Report of Independent Auditors and Financial Statements with Supplementary Information June 30, 2013 and 2012

Board of Directors

Name	District
Bruce Warner, President	#1
Tiffany Sweitzer, Vice President	#2
Vacant	#3
Consuelo Saragoza	#4
Dr. T. Allen Bethel	#5
Travis Stovall	#6
Craig Prosser	#7

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Board of Directors	1800 S.W. 1st Avenue, Suite 300 Portland, Oregon 97201
General Manager	Neil McFarlane 1800 S.W. 1st Avenue, Suite 300 Portland, Oregon 97201
General Counsel and Registered Agent	Jana Toran 1800 S.W. 1st Avenue, Suite 300 Portland, Oregon 97201

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Financial Section

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Tri-County Metropolitan Transportation District of Oregon

Report on the Financial Statements

We have audited the accompanying statement of net position of the Enterprise Fund and statements of pension plan fiduciary net position of the TriMet 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 or TriMet), as of June 30, 2013 and 2012, and the statements of revenues, expenses, and changes in net position and cash flows of the Enterprise Fund for the years ended June 30, 2013 and 2012, and the statements of changes in pension plan fiduciary net position of the Pension Trust Funds for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

REPORT OF INDEPENDENT AUDITORS (continued)

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the of the Enterprise Fund, the TriMet 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, 2013 and 2012, the changes in financial position and cash flows for the Enterprise Fund for the years ended June 30, 2013 and 2012, and the changes in financial position for the TriMet Defined Benefit Retirement Plan for Management and Staff Employees Trust Fund and Pension Plan for Bargaining Unit Employees of TriMet Trust Fund for the years ended June 30, 2013 and 2012, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress on pages 5 through 15 and page 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

REPORT OF INDEPENDENT AUDITORS (continued)

Other Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The budgetary comparison information, the schedule of property tax levies and collections last five fiscal years, and schedule of property tax transactions and outstanding balances are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison information, schedule of property tax levies and collections last five fiscal years, and schedule of property tax transactions and outstanding balances is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinions, the budgetary comparison information, schedule of property tax levies and collections last five fiscal years, and schedule of property tax transactions and outstanding balances is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2013, 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* in considering the District's internal control over financial reporting and compliance.

Julie Desimone

Julie Desimone, Partner
for Moss Adams LLP
Portland, Oregon
September 16, 2013

Management's Discussion and Analysis

(dollars in thousands)

This section provides an overview and analysis of key data presented in the basic financial statements of Tri-County Metropolitan Transportation District of Oregon ("TriMet" or "the District") for the fiscal years ended June 30, 2013 and 2012, 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. Information within this section should be used in conjunction with the basic financial statements and accompanying notes. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

OVERVIEW OF THE FINANCIAL STATEMENTS

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.

In accordance with requirements set forth by the Governmental Accounting Standards Board (GASB), the District's financial statements employ the accrual basis of accounting in recognizing increases and decreases in economic resources. Accrual accounting recognizes all revenues and expenses incurred during the year, regardless of when cash is received or paid.

The basic financial statements, presented on a comparative format for the years ended June 30, 2013 and 2012, are comprised of:

Statement of Net Position – The District presents its statement of net position using the balance sheet format. The statement reflects assets, liabilities and net position of the District. The net position section is separated into three categories: net investment in capital assets, net position – restricted, and net position – unrestricted.

Statement of Revenues, Expenses and Changes in Net Position – This statement reflects the transactions that have increased or decreased the District's total economic resources during the fiscal year. Revenues are presented net of allowances and are summarized by major source. Revenues and expenses are classified as operating or non-operating based on the nature of the transaction.

Statement of Cash Flows – This statement presents the sources and uses of cash separated into four categories of activities: operating, noncapital financing, capital and related financing, and investing.

The notes to the financial statements, presented at the end of the basic financial statements, are considered an integral part of the District's presentation of financial position, results of operations, and changes in cash flows.

The District adopted GASB Statements No. 63 and 65 during fiscal year 2013. With the implementation of these statements, the District's 2012 financial statements have been restated to conform with the new reporting and accounting requirements. The statements established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities, and recognize, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. In addition, the statements required debt issuance costs, except any portion related to prepaid insurance costs, to be recognized as an expense in the period incurred.

Management's Discussion and Analysis

continued

(dollars in thousands)

ENTERPRISE FUND FINANCIAL HIGHLIGHTS

- Total operating and non-operating revenues were $508,971 for fiscal year 2013, an increase of 4.2 percent. Passenger revenue increased 10.0 percent, to $112,500, during fiscal year 2013, as a result of a fare increase implemented in September 2012, which included elimination of fare zones and the Fareless Rail Zone, and increased cash and pass fares.
- Total payroll and other tax revenues increased $10,849, or 4.4 percent, compared to fiscal year 2012. Employer payroll tax revenue increased $9,913, or 4.3 percent, while self employment and other tax revenues increased $936, over fiscal year 2012, due to the combined impact of tax rate increases, and the economic turnaround that began in fiscal year 2011 and continued in fiscal years 2012 and 2013.

  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 January 1, 2014, when it will reach 0.007237. The rate was .007018 on January 1, 2012 and .007137 on January 1, 2013. In January 2013, the payroll tax rate was increased an additional 0.00001095 due to the withdrawal of the Boring area from the TriMet District effective January 1, 2013.

  In 2009, the Legislative Assembly gave the TriMet Board the authority to increase the rate for payroll and self-employment taxes by an additional .001, in addition to any increases resulting from withdrawals. That legislation requires that the additional increases be phased in over ten years, prohibits any annual increase from exceeding .0002, and requires the TriMet Board to find, before implementing any additional increase, that the economy in the District has recovered to an extent sufficient to warrant the increase in tax. As of June 30, 2013, the TriMet Board has not approved any increase authorized by the 2009 legislation.

