>
<b>Operating expenses</b>		
Labor	123,482	125,688
Fringe benefits	200,875	191,263
Materials and services	73,859	90,358
Utilities	7,687	7,682
Purchased transportation	37,105	36,359
Depreciation expense	82,585	82,452
Other operating expense	8,434	11,358
Total operating expenses	<u>534,027</u>	<u>545,160</u>
Operating loss	<u>(401,275)</u>	<u>(415,559)</u>
<b>Nonoperating revenues and (expenses)</b>		
Payroll and other tax revenue	226,456	208,933
Property tax revenue	10,697	10,132
Grant revenue	39,659	84,217
Interest income	824	726
Net leveraged lease expense	(3,080)	(85)
Interest and other expense	(11,200)	(12,999)
Total nonoperating revenues, net	<u>263,356</u>	<u>290,924</u>
Loss before contributions and special items	(137,919)	(124,635)
Capital contributions	104,198	110,620
Special items	(6,000)	-
Changes in net assets	<u>(39,721)</u>	<u>(14,015)</u>
Total net assets - beginning	1,792,848	1,806,863
Total net assets - ending	<u>\$ 1,753,127</u>	<u>\$ 1,792,848</u>

*See accompanying notes to basic financial statements*

**Enterprise Fund**  
**Statements of Cash Flows**  
 For the Years Ended June 30, 2011 and 2010  
 (dollars in thousands)

	2011	2010
<b>Cash flows from operating activities</b>		
Receipts from passengers	\$ 96,874	\$ 94,200
Receipts from other sources	40,108	45,278
Payments to employees	(269,553)	(249,577)
Payments to suppliers	(120,989)	(141,474)
Net cash used in operating activities	<u>(253,560)</u>	<u>(251,573)</u>
<b>Cash flows from noncapital financing activities</b>		
Receipts from payroll taxes	221,039	207,673
Receipts from operating grants	59,557	58,577
Net cash provided by noncapital financing activities	<u>280,596</u>	<u>266,250</u>
<b>Cash flows from capital and related financing activities</b>		
Receipts from capital grants	236,285	201,888
Receipts from property taxes	10,638	10,105
Payments to other sources	(6,369)	(368)
Receipts from sales or lease of capital assets	651	6,577
Acquisition and construction of capital assets	(128,252)	(53,089)
Proceeds from issuance of debt and capital leases	153,946	68,550
Principal payments on long-term debt	(60,551)	(115,928)
Interest payments on long-term debt activities	(19,360)	(14,984)
Net cash provided by capital and related financing activities	<u>186,988</u>	<u>102,751</u>
<b>Cash flows from investing activities</b>		
Purchases of investment securities	(561,238)	(321,587)
Proceeds from sales and maturities of investment securities	379,833	226,187
Interest received	1,130	502
Net cash used in investing activities	<u>(180,275)</u>	<u>(94,898)</u>
Net increase in cash and cash equivalents	33,749	22,530
Cash and cash equivalents, beginning of year	122,143	99,613
Cash and cash equivalents, end of year	<u>\$ 155,892</u>	<u>\$ 122,143</u>
<b>Reconciliation of cash and cash equivalents</b>		
Unrestricted cash and cash equivalents	\$ 53,084	\$ 94,877
Restricted cash and cash equivalents	102,808	27,266
Total cash and cash equivalents	<u>\$ 155,892</u>	<u>\$ 122,143</u>

*See accompanying notes to basic financial statements*

**Enterprise Fund**  
**Statements of Cash Flows**  
 For the Years Ended June 30, 2011 and 2010  
 (dollars in thousands)  
*continued*

	2011	2010
<b>Reconciliation of operating loss to net cash used in operating activities</b>		
Operating loss	\$ (401,275)	\$ (415,559)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	82,585	82,452
Loss on disposal of capital assets	438	280
(Increase) decrease in taxes and other receivables	(100)	4,646
Increase in materials, supplies and other	(1,825)	(3,340)
(Increase) decrease in prepaid and other assets	1,635	(1,406)
Increase in operating accounts payable	9,289	6,072
Increase in accrued payroll	171	31
Increase in unearned revenue	3,718	4,880
Increase (decrease) in pension obligation	(15,337)	5,922
Increase in other post-employment benefit obligation	70,266	61,318
Increase (decrease) in other liabilities	(3,125)	3,131
Total adjustments	<u>147,715</u>	<u>163,986</u>
Net cash used in operating activities	<u>\$ (253,560)</u>	<u>\$ (251,573)</u>

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

	2011	2010
Lease income (expense) - net	\$ (3,080)	\$ (85)
Accretion/amortization of investments	1,440	737
Fiber optic lease	288	282
Amortization of bond issue cost, premium/discount, and deferred amounts	(985)	(979)