- Grant revenue increased $5,190, or 5.7 percent, compared to fiscal year 2012, as a result of timing of receipt of Preventive Maintenance Grants in the fiscal year.
- Total operating and non-operating expenses increased 4.9 percent to $580,289, during fiscal year 2013. Fringe benefits expense increased 1.6 percent, or $3,175, due primarily to costs associated with estimated amounts due to union employees related to prior year medical expenses, as awarded under the July 2013 ruling of the State of Oregon Employer Relations Board. Materials and services expenses increased 16.9 percent, or $13,255, due primarily to increases in Intergovernmental transfers and other Intergovernmental funding ($9,975) which are normally funded by external sources, Security Services ($564) resulting from increases in transit police costs, Portland Streetcar operating expenses ($853), Legal expenses ($692), Professional & Technical expenses ($902), and Vehicle Control System Maintenance ($470), offset by decreases in other materials costs.
- Total net position at June 30, 2013, was $1,955,978, an increase of $135,457 from 2012. The increase in net position is due primarily to an increase in capital assets associated with the Portland to Milwaukie light rail project.
- Total capital assets, net of accumulated depreciation, were $2,552,654 at June 30, 2013, an increase of $310,968 from 2012. 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.

Management's Discussion and Analysis
continued
(dollars in thousands)

ENTERPRISE FUND FINANCIAL SUMMARY

Net Position

The District's total net position at June 30, 2013, was $1,955,978, an increase of $135,457 or 7.4 percent from June 30, 2012 (see Table 1). Total assets increased $508,206, or 17.1 percent, and total liabilities increased $372,737 or 32.8 percent. The increase in total assets is due primarily to increases in capital assets associated with the construction of the Portland to Milwaukie project, as well as grant receivables due at year end for the second Full Funding Grant Agreement payment related to the project. The increase in total liabilities is due primarily to increases in Other postemployment benefits liability of $65,239, issuance of debt including $325,000 in interim financing for the Portland to Milwaukie project, and $93,290 in bonds to fund capital acquisition, partially offset by principal payments made on bonds during the year.

Total net position at June 30, 2012, was $1,820,521, an increase of $69,986 or 4.0 percent from June 30, 2011. Total assets increased $84,119, or 2.9 percent, and total liabilities increased $14,880 or 1.3 percent. The increase in total assets is due primarily to increases in capital assets, offset by decreases in cash and investments of $81,466 associated with the payment of debt service principal and interest and the utilization of restricted funds for construction costs related to the Portland to Milwaukie light rail project. The increase in total liabilities is due primarily to increases in Other post employment benefits liability of $67,707, partially offset by principal payments made on bonds during the year.

Table 1

Net Position
As of June 30
(dollars in thousands)

	2013	2012	2011	Increase (decrease) 2013 - 2012	Percentage change 2013 - 2012	Increase (decrease) 2012 - 2011	Percentage change 2012 - 2011
		(As Restated)	(As Restated)				
Assets							
Current and other assets	$ 931,953	$ 734,715	$ 825,547	$ 197,238	26.8%	$ (90,832)	(11.0)%
Capital assets, net of depreciation	2,552,654	2,241,686	2,066,735	310,968	13.9%	174,951	8.5%
Total assets	3,484,607	2,976,401	2,892,282	508,206	17.1%	84,119	2.9%
Deferred outflows of resources	883	1,969	2,296	(1,086)	(55.2)%	(327)	(14.2)%
Total assets and deferred outflows of resources	$ 3,485,490	$ 2,978,370	$ 2,894,578	$ 507,120	17.0%	$ 83,792	2.9%
Liabilities							
Current liabilities	$ 293,499	$ 353,022	$ 368,844	$ (59,523)	(16.9)%	$ (15,822)	(4.3)%
Noncurrent liabilities	1,215,496	783,236	752,534	432,260	55.2%	30,702	4.1%
Total liabilities	1,508,995	1,136,258	1,121,378	372,737	32.8%	14,880	1.3%
Deferred inflows of resources	20,517	21,591	22,665	(1,074)	(5.0)%	(1,074)	(4.7)%
Net position							
Net investment in capital assets	1,866,477	1,939,040	1,824,330	(72,563)	(3.7)%	114,710	6.3%
Restricted	307,057	27,612	55,300	279,445	1,012.0%	(27,688)	(50.1)%
Unrestricted	(217,556)	(146,131)	(129,095)	(71,425)	48.9%	(17,036)	13.2%
Total net position	1,955,978	1,820,521	1,750,535	135,457	7.4%	69,986	4.0%
Total net position, liabilities and deferred inflows of resources	$ 3,485,490	$ 2,978,370	$ 2,894,578	$ 507,120	17.0%	$ 83,792	2.9%

Management's Discussion and Analysis

continued
(dollars in thousands)

Current and other assets increased $197,238, or 26.8 percent, in 2013, due primarily to increases in grant receivables associated with the Full Funding Grant Agreement payment authorized in June 2013, and the issuance of bonds in March 2013.

Current and other assets decreased $90,832, or 11.0 percent, in 2012, due primarily to the payment of debt service principal and interest and expenditures related to construction of the Portland to Milwaukie light rail project.

Current liabilities consist primarily of accounts payable, accrued compensation, current portion of bonds payable and unearned revenue. The decrease in current liabilities of $59,523, or 16.9 percent, in 2013 was due to the payment of pension annual contributions prior to the end of the fiscal year ($40,448), decreases in the current portion of long term debt resulting from final payment of principal and interest for the General Obligation bonds ($9,800), and decreases in Unearned capital project revenues, as a portion of the funds were used for Portland to Milwaukie project costs. The decrease in current liabilities of $15,822, or 4.3 percent, in 2012 was primarily a result of a decrease in the current portion of long term debt resulting from the final payment on the 2006 Capital Grant Revenue Bonds in May 2012, offset by increases in accrued payroll ($7,451) due primarily to a liability for retroactive pay due to union employees and an increase in accrued pension obligation ($17,182) due to timing of payment of the 2012 annually required contribution.

Noncurrent liabilities consist primarily of long-term debt, long-term lease liabilities and OPEB liabilities. Noncurrent liabilities increased $432,260, or 55.2 percent, in 2013, primarily due to the issuance of $93,290 in bonds and $325,000 in interim financing during the fiscal year. Noncurrent liabilities increased $30,702, or 4.1 percent, in 2012, primarily due to an increase in OPEB liabilities, offset by decreases in long-term debt resulting from payment of principal on outstanding debt.