*See accompanying notes to basic financial statements*

**Trust Fund**  
**Statements of Pension Plan Net Assets**  
 June 30, 2011 and 2010  
 (dollars in thousands)

	2011			2010		
	TriMet Defined Benefit Retirement Plan for Management and Staff Employees Trust Fund	Pension Plan for Bargaining Unit Employees of TriMet Trust Fund	Total Trust Funds	TriMet Defined Benefit Retirement Plan for Management and Staff Employees Trust Fund	Pension Plan for Bargaining Unit Employees of TriMet Trust Fund	Total Trust Funds
<b>Assets</b>						
Cash and cash equivalents	\$ 1,855	\$ 18,243	\$ 20,098	\$ 1,278	\$ 5,959	\$ 7,237
Investments:						
Domestic Large Cap Equity	21,764	86,812	108,576	13,693	55,010	68,703
Domestic Small/Mid Cap Equity	2,440	10,580	13,020	4,819	19,669	24,488
International Equity	13,025	54,538	67,563	7,501	30,371	37,872
US Governmental Obligations	10,969	-	10,969	10,968	-	10,968
Domestic Fixed Income	5,657	-	5,657	4,257	-	4,257
Foreign Fixed Income	762	-	762	382	-	382
Tactical Asset Allocation	10,369	71,183	81,552	9,000	62,923	71,923
Real Estate	2,312	8,533	10,845	2,407	8,883	11,290
Absolute Return	4,072	21,333	25,405	3,847	20,155	24,002
Private Equity	1,927	13,059	14,986	1,751	9,683	11,434
Total investments	<u>73,297</u>	<u>266,038</u>	<u>339,335</u>	<u>58,625</u>	<u>206,694</u>	<u>265,319</u>
Receivables:						
Employer contributions receivable	2,976	20,529	23,505	4,015	34,028	38,043
Investment earnings receivable	193	206	399	190	190	380
Total receivables	<u>3,169</u>	<u>20,735</u>	<u>23,904</u>	<u>4,205</u>	<u>34,218</u>	<u>38,423</u>
Total assets	<u>78,321</u>	<u>305,016</u>	<u>383,337</u>	<u>64,108</u>	<u>246,871</u>	<u>310,979</u>
<b>Liabilities</b>						
Accounts payable	<u>58</u>	<u>202</u>	<u>260</u>	<u>29</u>	<u>87</u>	<u>116</u>
<b>Net assets</b>						
Held in trust for pension benefits	<u>\$ 78,263</u>	<u>\$ 304,814</u>	<u>\$ 383,077</u>	<u>\$ 64,079</u>	<u>\$ 246,784</u>	<u>\$ 310,863</u>

*See accompanying notes to basic financial statements*

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

	2011		
	TriMet Defined Benefit Retirement Plan for Management and Staff Employees Trust Fund	Pension Plan for Bargaining Unit Employees of TriMet Trust Fund	Total Trust Funds
<b>Additions</b>			
Employer contributions	\$ 4,576	\$ 33,929	\$ 38,505
Investment earnings:			
Interest	441	111	552
Dividends	1,104	4,403	5,507
Gain on investments sold	1,947	13,022	14,969
Net increase in fair value of investments	9,249	30,730	39,979
Less investment expense	(305)	(1,027)	(1,332)
Total investment earnings	<u>12,436</u>	<u>47,239</u>	<u>59,675</u>
Total additions	<u>17,012</u>	<u>81,168</u>	<u>98,180</u>
<b>Deductions</b>			
Benefits	2,731	22,869	25,600
Administrative expenses	97	269	366
Total deductions	<u>2,828</u>	<u>23,138</u>	<u>25,966</u>
<b>Change in Net Assets</b>	14,184	58,030	72,214
<b>Net assets held in trust for pension benefits:</b>			
Beginning of year	<u>64,079</u>	<u>246,784</u>	<u>310,863</u>
End of year	<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, 2011  
(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 sets District policy, levies taxes, appropriates funds, adopts budgets, serves as contract board, and performs 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. Principal 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 principal 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 nonoperating 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.



## **Notes to Financial Statements**

June 30, 2011  
(dollars in thousands)  
*continued*

### **(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 use in 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 0.6918 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 tried 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 9). 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, 2011 and 2010. Actual results may differ from those estimates.

### **(f) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, 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 months and short-term deferred outflows associated with commodity swaps.

**Notes to Financial Statements**

June 30, 2011  
 (dollars in thousands)  
*continued*

**(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.

**(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 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. Estimated liabilities for outstanding claims are made by management.

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 such complex factors 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 \$968 and \$1,091 at June 30, 2011 and 2010, 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, 2011  
(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 improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools.

During 2010, the District implemented the following new GASB pronouncement:

GASB Statement No. 51 *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets be recorded as capital assets. The adoption of this statement did not have a material impact on the District's financial results.

**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:

	2011			2010		
	Fair value	% of portfolio	Weighted average maturity (years)	Fair value	% of portfolio	Weighted average maturity (years)
<b>Cash and investments:</b>						
Cash on hand	\$ 125	0.0%	-	\$ 125	0.0%	-
Demand deposits with financial institutions	81,355	17.1%	-	1,324	0.5%	-
State of Oregon local government investment pool	37,934	8.0%	-	43,135	16.6%	-
Federal Farm Credit Bank	7,769	1.6%	0.58	10,059	3.9%	1.77
Federal Home Loan Bank	66,734	14.0%	0.04	60,452	23.2%	0.14
Federal Home Loan Mortgage Corp.	108,882	22.9%	0.48	57,884	22.3%	0.70
Federal National Mortgage Association	127,437	26.8%	0.45	20,487	7.9%	0.92
U.S. Treasuries	44,993	9.5%	0.86	58,477	22.5%	0.88
Commercial paper	-	0.0%	-	8,132	3.1%	0.21
Total cash and investments	<u>\$ 475,229</u>			<u>\$ 260,075</u>		
Cash and investments are reflected in the balance sheets as follows:						
<b>Cash and cash equivalents</b>						
Unrestricted	\$ 53,084			\$ 94,877		
Restricted	102,808			27,266		
<b>Investments</b>						
Unrestricted	6,898			250		
Restricted	312,439			137,682		
Total cash and investments	<u>\$ 475,229</u>			<u>\$ 260,075</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, 2011  
(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, 2011, the weighted average maturity of the investment portfolio was 0.5 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 price of the investment to decline. TriMet's investment policy, which is consistent 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. At June 30, 2011 and 2010, the LGIP reported an unrealized loss. The District's share of the unrealized loss was calculated in accordance with ORS, and would not have a significant impact on the District's financial statements if realized.

*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 time deposits/certificates of deposit/savings accounts and municipal debt obligations (5% maximum with any issuer, 10% maximum of the total portfolio). At June 30, 2011, the District had 9.5 percent invested in U.S. government securities, 65.3 percent in agency securities, and 8.0 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 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.

**Notes to Financial Statements**

June 30, 2011  
(dollars in thousands)  
*continued*

**4. Diesel Fuel Hedge**

The District entered into commodity swap agreements to hedge a portion of the District's fuel consumption. As of June 30, 2010, the District had three outstanding commodity swaps. As of June 30, 2011, the District no longer had outstanding commodity swaps.