Net investment in capital assets, 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.

Net position restricted includes amounts restricted for principal and interest payments of amounts due related to outstanding revenue and general obligation bonds (discussed in Note 6), as well as restricted deposits related to the lease transactions (discussed in Note 9), and other funds that are restricted in purpose.

Unrestricted net position has a negative balance for both fiscal years 2013 and 2012. This resulted primarily from the adoption of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* 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 statement of net position in accordance with this statement totaled $355,793 and $290,554 for the years ended June 30, 2013 and 2012, respectively.

Changes in Net Position

The District's total revenues increased $20,611, or 4.2 percent, during fiscal year 2013 (see Table 2). Passenger revenue increased $10,260, or 10.0 percent, Payroll and other tax revenue increased $10,849, or 4.4 percent, and grant revenue increased $5,190, or 5.7 percent, as discussed above.

The District's total revenues increased $77,972, or 19.0 percent, during fiscal year 2012. Passenger revenue increased $5,350, or 5.5 percent, Payroll and other tax revenue increased $21,928, or 9.7 percent, and grant revenue increased $51,780, or 130.6 percent.

Management's Discussion and Analysis

continued

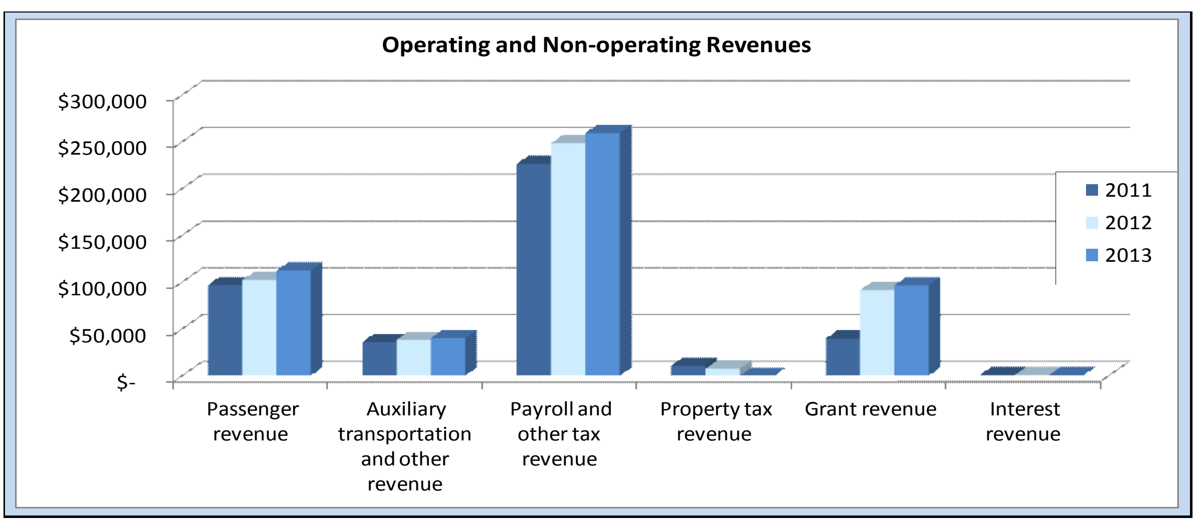
(dollars in thousands)

Table 2

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

	2013	2012 (As Restated)	2011 (As Restated)	Increase (decrease) 2013 - 2012	Percentage change 2013 - 2012	Increase (decrease) 2012 - 2011	Percentage change 2012 - 2011
Revenues							
Operating revenues							
Passenger revenue	$ 112,500	$ 102,240	$ 96,890	$ 10,260	10.0%	$ 5,350	5.5%
Auxiliary transportation and other revenue	40,198	38,273	35,862	1,925	5.0%	2,411	6.7%
Non-operating revenues							
Payroll and other tax revenue	259,233	248,384	226,456	10,849	4.4%	21,928	9.7%
Property tax revenue	-	7,488	10,697	(7,488)	(100.0)%	(3,209)	(30.0)%
Grant revenue	96,629	91,439	39,659	5,190	5.7%	51,780	130.6%
Interest revenue	411	536	824	(125)	(23.3)%	(288)	(35.0)%
Total operating and non-operating revenues	508,971	488,360	410,388	20,611	4.2%	77,972	19.0%
Expenses							
Labor	129,385	130,281	123,482	(896)	(0.7)%	6,799	5.5%
Fringe benefits	206,448	203,273	200,875	3,175	1.6%	2,398	1.2%
Materials and services	91,893	78,638	73,859	13,255	16.9%	4,779	6.5%
Utilities	7,671	7,885	7,687	(214)	(2.7)%	198	2.6%
Purchased transportation	40,845	38,494	37,105	2,351	6.1%	1,389	3.7%
Depreciation expense	78,955	78,168	82,585	787	1.0%	(4,417)	(5.3)%
Other operating expense	14,938	8,175	8,434	6,763	82.7%	(259)	(3.1)%
Net leveraged lease expense	240	1,058	3,080	(818)	(77.3)%	(2,022)	(65.6)%
Interest and other expense	9,914	7,374	11,586	2,540	34.4%	(4,212)	(36.4)%
Total expenses	580,289	553,346	548,693	26,943	4.9%	4,653	0.8%
Loss before contributions and special items	(71,318)	(64,986)	(138,305)	(6,332)	9.7%	73,319	(53.0)%
Capital contributions	206,775	134,972	104,198	71,803	53.2%	30,774	29.5%
Special items	-	-	(6,000)	-	(100.0)%	6,000	100.0%
Increase (decrease) in net position	135,457	69,986	(40,107)	65,471	93.5%	110,093	(274.5)%
Cumulative effect of restatement			(2,206)				
Total net position - beginning	1,820,521	1,750,535	1,792,848	69,986	4.0%	(42,313)	(2.4)%
Total net position - ending	$1,955,978	$1,820,521	$1,750,535	$ 135,457	7.4%	$ 69,986	4.0%

The Oregon economy began slowing in fiscal year 2008, after experiencing strong growth from 2004 to 2007. In fiscal year 2009, the economic recession began to impact the District's revenues, due to declining regional employment. This impact on revenues continued through fiscal year 2010. In fiscal years 2011 through 2012, revenues reflected an emerging economy characterized by slow job growth. In fiscal year 2013, revenues continued to strengthen, reflecting economic improvement. The following chart displays trends in Operating and Non-operating Revenues for the last three fiscal years:

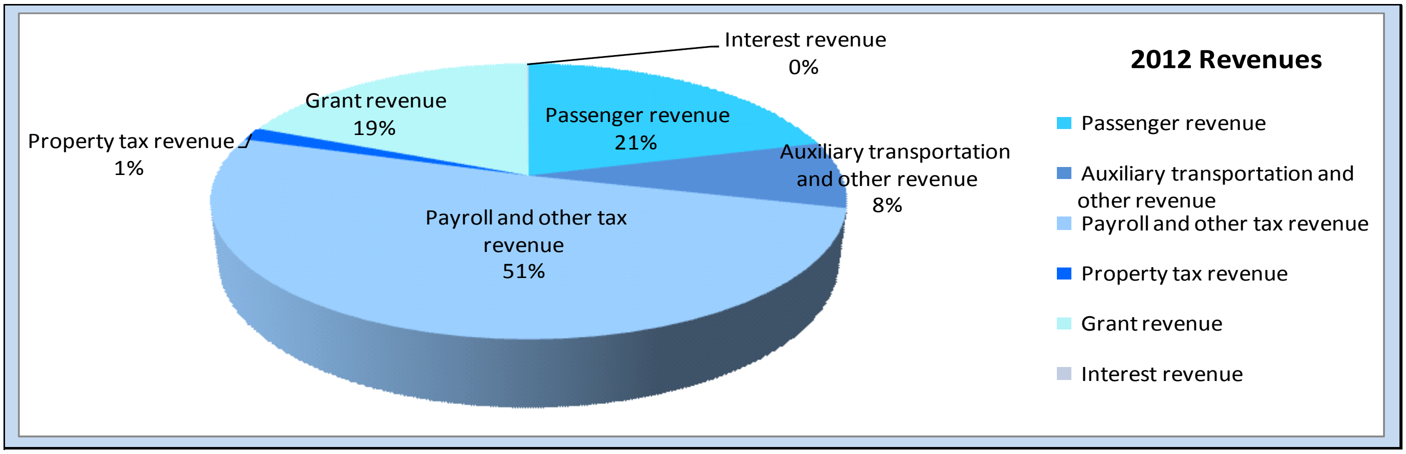


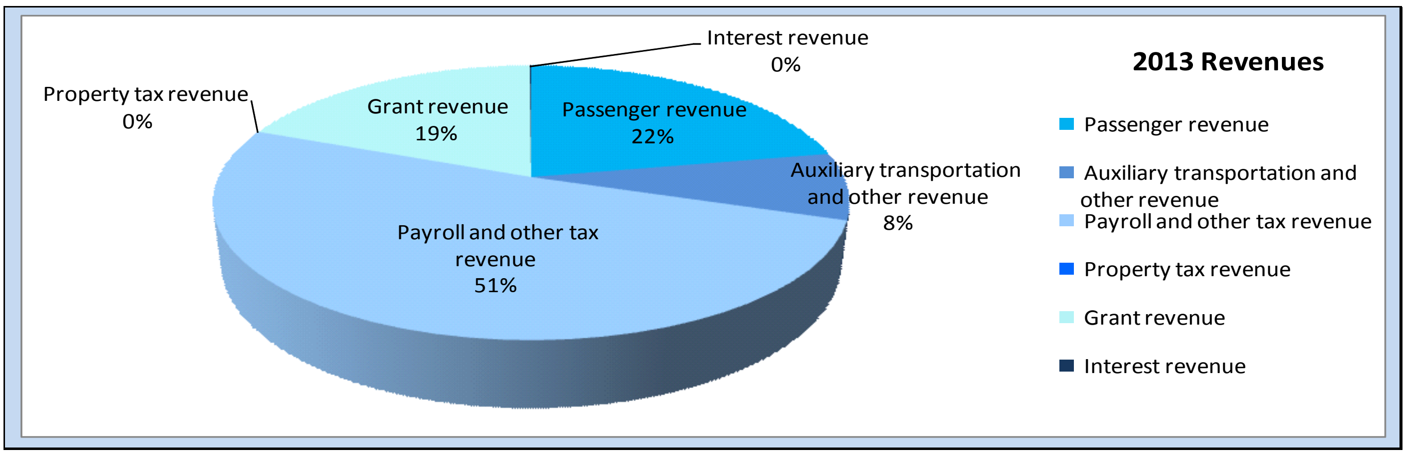
Management's Discussion and Analysis

continued

(dollars in thousands)

The following charts display the allocation of District revenues for fiscal years 2012 and 2013:





Operating Revenues

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

Passenger Revenue

Passenger revenue includes fares earned from cash receipts from riders for the sale of passes and tickets, and employer paid pass and other group fare revenue programs. In fiscal year 2013, the District experienced overall growth in passenger revenue of 10.0 percent, as a result of a fare increase implemented in September 2012.

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 2013, auxiliary transportation and other revenues increased $1,925, resulting from increases in Medical Transportation revenues resulting from increases in the number of rides taken in this program.

Non-operating Revenues

Non-operating revenues include Payroll and other tax revenue, Grant revenue and Interest revenue.

Management's Discussion and Analysis
continued
(dollars in thousands)

Payroll and Other Tax Revenues
Payroll tax revenues are the District's main source of revenue. After six consecutive years of increases, Payroll tax revenues decreased for two consecutive years, in 2009 and 2010, before increasing again from 2011 through 2013. Payroll and other tax revenues increased $10,849, or 4.4 percent in fiscal year 2013. In fiscal year 2012, payroll tax revenues increased $21,928, or 9.7 percent, compared to fiscal year 2011.