Under the terms of the agreements, on a monthly basis, the District paid a counterparty an amount based upon a fixed rate per gallon, and received an amount based on an average near month NYMEX home heating oil contract price per gallon. If the fixed rate exceeded the variable rate for the month, the District paid the counterparty for the difference. If the variable rate exceeded the fixed rate for the month, the counterparty paid the District for the difference.

The net value of the derivative instrument is recorded in other accrued liabilities. The short term deferred outflows of the derivative are recorded in prepaid assets and the long term deferred outflows are recorded in other assets.

The fair value is the theoretical cost to terminate a swap at the valuation date. The fair values were estimated by discounting forward NYMEX fuel prices applied to hedged volumes as of June 30, 2010. The future net settlement payments or receipts required by the hedge agreements are calculated by assuming that the current forward prices implied by the forward curve for heating oil correctly anticipate future spot prices.

The objective for the hedge transaction is to hedge the changes in cash flows due to market price fluctuations related to expected purchases of diesel fuel.

The terms of the hedge agreements were as follows:

Counterparty	Fixed rate paid (dollars per gallon)	Variable rate received	Fair value at June 30, 2011 (dollars in thousands)	Fair value at June 30, 2010 (dollars in thousands)	Start date	End date	Monthly notional amount in gallons
KeyBank National Association	3.2650	NYMEX home heating oil	\$ -	\$ (783)	10/1/2009	9/30/2010	210,000
J. Aron & Company	2.9400	NYMEX home heating oil	-	(348)	7/1/2009	9/30/2010	126,000
KeyBank National Association	1.8525	NYMEX home heating oil	-	40	1/1/2010	9/30/2010	84,000
KeyBank National Association	1.8525	NYMEX home heating oil	-	344	10/1/2010	1/31/2011	336,000
			<u>\$ -</u>	<u>\$ (747)</u>			

The following risks are generally associated with swap agreements:

**Basis Risk** – the risk that there is a mismatch between the variable fuel price received from the counterparties and the variable price paid by the District for fuel purchases. The District received from the counterparties an amount based on NYMEX home heating oil prices. The District mitigated basis risk by establishing pricing based on the NYMEX home heating oil index in its fuel purchase contracts with the diesel supplier.

**Counterparty Risk** – the risk that the counterparty fails to make the required payments or otherwise comply with the terms of the swap agreement. This non-performance would usually result from financial difficulty, but could also occur for physical, legal or business reasons. This risk was mitigated by establishing minimum credit quality criteria. To mitigate credit risk, the District monitored the credit ratings of the counterparties.

The aggregate fair values of commodity swap agreements in asset positions at June 30, 2010 was \$384. This represented the maximum loss that would be recognized as the reporting date if the counterparty failed to perform as contracted.

**Termination Risk** – the risk that there will be a mandatory early termination of the commodity swap that would result in the District either paying or receiving a termination payment. Mandatory terminations generally result when a counterparty or the District suffers degraded credit quality, bankruptcy or failure to perform. Upon termination, payment may be required by either party, reflecting fair value at the time of termination.

**Notes to Financial Statements**

June 30, 2011  
(dollars in thousands)  
*continued*

**5. Receivables**

At June 30, 2011 and 2010, the District had the following receivables under various federal and state grant agreements:

2011	Unrestricted	Restricted	Total
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>
2010	Unrestricted	Restricted	Total
Federal pass through	\$ -	\$ 16,423	\$ 16,423
Other federal	3,783	-	3,783
State grants	988	116	1,104
Local governments	3,889	10,628	14,517
	<u>\$ 8,660</u>	<u>\$ 27,167</u>	<u>\$ 35,827</u>

Taxes and other receivables at June 30, 2011 and 2010, including the applicable allowances for uncollectible accounts, are as follows:

2011	Receivable	Allowance for uncollectible accounts	Net receivable
<b>Unrestricted:</b>			
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	<u>79,916</u>	<u>4,787</u>	<u>75,129</u>
<b>Restricted:</b>			
Property tax	573	48	525
Other	173	-	173
Total restricted	<u>746</u>	<u>48</u>	<u>698</u>
Total taxes and other receivables	<u>\$ 80,662</u>	<u>\$ 4,835</u>	<u>\$ 75,827</u>
2010	Receivable	Allowance for uncollectible accounts	Net receivable
<b>Unrestricted:</b>			
Payroll tax	\$ 53,283	\$ 3,485	\$ 49,798
Self-employment tax	6,336	1,483	4,853
Trade accounts	9,578	300	9,278
Other	5,683	-	5,683
Total unrestricted	<u>74,880</u>	<u>5,268</u>	<u>69,612</u>
<b>Restricted:</b>			
Property tax	590	124	466
Other	479	-	479
Total restricted	<u>1,069</u>	<u>124</u>	<u>945</u>
Total taxes and other receivables	<u>\$ 75,949</u>	<u>\$ 5,392</u>	<u>\$ 70,557</u>

**Notes to Financial Statements**

June 30, 2011  
(dollars in thousands)  
*continued*

**6. Capital Assets**

Capital assets at June 30 consisted of the following:

2011	Lives (in years)	Beginning balance	Additions	Deletions	Transfers	Ending balance
<b>Capital assets, not being depreciated</b>						
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		192,396	113,684	-	(24,245)	281,835
<b>Capital assets, being depreciated</b>						
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		2,813,534	864	(14,081)	24,245	2,824,562
<b>Less accumulated depreciation for</b>						
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		(969,997)	(82,585)	12,920	-	(1,039,662)
Total capital assets, being depreciated, net		1,843,537	(81,721)	(1,161)	24,245	1,784,900
Total capital assets, net		\$ 2,035,933	\$ 31,963	\$ (1,161)	\$ -	\$ 2,066,735
<b>2010</b>						
	Lives (in years)	Beginning balance	Additions	Deletions	Transfers	Ending balance
<b>Capital assets, not being depreciated</b>						
Land and other		\$ 145,414	\$ 6,137	\$ (374)	\$ (3,846)	\$ 147,331
Construction in process		538,498	68,565	(6,477)	(555,521)	45,065
Total capital assets, not being depreciated		683,912	74,702	(6,851)	(559,367)	192,396
<b>Capital assets, being depreciated</b>						
Rail right-of-way and stations	5-40	1,463,965	56	(5,089)	369,572	1,828,504
Buildings	40	260,988	-	(128)	86,221	347,081
Transportation equipment	5-30	425,951	-	(3,830)	84,858	506,979
Furniture and other equipment	3-20	115,074	745	(3,565)	18,716	130,970
Total capital assets, being depreciated		2,265,978	801	(12,612)	559,367	2,813,534
<b>Less accumulated depreciation for</b>						
Rail right-of-way and stations		(443,998)	(48,339)	5,089	-	(487,248)
Buildings		(142,212)	(10,286)	127	-	(152,371)
Transportation equipment		(221,416)	(20,535)	3,830	-	(238,121)
Furniture and other equipment		(92,525)	(3,292)	3,560	-	(92,257)
Total accumulated depreciation		(900,151)	(82,452)	12,606	-	(969,997)
Total capital assets, being depreciated, net		1,365,827	(81,651)	(6)	559,367	1,843,537
Total capital assets, net		\$ 2,049,739	\$ (6,949)	\$ (6,857)	\$ -	\$ 2,035,933

## **Notes to Financial Statements**

June 30, 2011  
(dollars in thousands)  
*continued*

### **7. Enterprise Fund Pension Benefits**

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, The Standard, 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, 2011 and 2010 there were 198 and 201 active employees, respectively, covered by the Management DC Plan. District contributions to the Management DC Plan were \$1,159 and \$1,261 for the years ending June 30, 2011 and 2010, respectively. Employee contributions to the Management DC Plan were \$581 and \$616 for the years ending June 30, 2011 and 2010, respectively.

### **8. 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, 2011  
(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, 2011 and 2010, the District's vacation pay liability was \$9,908 and \$9,838, 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 created, but not funded, a trust fund for future net OPEB obligations. The District pays for the premiums for eligible retirees, and deducts a small percentage of the premium from retiree pension payments. Retirees may not convert the benefit into an in lieu payment to secure coverage under independent plans. There were 1,371 and 1,188 union and non-union retirees, dependents, and surviving spouses receiving the postemployment health care and life insurance benefits, at June 30, 2011 and 2010, 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 \$15,936 and \$14,256 in fiscal year 2011 and 2010, 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:

	2011	2010	2009
Annual required contribution (ARC)	\$ 77,664	\$ 75,402	\$ 54,867
Interest on net OPEB obligation	8,538	4,107	3,160
Adjustment to annual required contribution	-	(3,935)	-
Annual OPEB cost	86,202	75,574	58,027
Contributions made	(15,936)	(14,256)	(12,797)
Increase in net OPEB obligation	70,266	61,318	45,230
Net OPEB obligation - beginning of year	152,581	91,263	46,033
Net OPEB obligation - end of year	\$ 222,847	\$ 152,581	\$ 91,263
Percentage of annual OPEB cost contributed	18%	19%	22%

**Notes to Financial Statements**

June 30, 2011  
 (dollars in thousands)  
*continued*

*Funded status and funding progress*

The schedule of funding progress is presented below:

<b>Schedule of funding progress</b>		
	January 1, 2010	January 1, 2008
Actuarial valuation date	January 1, 2010	January 1, 2008
Actuarial value of assets	\$ -	\$ -
Actuarial accrued liability (AAL)	816,544	632,204
Unfunded AAL (UAAL)	816,544	632,204
Funded ratio	0%	0%
Covered payroll	\$ 137,869	\$ 130,726
UAAL as a percentage of covered payroll	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, 2010 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 10% in 2010 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, 2011 there are 28 years of amortization remaining.

**Notes to Financial Statements**

June 30, 2011  
(dollars in thousands)  
*continued*

**9. Long-Term Debt**

Debt at June 30 consists of the following:

2011	Beginning balance	Additions	Reductions	Ending balance	Due within one year
<b>Long-term debt:</b>					
<b>General Obligation Bonds:</b>					
1999 General Obligation Refunding Bonds, Series A	\$ 27,960	\$ -	\$ (8,845)	\$ 19,115	\$ 9,315
<b>Payroll Tax Bonds:</b>					
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
<b>Capital Grant Receipt Revenue Bonds:</b>					
Capital Grant Receipt Revenue Bonds, Series 2005	56,875	-	(7,990)	48,885	8,370
2011 Capital Grant Receipt Revenue Bonds, Series A and B	-	142,380	-	142,380	-
<b>Capital Leases:</b>					
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>	
2010	Beginning balance	Additions	Reductions	Ending balance	Due within one year
<b>Long-term debt:</b>					
<b>General Obligation Bonds:</b>					
1999 General Obligation Refunding Bonds, Series A	\$ 36,380	\$ -	\$ (8,420)	\$ 27,960	\$ 8,845
<b>Payroll Tax Bonds:</b>					
2001 Revenue Refunding Bonds, Series A	6,730	-	(2,435)	4,295	2,545
2003 Revenue Refunding Bonds, Series A	12,640	-	(1,380)	11,260	1,425
2005 Revenue Refunding Bonds, Series A	47,830	-	(2,995)	44,835	3,135
2007 Revenue Bonds, Series A	43,190	-	(1,195)	41,995	1,240
2009 Revenue Bonds, Series A and B	-	49,550	-	49,550	1,280
2006 Payroll Tax and Grant Receipts Revenue Bonds	152,770	-	(72,770)	80,000	40,000
<b>Capital Grant Receipt Revenue Bonds:</b>					
Capital Grant Receipt Revenue Bonds, Series 2005	64,515	-	(7,640)	56,875	7,990
<b>Capital Leases:</b>					
Other	253	-	(93)	160	93
	<u>364,308</u>	<u>49,550</u>	<u>(96,928)</u>	<u>316,930</u>	<u>66,553</u>
Interim financing	-	19,000	(19,000)	-	-
Add (deduct):					
Unamortized bond premium	10,314	1,913	(1,892)	10,335	
Unamortized bond discount	(14)	-	7	(7)	
Deferred amount on legal defeasance	(4,592)	-	906	(3,686)	
Current portion	(96,928)			(66,553)	
Long-term debt, net	<u>\$ 273,088</u>			<u>\$ 257,019</u>	

Total interest cost on all outstanding debt was \$13,314 and \$14,938 in fiscal years 2011 and 2010, respectively. During fiscal year 2011, \$2,114 of interest cost was capitalized and \$11,200 was charged to expense, while during fiscal year 2010, \$1,939 of interest cost was capitalized and \$12,999 was charged to expense.