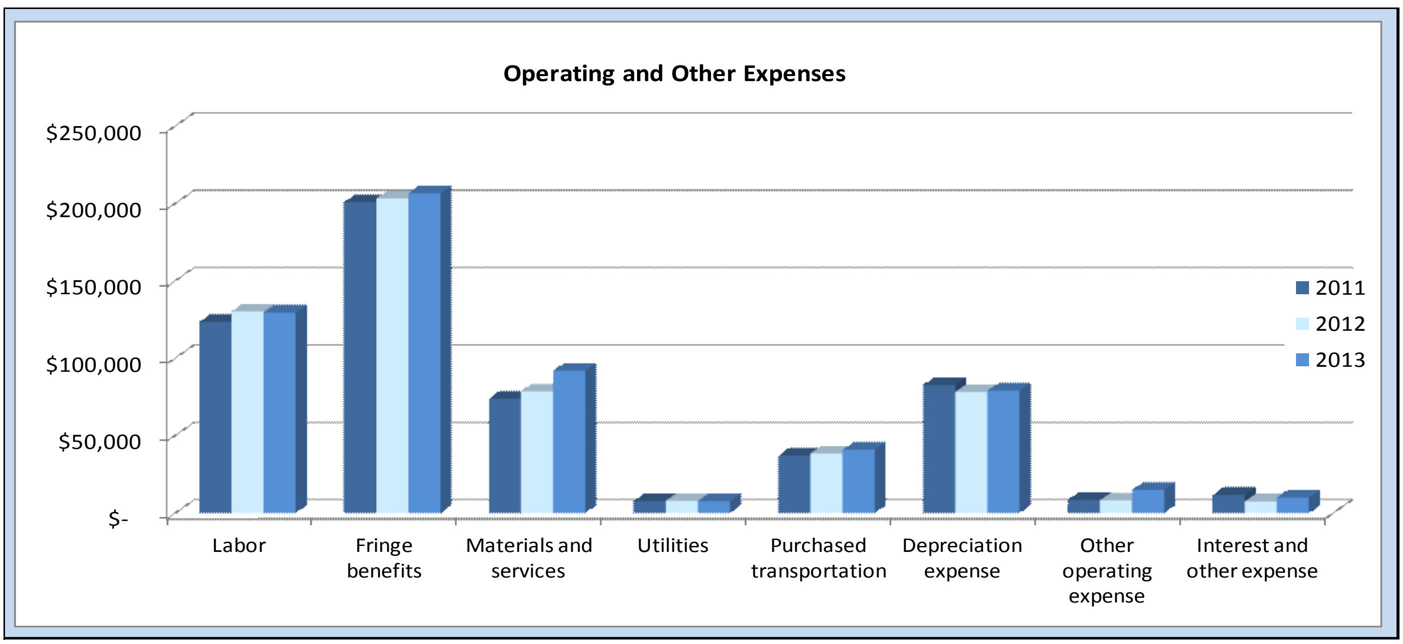
Operating and Other Expenses

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

Total expenses increased $26,943, or 4.9 percent, during fiscal year 2013. Labor costs decreased $896, or 0.7 percent, resulting primarily from increases in pay rates for union employees, offset by one-time-only changes associated with increases for retroactive pay to employees recorded in the prior fiscal year. Fringe benefits increased $3,175, or 1.6 percent, due primarily to retroactive amounts due to union employees for medical insurance. Materials and services increased $13,255, or 16.9 percent, due primarily to increases in Intergovernmental transfers that are funded by external sources.

Total expenses increased $4,653, or 0.8 percent, during fiscal year 2012. Labor costs increased $6,799, or 5.5 percent, resulting primarily from retroactive pay liabilities of $6,229 recorded as part of the arbitration award for the union contract which ended in November 2009. Fringe benefits increased $2,398, or 1.2 percent, due to continued increases in medical insurance premiums, and pension costs. Materials and services increased $4,779, or 6.5 percent, due primarily to increases in vehicle maintenance costs. These cost increases were partially offset by decreases in Depreciation expense ($4,417) and Interest expense ($4,212).

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



Capital Contributions

Capital contributions include federal grants and other local government contributions restricted for purchase or construction of capital assets. Capital contributions increased $71,803, or 53.2 percent, during fiscal year 2013, due to contributions received in relation to the Portland to Milwaukie Light Rail project. Capital contributions increased $30,774, or 29.5 percent, during fiscal year 2012, primarily as a result of the receipt of the first installment of federal funds under the Full Funding Grant Agreement for the Portland to Milwaukie light rail project.

Management's Discussion and Analysis

continued

(dollars in thousands)

Capital Assets

At June 30, 2013, the District had invested $2,552,654, net of accumulated depreciation, in a variety of capital assets (see Table 3 and Note 5).

Table 3

Capital Assets
As of June 30
(net of depreciation, dollars in thousands)

				2013 - 2012		2012 - 2011	
	2013	2012	2011	Increase (decrease)	Percentage change	Increase (decrease)	Percentage change
Land and other	$ 223,287	$ 208,485	$ 187,877	$ 14,802	7.1%	$ 20,608	11.0%
Rail right-of-way and stations	1,200,180	1,247,420	1,294,836	(47,240)	(3.8)%	(47,416)	(3.7)%
Buildings	190,546	197,716	204,787	(7,170)	(3.6)%	(7,071)	(3.5)%
Transportation equipment	248,227	237,158	248,842	11,069	4.7%	(11,684)	(4.7)%
Furniture and other equipment	32,762	34,721	36,435	(1,959)	(5.6)%	(1,714)	(4.7)%
Construction in progress	657,652	316,186	93,958	341,466	108.0%	222,228	236.5%
Total capital assets	$ 2,552,654	$ 2,241,686	$ 2,066,735	$ 310,968	13.9%	$ 174,951	8.5%

Total capital assets net of depreciation increased $310,968, or 13.9 percent, during fiscal year 2013, due to continued construction and purchase of property for right of way for the Portland to Milwaukie light rail project, offset in part by the impact of depreciation of assets in service. Total capital assets net of depreciation increased $174,951, or 8.5 percent, during fiscal year 2012, due primarily to construction costs associated with the Portland to Milwaukie light rail project. The Portland to Milwaukie Light Rail Project will extend TriMet's light rail system from Portland State University, to the South Waterfront, adding a new transit and pedestrian bridge across the Willamette River, and extending through Southeast Portland to the City of Milwaukie. The project is projected for completion in September 2015.