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.

**Notes to Financial Statements**

June 30, 2011  
 (dollars in thousands)  
*continued*

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 \$2,297 and \$2,204 as of June 30, 2011 and 2010, 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 \$20,128. Principal and interest paid for the current year and total property tax revenues were \$10,079 and \$10,697, respectively.

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

Fiscal year ending June 30:	Principal	Interest
2012	\$ 9,315	\$ 757
2013	9,800	256
	<u>\$ 19,115</u>	<u>\$ 1,013</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.

**1999 Revenue Bonds, Series A (Defeased)**

On June 16, 1999, TriMet issued \$36,660 in 1999 Revenue Bonds, Series A (1999 Revenue Bonds) to finance the acquisition, construction, installation and equipping of facilities for TriMet’s mass transit system related to the Airport MAX Light Rail Project. The 1999 Revenue Bonds were legally defeased with the issuance of the 2005 Revenue Refunding Bonds, Series A. As of June 30, 2009, there were \$24,255, in legally defeased bonds. Final payment of all remaining redeemed 1999 Revenue Bonds was completed on August 1, 2009.

**2000 Revenue Bonds, Series A (Defeased)**

On October 26, 2000, TriMet issued \$45,000 in 2000 Revenue Bonds, Series A (2000 Revenue Bonds) to finance the acquisition, construction, installation and equipping of facilities for TriMet’s mass transit system regarding the Interstate Avenue Light Rail Project. The 2000 Revenue Bonds were legally defeased with the issuance of the 2005 Revenue Refunding Bonds, Series A. As of June 30, 2010 there were \$19,485, in legally defeased bonds. Final payment of all remaining redeemed 2000 Revenue Bonds was completed August 1, 2010.

**Notes to Financial Statements**

June 30, 2011  
 (dollars in thousands)  
*continued*

**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 are payable through fiscal year 2012. The total remaining principal and interest on the Revenue Bonds is \$1,787. Principal and interest paid for the current year and total employer payroll and self employment taxes were \$2,673 and \$225,858, respectively.

Future maturities of the 2001 Revenue Refunding Bonds, Series A, are as follows:

Fiscal year ending June 30:	Principal	Interest
2012	\$ 1,750	\$ 37
	<u>\$ 1,750</u>	<u>\$ 37</u>

**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 \$11,242. Principal and interest paid for the current year and total employer payroll and self employment taxes were \$1,879 and \$225,858, respectively.

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

Fiscal year ending June 30:	Principal	Interest
2012	\$ 1,480	\$ 399
2013	1,535	339
2014	1,595	277
2015	1,665	211
2016	1,735	135
2017	1,825	46
	<u>\$ 9,835</u>	<u>\$ 1,407</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.

**Notes to Financial Statements**

June 30, 2011  
 (dollars in thousands)  
*continued*

The 2005 Revenue Bonds are payable through fiscal year 2021. The total remaining principal and interest on the 2005 Revenue Bonds is \$52,982. Principal and interest paid for the current year and total employer payroll and self employment taxes were \$5,298 and \$225,858, respectively.

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

Fiscal year ending June 30:	Principal	Interest
2012	\$ 3,295	\$ 2,003
2013	3,465	1,834
2014	3,645	1,656
2015	3,830	1,469
2016	4,025	1,273
2017-2021	23,440	3,047
	<u>\$ 41,700</u>	<u>\$ 11,282</u>

**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 \$61,499. Principal and interest paid for the current year and total employer payroll and self employment taxes were \$3,050 and \$225,858, 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. 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
2012	1,285	1,746
2013	1,330	1,681
2014	1,380	1,613
2015	1,430	1,543
2016	1,485	1,470
2017-2021	8,345	6,286
2022-2026	10,175	4,373
2027-2031	12,500	1,972
2032	2,825	60
	<u>\$ 40,755</u>	<u>\$ 20,744</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 \$80,601. Principal and interest paid for the current year and total employer payroll and self employment taxes were \$3,503 and \$225,858, respectively. The 2009 Revenue Bonds are not general obligations of the District.

**Notes to Financial Statements**

June 30, 2011  
 (dollars in thousands)  
*continued*

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.

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
2012	\$ 1,320	\$ 2,184
2013	1,360	2,144
2014	1,405	2,102
2015	1,445	2,060
2016	1,490	2,016
2017-2021	8,305	9,212
2022-2026	10,265	7,262
2027-2031	13,020	4,500
2032-2034	9,660	851
	\$ 48,270	\$ 32,331

**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 total remaining principal and interest on the Payroll Tax and Grant Receipt Revenue Bonds is \$41,890. 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 \$43,728 and \$51,688, respectively. The Payroll Tax and Grant Receipt Revenue Bonds are not general obligations of the District. In fiscal year 2010, the District received the final draw on Section 5309 federal grant funds related to the I-205/Portland Mall Light Rail project. All outstanding principal payments are fully funded in an account held by the trustee and is included in restricted investments.

In fiscal year 2009, the District redeemed \$77,230 of eligible term bonds. The District redeemed the term bonds during fiscal year 2010. Interest is payable semiannually on May 1 and November 1, and fixed interest rates range from 3.75 percent to 5.0 percent on outstanding maturities.

**Notes to Financial Statements**

June 30, 2011  
(dollars in thousands)  
*continued*

Future maturities of the Payroll Tax and Grant Receipts Revenue Bonds, Series 2006, are as follows:

Fiscal year ending June 30:	Principal	Interest
2012	\$ 40,000	\$ 1,890
	<u>\$ 40,000</u>	<u>\$ 1,890</u>

**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 \$55,377. Principal and interest paid for the current year and total Section 5307, STP, and CMAQ grant receipts for the District were \$10,521 and \$12,047, 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.