Long-Term Debt

Long-term debt includes revenue bonds and general obligation bonds. At June 30, 2013, the District had $711,080 in revenue bonds outstanding (see Note 6).

In fiscal year 2013, the District issued $93,290 in payroll tax revenue bonds and $325,000 in payroll tax and capital grant receipt revenue bonds to pay for a portion of the costs of capital projects, including new buses, and construction on the Milwaukie light rail project. The bonds are secured by a pledge of Payroll and self employment tax revenues and Section 5309 full funding grant agreement receipts. The revenue bonds are not general obligations of the District.

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

Table 4

Revenue Bond Ratings
As of June 30
(dollars in thousands)

Revenue bonds	Original issue amount	Balance at June 30, 2013	Moody's	Standard & Poor's
Payroll Tax Revenue Bonds:				
2005 Series A Payroll Tax Refunding	$ 65,475	$ 34,940	Aa1	AAA
2007 Series A Payroll Tax	45,450	38,140	Aa1	AAA
2009 Series A and B Payroll Tax	49,550	45,590	Aa1	AAA
2012 Series A Payroll Tax	93,290	93,290	Aa1	AAA
Payroll Tax and Grant Receipt Revenue Bonds:				
2013 Series Payroll Tax and Grant Receipt	325,000	325,000	Aa3	A+
Grant Receipt Bonds:				
2005 Series Capital Grant Receipt	79,320	31,740	A2	A
2011 Series A and B Capital Grant Receipt	142,380	142,380	A2	A

Management's Discussion and Analysis

continued

(dollars in thousands)

Lease Transactions

In prior years, TriMet entered into several lease-leaseback and sale-leaseback transactions with investors (see Note 9). During fiscal year 2013, one financial institution involved in TriMet lease transactions, Assured Guaranty, experienced rating downgrades that triggered requirements under the leases. The District pledged US Treasury securities as additional collateral to remedy the downgrade. TriMet also negotiated the early termination of one lease-leaseback in 2013.

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, 2013.

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

The TriMet Defined Benefit Retirement Plan for Management and Staff Employees Trust Fund accounts for the assets of the employee benefit plan held by TriMet in a trustee capacity. The plan covers most TriMet non-union employees hired before April 27, 2003. Covered employees who retire at or after age 62, with five years of service, are entitled to an annual retirement benefit, payable monthly for life, with annual cost of living increases. TriMet is required to maintain funds under the plan sufficient to pay benefits when due. The following chart displays assets, liabilities, and net position of the trust fund as of June 30, 2013, 2012 and 2011:

Table 5	As of June 30		
	2013	2012	2011
Total trust assets	$ 91,570	$ 79,812	$ 78,321
Total trust accounts payable for fund expenses	51	41	58
Total trust net position	$ 91,519	$ 79,771	$ 78,263

Total net position as of June 30, 2013 increased by $11,748 or 14.7 percent, due to employer contributions recorded in the plan of $5,135 in fiscal year 2013, the increase in fair market value of investments, and offset by reductions due to payment of retirement benefits under the terms of the plan. TriMet funded the 2013 a portion of the annual required contribution of $4,900 by June 30, 2013, and the remainder of the funding was completed in July 2013. The 2012 annual required contribution of $4,834 was funded in August 2012.

The following chart displays changes in net position for the years ended June 30, 2013, 2012 and 2011:

Table 6	Fiscal year ended		
	June 30, 2013	June 30, 2012	June 30, 2011
Employer contributions	$ 5,135	$ 4,834	$ 4,576
Investment earnings (loss)	10,210	(103)	12,436
Total additions	15,345	4,731	17,012
Benefit payments	3,519	3,134	2,731
Administrative expenses	78	89	97
Total deductions	3,597	3,223	2,828
Change in net position	11,748	1,508	14,184
Trust net position, beginning of year	79,771	78,263	64,079
Trust net position, end of year	$ 91,519	$ 79,771	$ 78,263

Additional information on the TriMet Defined Benefit Retirement Plan for Management and Staff Employees Trust Fund can be found in Note 13 in the accompanying notes to the financial statements.

Management's Discussion and Analysis

continued

(dollars in thousands)

THE PENSION PLAN FOR BARGAINING UNIT EMPLOYEES OF TRIMET TRUST FUND

The Pension Plan for Bargaining Unit Employees of TriMet Trust Fund accounts for the assets of the employee benefit plan held by TriMet in a trustee capacity. The plan covers all full-time and part-time employees represented by the Amalgamated Transit Union hired before August 1, 2012. Benefits under the plan are 100 percent vested after 10 years of service. Under the terms of the Bargaining Unit Pension Plan and Permanent Disability Agreement, covered members retiring at or after age 58 with 10 or more years of service will receive a monthly benefit for life with annual cost of living adjustments. TriMet is required to maintain funds under the plan sufficient to pay benefits when due. The following chart displays assets, liabilities, and net position of the trust fund as of June 30, 2013, 2012 and 2011:

Table 7	As of June 30		
	2013	2012	2011
Total trust assets	$ 365,993	$ 315,683	$ 305,016
Total trust accounts payable for fund expenses	167	727	202
Total trust net position	$ 365,826	$ 314,956	$ 304,814

Total net position as of June 30, 2013 increased by $50,870, or 16.2 percent, due to employer contributions to the plan of $36,766 in fiscal year 2013, the increase in fair market value of investments and offset by reductions due to payment of retirement benefits under the terms of the plan. TriMet funded the 2013 annual required contribution of $36,766 by June 30, 2013. The 2012 annual required contribution was funded in August 2012.