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

Fiscal year ending June 30:	Principal	Interest
2012	\$ 8,370	\$ 2,145
2013	8,775	1,736
2014	9,200	1,307
2015	9,660	846
2016	10,150	354
2017-2018	2,730	104
	<u>\$ 48,885</u>	<u>\$ 6,492</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 \$220,988. 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.



**Notes to Financial Statements**

June 30, 2011  
 (dollars in thousands)  
*continued*

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

Fiscal year ending June 30:	Principal	Interest
2012	\$ -	\$ 5,139
2013	-	6,826
2014	-	6,826
2015	-	6,826
2016	-	6,826
2017-2021	49,750	29,124
2022-2026	62,885	15,539
2027-2031	29,745	1,502
	<u>\$ 142,380</u>	<u>\$ 78,608</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, 2011 and 2010, there were no balances due or draws on the credit line.

**10. 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 \$500 per claim and \$1,000 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 and \$3,139 for 2011 and 2010, respectively. 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, 2011, the per claims limit was \$533 and the per occurrence limit was \$1,067.

**Notes to Financial Statements**

June 30, 2011  
(dollars in thousands)  
*continued*

Changes in the District's public liability and industrial accident claims liabilities are as follows for the years ended June 30, 2011 and 2010:

	2011		2010	
	Industrial accident claims	Public liability	Industrial accident claims	Public liability
Liability at beginning of year	\$ 6,070	\$ 5,984	\$ 5,495	\$ 3,487
Current year claims	2,015	613	2,468	2,741
Changes in estimates for claims of prior periods	1,050	224	1,104	1,238
Payments of claims	(3,870)	(3,055)	(2,997)	(1,482)
Liability at end of year	<u>\$ 5,265</u>	<u>\$ 3,766</u>	<u>\$ 6,070</u>	<u>\$ 5,984</u>

Based on historical experience, the District has classified \$5,580 and \$8,604 of the industrial accident and public liability claims liabilities at June 30, 2011 and 2010, respectively, as current liabilities.

**11. 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	Additions	Reductions	Balance	Current portion	Long-term balance
	June 30, 2010			June 30, 2011		
Uninsured claims liability:						
Industrial accident claims	\$ 6,070	\$ 3,065	\$ (3,870)	\$ 5,265	\$ 2,798	\$ 2,467
Public liability	5,984	837	(3,055)	3,766	2,782	984
Total uninsured claims liability	<u>12,054</u>	<u>3,902</u>	<u>(6,925)</u>	<u>9,031</u>	<u>5,580</u>	<u>3,451</u>
Long-term employee sick leave	1,866		(123)	1,743	-	1,743
Rent payable	9	54	(9)	54	-	54
Deferred Lease	2,371	-	(24)	2,347	-	2,347
Total other long-term liabilities	<u>\$ 16,300</u>	<u>\$ 3,956</u>	<u>\$ (7,081)</u>	<u>\$ 13,175</u>	<u>\$ 5,580</u>	<u>\$ 7,595</u>

**12. Lease Transactions**

**(a) Office and equipment leases**

The District leases office space under non-cancelable operating leases. Total costs for such leases were \$1,205 and \$1,104 in 2011 and 2010, respectively. The future minimum lease payments for these leases are as follows:

Fiscal year ending June 30:	
2012	\$ 1,183
2013	1,134
2014	945
2015	724
2016	129
Thereafter	650
	<u>\$ 4,765</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.

## **Notes to Financial Statements**

June 30, 2011  
(dollars in thousands)  
*continued*

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.

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, 2011 and 2010, a third party custodian is holding securities with a market value of \$33,408 and \$40,278, 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, 2011.

## Notes to Financial Statements

June 30, 2011  
(dollars in thousands)  
*continued*

In the 1997 leases, in the event that TriMet's General Obligation 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 General Obligation Bonds are rated AAA by Standard & Poors and Aaa by Moody's at June 30, 2011.

As of June 30, 2011, TriMet is not aware of any default, event of default or event of loss under any of the operative documents.

In February 2009, TriMet negotiated an early termination of four of the 1997-1998 United States lease-leaseback transactions. These early terminations resulted in liquidation of \$20,691 in prepaid lease expenses, \$32,114 in long term lease deposits, and \$58,732 in unearned lease revenue. Net of transaction expenses, the 2009 early terminations created \$5,374 in gains recorded as special items within the Statement of Revenues, Expenses and Changes in Net Assets in fiscal year 2009.

### (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.

**Notes to Financial Statements**

June 30, 2011  
 (dollars in thousands)  
*continued*

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, 2011.

As of June 30, 2011, TriMet is not aware of any default, event of default or event of loss under any of the operative documents.

**(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, 2011 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:

	2011	2010
<b>Assets:</b>		
Prepaid lease expense - current	\$ 2,234	\$ 2,234
Prepaid lease expense	163,330	168,973
Long-term restricted lease deposit	65,535	61,655
Total assets	<u>\$ 231,099</u>	<u>\$ 232,862</u>
<b>Liabilities:</b>		
Unearned lease revenue - current	\$ 2,234	\$ 2,234
Unearned lease revenue	71,522	74,830
Long-term lease liability	139,070	134,814
Total liabilities	<u>\$ 212,826</u>	<u>\$ 211,878</u>
Net leveraged lease income (expense)	\$ (3,080)	\$ (85)

**13. 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, 2011 were \$472,112.

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.

**14. 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.

**Notes to Financial Statements**

June 30, 2011  
 (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 places no limit on the amount the plan may invest in any one manager. As of June 30, 2011 and 2010, the plan had the following investments of more than 5% of the total Plan investments:

	2011	2010
Fidelity Institutional Trust US Equity Index Fund	15.20%	8.90%
PIMCO All Asset Fund	14.10%	15.00%

*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, 2011  
(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.

Management DB Plan	Actuarial valuation date		
	June 30, 2011	June 30, 2010	June 30, 2009
	Actuarial value of plan assets	\$ 72,170	\$ 67,689
Actuarial accrued liability (AAL)	105,750	98,834	96,749
Unfunded AAL	33,580	31,145	31,547
Funded ratio	68.2%	68.5%	67.4%
Annual covered payroll	\$ 15,099	\$ 15,626	\$ 17,130
Unfunded AAL as a percentage of covered payroll	222.4%	199.3%	184.2%

*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, 2011, the actuarial value of plan assets was less than the market value of plan assets by \$3.2 million.

Management DB Plan	Actuarial valuation date		
	June 30, 2011	June 30, 2010	June 30, 2009
	Annual required contribution (ARC)	\$ 4,576	\$ 3,962
ARC Contributions made by June 30	1,600	-	-
Contributions made as a percentage of ARC	35.0%	0.0%	0.0%
Contributions made as a percentage of covered payroll	10.6%	0.0%	0.0%
Net pension obligation	\$ 2,976	\$ 3,962	\$ 4,088

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

Management DB Plan	Fiscal year		
	2011	2010	2009
	Annual required contribution (ARC)	\$ 4,576	\$ 3,962
Interest on annual contribution	53	55	86
Annual cost	4,629	4,017	4,174
Contributions made towards obligation	(5,615)	(4,143)	(6,974)
Change in net pension obligation	(986)	(126)	(2,800)
Beginning net pension obligation	3,962	4,088	6,888
Ending net pension obligation	\$ 2,976	\$ 3,962	\$ 4,088
Contributions made as a percentage of net pension obligation	-141.7%	-101.3%	-101.2%
Contributions made as a percentage of covered payroll	-35.9%	-26.5%	-40.7%

**Notes to Financial Statements**

June 30, 2011  
 (dollars in thousands)  
*continued*

**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 places no limit on the amount the plan may invest in any one manager. As of June 30, 2011 and 2010, the plan had the following investments of more than 5% of the total Plan investments:

	2011	2010
Capital Guardian International Fund	7.26%	6.95%
PIMCO All Asset Fund	10.23%	4.90%
PIMCO Total Return Fund	16.52%	24.80%

*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. 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 September 1, 2009 are \$72.96 per month, per year of service. Each September 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. Provisions of the Working and Wage Agreement between TriMet and the Union effective December 1, 2003, 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.



**Notes to Financial Statements**

June 30, 2011  
(dollars in thousands)  
*continued*

*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. As of 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	Actuarial valuation date		
	July 1, 2011	July 1, 2010	July 1, 2009
	Actuarial value of plan assets	\$ 289,425	\$ 255,279
Actuarial accrued liability (AAL)	517,979	491,495	460,333
Unfunded AAL	228,554	236,216	243,220
Funded ratio	55.9%	51.9%	47.2%
Annual covered payroll	\$ 119,166	\$ 121,124	\$ 123,784
Unfunded AAL as a percentage of covered payroll	191.8%	195.0%	196.5%

*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 8.0 percent, a benefits in payment status annual increase of 3.0 percent, and a 3.0 percent annual rate to determine the normal retirement benefit for active employees. 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 8.0 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, 2011, the actuarial value of plan assets was less than the market value of plan assets by \$15.4 million. The asset valuation method is consistent with the method described in IRS Revenue Procedure 2000-40.

Bargaining Unit DB Plan	Actuarial valuation date		
	July 1, 2011	July 1, 2010	July 1, 2009
	Annual required contribution (ARC)	\$ 32,224	\$ 34,028
ARC Contributions made by June 30	13,400	-	-
Contributions made as a percentage of ARC	41.6%	0.0%	0.0%
Contributions made as a percentage of covered payroll	11.2%	0.0%	0.0%
Net pension obligation	\$ 18,824	\$ 34,028	\$ 28,051

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

Bargaining Unit DB Plan	Fiscal year		
	2011	2010	2009
	Annual required contribution (ARC)	\$ 32,224	\$ 34,028
Contribution made towards obligation	(47,428)	(28,051)	(26,154)
Change in net pension obligation	(15,204)	5,977	1,897
Beginning net pension obligation	34,028	28,051	26,154
Ending net pension obligation	\$ 18,824	\$ 34,028	\$ 28,051
Contributions made as a percentage of net pension obligation	-139.4%	-100.0%	-100.0%
Contributions made as a percentage of covered payroll	-39.2%	-22.7%	-23.4%



## **Required Supplementary Information**

**Schedules of Funding Progress**

(dollars in thousands)

<b>Other postemployment benefits</b>						
Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
January 1, 2010	\$ -	\$ 816,544	\$ 816,544	0%	\$ 137,869	592%
January 1, 2008	-	632,204	632,204	0%	130,726	484%

<b>Management DB Plan</b>						
Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
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%

<b>Bargaining Unit DB Plan</b>						
Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
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, 2011  
(dollars in thousands)

	General fund	G.O. Bond debt service fund	District total
<b>Budget basis</b>			
Revenues	\$ 744,100	\$ 14,894	\$ 758,994
Expenses	549,959	10,039	559,998
Revenues under expenses	<u>194,141</u>	<u>4,855</u>	<u>198,996</u>
Add budget requirements not qualifying as expenses under GAAP:			
Principal payments on long-term debt	58,074	8,845	66,919
Capital asset additions	114,548	-	114,548
Add (subtract) additional adjustments required by GAAP:			
Other resources used to fund capital asset additions	(254,105)	(4,148)	(258,253)
Depreciation	(82,585)	-	(82,585)
Net leveraged lease expense	(3,080)	-	(3,080)
OPEB Costs	(70,266)	-	(70,266)
Subtract budget resources not qualifying as revenues under GAAP:			
Federal, state and local government contributions	<u>(104,198)</u>	<u>-</u>	<u>(104,198)</u>
GAAP basis (loss) income before contributions and special items presented in statement of revenues, expenses and changes in net assets:	<u>\$ (147,471)</u>	<u>\$ 9,552</u>	<u>\$ (137,919)</u>

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

June 30, 2011  
(dollars in thousands)