The following chart displays changes in net position for the years ended June 30, 2013, 2012 and 2011:

Table 8	Fiscal year ended		
	June 30, 2013	June 30, 2012	June 30, 2011
Employer contributions	$ 36,766	$ 35,853	$ 33,929
Investment earnings	42,339	50	47,239
Total additions	79,105	35,903	81,168
Benefit payments	27,975	25,496	22,869
Administrative expenses	260	265	269
Total deductions	28,235	25,761	23,138
Change in net position	50,870	10,142	58,030
Trust net position, beginning of year	314,956	304,814	246,784
Trust net position, end of year	$ 365,826	$ 314,956	$ 304,814

Additional information on the Pension Plan for Bargaining Unit Employees of TriMet Trust Fund can be found in Note 14 in the accompanying notes to the financial statements.

RECLASSIFICATIONS

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

Management's Discussion and Analysis
continued
(dollars in thousands)

ECONOMIC FACTORS AND FISCAL YEAR 2014 BUDGET

The District's Board of Directors adopted the fiscal year 2014 budget on May 22, 2013. The fiscal year 2014 budget includes $1,056,057 in general fund appropriations, a 0.2 percent decrease from fiscal year 2013. This appropriation includes $439,623 for light rail construction projects. The budget assumes that the District's current union contract proposal will be sustained. The current contract expired in November 2012.

During fiscal year 2012, TriMet entered in to a Full Funding Grant Agreement (FFGA) with the Federal Transit Administration, related to the Portland to Milwaukie Light Rail Project. The first draw down on the grant of $85,000 was received in June 2012 and the second draw down on the grant of $94,511 was recorded in June 2013. The project is budgeted to cost a total of $1.49 billion, with 50% of the cost provided by the Federal New Starts program. The project is expected to open September 2015.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

TriMet
Attn: Finance & Administration
1800 S.W. 1st Avenue, Suite 300
Portland, OR 97201
www.trimet.org

Enterprise Fund
Statement of Net Position

June 30, 2013 and 2012
(dollars in thousands)

	2013	2012 (As Restated)
Assets		
Current assets (unrestricted):		
Cash and cash equivalents	$ 69,841	$ 134,864
Investments	19,729	8,284
Taxes and other receivables, net	86,682	83,326
Grants receivable	9,924	1,795
Prepaid expenses	6,074	8,884
Current assets (restricted):		
Cash and cash equivalents	75,345	26,474
Investments	387,962	224,141
Taxes and other receivables, net	419	893
Grants receivable	101,166	4,700
Prepaid lease expenses and deposits	4,352	13,556
Total current assets	761,494	506,917
Capital assets		
Land and other	223,287	208,485
Construction in process	657,651	316,186
Property and equipment	2,842,742	2,828,588
Less accumulated depreciation	(1,171,026)	(1,111,573)
Net capital assets	2,552,654	2,241,686
Prepaid lease expenses	102,659	163,124
Long-term restricted lease deposit	40,788	41,790
Materials, supplies and other	21,557	20,640
Other assets	5,455	2,244
Total assets	3,484,607	2,976,401
Deferred outflows of resources		
Unamortized loss on refunded debt	883	1,969
Total assets and deferred outflows of resources	$ 3,485,490	$ 2,978,370
Liabilities		
Current liabilities:		
Accounts payable	$ 15,028	$ 19,707
Accounts payable from restricted funds	41,988	36,466
Accrued payroll	25,811	26,555
Current portion of long-term debt	17,792	26,368
Accrued pension obligation	239	40,687
Current portion of noncurrent liabilities	12,890	6,030
Unearned revenue	13,457	14,833
Unearned capital project revenue	152,676	164,144
Other accrued liabilities	9,266	4,676
Unearned lease revenue, current portion	4,352	13,556
Total current liabilities	293,499	353,022
Noncurrent liabilities:		
Long-term debt	751,883	319,123
Unearned lease revenue	16,681	22,160
Long-term lease liability	81,390	143,595
Other postemployment benefits liability	355,793	290,554
Other long-term liabilities	9,749	7,804
Total noncurrent liabilities	1,215,496	783,236
Total liabilities	1,508,995	1,136,258
Deferred inflows of resources		
Unamortized gain on leases	20,517	21,591
Net position		
Net investment in capital assets	1,866,477	1,939,040
Restricted	307,057	26,612
Unrestricted	(217,556)	(145,131)
Total net position	1,955,978	1,820,521
Total liabilities, deferred inflows of resources and net position	$ 3,485,490	$ 2,978,370

See accompanying notes to basic financial statements

Enterprise Fund
Statements of Revenues, Expenses and Changes in Net Position

For the Years Ended June 30, 2013 and 2012
(dollars in thousands)

	2013	2012 (As Restated)
Operating revenues		
Passenger revenue	$ 112,500	$ 102,240
Auxiliary transportation and other revenue	40,198	38,273
Total operating revenues	152,698	140,513
Operating expenses		
Labor	129,385	130,281
Fringe benefits	206,448	203,273
Materials and services	91,893	78,638
Utilities	7,671	7,885
Purchased transportation	40,845	38,494
Depreciation expense	78,955	78,168
Other operating expense	14,938	8,175
Total operating expenses	570,135	544,914
Operating loss	(417,437)	(404,401)
Non-operating revenues (expenses)		
Payroll and other tax revenue	259,233	248,384
Property tax revenue	-	7,488
Grant revenue	96,629	91,439
Interest income	411	536
Net leveraged lease expense	(240)	(1,058)
Interest and other expense	(9,914)	(7,374)
Total non-operating revenues, net	346,119	339,415
Loss before contributions and special items	(71,318)	(64,986)
Capital contributions	206,775	134,972
Changes in net position	135,457	69,986
Total net position - beginning	1,820,521	1,753,127
Cumulative effect of restatement		(2,592)
Total net position beginning of year restated		1,750,535
Total net position - ending	$ 1,955,978	$ 1,820,521

See accompanying notes to basic financial statements

Enterprise Fund
Statements of Cash Flows

For the Years Ended June 30, 2013 and 2012
(dollars in thousands)