Budget basis ending fund balance	
General fund	\$ 282,218
G.O. bond debt service fund	14,288
	<u>296,506</u>
Reconciliation to GAAP basis:	
Net capital assets	2,066,735
Capital related debt	(405,540)
Other postemployment benefits	(222,847)
Prepaid lease expense	163,330
Long term restricted lease deposit	65,535
Long term deferred lease revenue	(71,522)
Long term lease liability	<u>(139,070)</u>
GAAP basis net assets	<u>\$ 1,753,127</u>

**Schedule of Revenues and Expenses  
Budget (Budget Basis) and Actual**  
For The Year Ended June 30, 2011  
(dollars in thousands)

**GENERAL FUND**

	Original budget	Final budget	Actual	Variance from final budget over (under)
<b>Revenues</b>				
Operating revenue	\$ 126,892	\$ 126,892	\$ 129,136	\$ 2,244
Tax revenue	217,227	217,227	224,858	7,631
Operating grant and other revenue	77,945	77,945	45,648	(32,297)
Capital program resources	31,674	31,674	23,489	(8,185)
Light rail program resources	108,756	108,756	218,192	109,436
Other non-operating resources	108,938	108,938	102,777	(6,161)
Total revenues	<u>671,432</u>	<u>671,432</u>	<u>744,100</u>	<u>72,668</u>
<b>Expenses</b>				
Operating program:				
Office of the general manager	2,436	2,436	2,384	(52)
Communications and technology	15,294	15,294	14,921	(373)
Finance and administration	8,108	8,408	8,222	(186)
General counsel/human resources	3,878	3,878	3,354	(524)
Operations	302,147	304,647	301,075	(3,572)
Capital projects and facilities	10,902	13,002	9,617	(3,385)
Debt service	27,542	27,542	24,621	(2,921)
Pension	47,048	42,148	41,603	(545)
Project Interim Financing	43,728	43,728	43,091	(637)
Pass-through requirements	108,938	108,938	101,071	(7,867)
Contingency	10,600	10,600	-	(10,600)
Total operating program	<u>580,621</u>	<u>580,621</u>	<u>549,959</u>	<u>(30,662)</u>
<b>Capital programs</b>				
Communications and technology	13,607	13,607	6,973	(6,634)
Finance and administration	315	315	-	(315)
Operations	8,518	8,518	8,046	(472)
Capital projects and facilities	12,919	12,919	12,638	(281)
Total capital programs	<u>35,359</u>	<u>35,359</u>	<u>27,657</u>	<u>(7,702)</u>
<b>Light rail programs</b>				
I205/Portland Mall Light Rail Project	5,300	5,300	1,341	(3,959)
Columbia River Crossing	821	821	-	(821)
Milwaukie Light Rail Project	107,935	107,935	85,550	(22,385)
Total light rail programs	<u>114,056</u>	<u>114,056</u>	<u>86,891</u>	<u>(27,165)</u>
Total expenses	<u>730,036</u>	<u>730,036</u>	<u>664,507</u>	<u>(65,529)</u>
Revenues over(under) expenses	(58,604)	(58,604)	79,593	138,197
Beginning fund balance	195,317	195,317	202,625	7,308
Ending fund balance	<u>\$ 136,713</u>	<u>\$ 136,713</u>	<u>\$ 282,218</u>	<u>\$ 145,505</u>

**Schedule of Revenues and Expenses  
Budget (Budget Basis) and Actual**  
For The Year Ended June 30, 2011  
(dollars in thousands)

**G.O. BOND DEBT SERVICE FUND**

	Original budget	Final budget	Actual	Variance from final budget over (under)
<b>Revenues</b>				
Previously levied taxes estimated to be received	\$ 100	\$ 100	\$ 438	\$ 338
Interest income	20	20	49	29
Other Resources	-	-	4,148	4,148
Taxes necessary to balance	10,197	10,197	10,259	62
Total revenues	<u>10,317</u>	<u>10,317</u>	<u>14,894</u>	<u>4,577</u>
<b>Expenses</b>				
Redemption of principal	8,845	8,845	8,845	-
Interest expense	1,234	1,234	1,194	(40)
Total expenses	<u>10,079</u>	<u>10,079</u>	<u>10,039</u>	<u>(40)</u>
Revenues over(under) expenses	238	238	4,855	4,617
Beginning fund balance	9,577	9,577	9,433	(144)
Ending fund balance	<u>\$ 9,815</u>	<u>\$ 9,815</u>	<u>\$ 14,288</u>	<u>\$ 4,473</u>

**Schedule of Property Tax Levies and Collections**  
**Last Five Fiscal Years**  
 For The Year Ended June 30, 2011  
 (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
2011	\$ 10,908	\$ 10,259	94%	\$ -	\$ 10,259	94%
2010	10,422	9,765	94%	229	9,994	96%
2009	9,344	8,722	93%	310	9,032	97%
2008	9,514	8,969	94%	279	9,248	97%
2007	10,269	9,730	95%	314	10,044	98%



**Schedule of Property Tax Transactions and Outstanding Balances**

For The Year Ended June 30, 2011

(dollars in thousands)

Tax year	Beginning balance	Levy extended by assessor	Discounts	Interest	Adjustments	Collections	Ending balance
2010-11	\$ -	\$ 10,908	\$ (280)	\$ 2	\$ -	\$ (10,259)	\$ 371
2009-10	399	-	-	3	(61)	(229)	112
2008-09	101	-	-	2	25	(73)	55
2007-08	57	-	-	2	-	(39)	20
2006-07	17	-	-	1	6	(24)	-
2005-06	1	-	-	-	4	(2)	3
2004-05	3	-	-	-	-	(1)	2
2003-04	2	-	-	-	-	(1)	1
2002-03	2	-	-	-	-	-	2
2001-02	2	-	-	-	-	-	2
2000-01 & prior	6	-	-	-	-	(1)	5
	<u>\$ 590</u>	<u>\$ 10,908</u>	<u>\$ (280)</u>	<u>\$ 10</u>	<u>\$ (26)</u>	<u>\$ (10,629)</u>	<u>\$ 573</u>