	2013	2012 (As Restated)
Cash flows from operating activities		
Receipts from passengers	$ 113,805	$ 107,519
Receipts from other sources	38,973	30,906
Payments to employees	(308,827)	(243,700)
Payments to suppliers	(151,531)	(145,168)
Net cash used in operating activities	(307,580)	(250,443)
Cash flows from noncapital financing activities		
Receipts from payroll taxes	253,945	241,091
Receipts from operating grants	87,491	97,499
Net cash provided by noncapital financing activities	341,436	338,590
Cash flows from capital and related financing activities		
Receipts from capital grants	96,209	140,929
Receipts from property taxes	437	7,341
Payments on leases	(7,531)	(353)
Receipts from sales or lease of capital assets	316	97
Acquisition and construction of capital assets	(376,129)	(235,291)
Proceeds from issuance of debt and capital leases	465,176	165
Principal payments on long-term debt	(33,191)	(66,905)
Interest payments on long-term debt activities	(20,695)	(16,201)
Net cash provided by capital and related financing activities	124,592	(170,218)
Cash flows from investing activities		
Purchases of investment securities	(769,172)	(406,435)
Proceeds from sales and maturities of investment securities	593,906	493,347
Interest received	666	605
Net cash used in investing activities	(174,600)	87,517
Net (decrease) increase in cash and cash equivalents	(16,152)	5,446
Cash and cash equivalents, beginning of year	161,338	155,892
Cash and cash equivalents, end of year	$ 145,186	$ 161,338
Reconciliation of cash and cash equivalents		
Unrestricted cash and cash equivalents	$ 69,841	$ 134,864
Restricted cash and cash equivalents	75,345	26,474
Total cash and cash equivalents	$ 145,186	$ 161,338

See accompanying notes to basic financial statements

Enterprise Fund
Statements of Cash Flows

For the Years Ended June 30, 2013 and 2012
(dollars in thousands)
continued

Reconciliation of operating loss to net cash used in operating activities	2013	2012 (As Restated)
Operating loss	$ (417,437)	$ (404,401)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	78,955	78,168
Gain on disposal of capital assets	(150)	(9)
(Increase) decrease in taxes and other receivables	1,932	(904)
Increase in materials, supplies and other	(917)	(415)
(Increase) decrease in prepaid and other assets	3,240	(6,096)
Decrease in operating accounts payable	(4,679)	(7,621)
Increase (decrease) in accrued payroll	(744)	7,451
Decrease in unearned revenue	(1,376)	(2,164)
Increase (decrease) in pension obligation	(40,448)	17,182
Increase in other postemployment benefit obligation	65,239	67,707
Increase in other liabilities	8,805	659
Total adjustments	109,857	153,958
Net cash used in operating activities	$ (307,580)	$ (250,443)

Supplemental Disclosures of Non-Cash Operating, Investing and Financing Activities

(dollars in thousands)

	2013	2012
Lease income (expense) - net	$ (240)	$ (1,058)
Accretion/amortization of investments	3,015	2,659
Fiber optic lease	268	289
Amortization of bond premium/discount, and deferred amounts	(6,639)	(2,049)

See accompanying notes to basic financial statements

Trust Fund
Statements of Pension Plan Fiduciary Net Position

June 30, 2013 and 2012
(dollars in thousands)

	2013			2012		
	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
Assets						
Cash and cash equivalents	$ 398	$ 776	$ 1,174	$ 188	$ 2,654	$ 2,842
Investments:						
Domestic Large/Mid Cap Equity	29,873	132,979	162,852	24,905	94,553	119,458
Domestic Small Cap Equity	2,998	16,584	19,582	2,424	11,790	14,214
International Equity	13,720	56,369	70,089	9,534	41,378	50,912
US Governmental Obligations	143	-	143	791	-	791
Domestic Fixed Income	15,834	-	15,834	13,756	-	13,756
Foreign Fixed Income	2,205	-	2,205	1,467	-	1,467
Tactical Asset Allocation	14,418	101,321	115,739	10,682	74,775	85,457
Real Estate	2,487	11,850	14,337	2,341	11,156	13,497
Absolute Return	7,572	31,386	38,958	6,991	28,959	35,950
Private Equity	1,533	14,559	16,092	1,680	14,004	15,684
Total investments	90,783	365,048	455,831	74,571	276,615	351,186
Receivables:						
Employer contributions receivable	235	4	239	4,834	35,853	40,687
Investment earnings receivable	154	165	319	219	561	780
Total receivables	389	169	558	5,053	36,414	41,467
Total assets	91,570	365,993	457,563	79,812	315,683	395,495
Liabilities						
Retiree payables	-	-	-	-	606	606
Accounts payable	51	167	218	41	121	162
Total liabilities	51	167	218	41	727	768
Net position						
Held in trust for pension benefits	$ 91,519	$ 365,826	$ 457,345	$ 79,771	$ 314,956	$ 394,727

See accompanying notes to basic financial statements

Trust Fund
Statement of Changes in Pension Plan Fiduciary Net Position
For the Years Ended June 30, 2013 and 2012
(dollars in thousands)

	2013			2012		
	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
Additions						
Employer contributions	$ 5,135	$ 36,766	$ 41,901	$ 4,834	$ 35,853	$ 40,687
Investment earnings:						
Interest	507	152	659	437	-	437
Dividends	1,368	7,165	8,533	1,265	6,211	7,476
Gain on investments sold	438	4,348	4,786	790	6,256	7,046
Other income	66	314	380	126	592	718
Net increase (decrease) in fair value of investments	7,977	30,877	38,854	(2,525)	(12,117)	(14,642)
Less investment expense	(146)	(517)	(663)	(196)	(892)	(1,088)
Total investment earnings	10,210	42,339	52,549	(103)	50	(53)
Total additions	15,345	79,105	94,450	4,731	35,903	40,634
Deductions						
Benefits	3,519	27,975	31,494	3,134	25,496	28,630
Administrative expenses	78	260	338	89	265	354
Total deductions	3,597	28,235	31,832	3,223	25,761	28,984
Change in net position	11,748	50,870	62,618	1,508	10,142	11,650
Net position held in trust for pension benefits:						
Beginning of year	79,771	314,956	394,727	78,263	304,814	383,077
End of year	$ 91,519	$365,826	$457,345	$ 79,771	$314,956	$394,727

See accompanying notes to basic financial statements

Notes to Financial Statements

June 30, 2013
(dollars in thousands)

1. Organization and Summary of Significant Accounting Policies

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

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

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

(a) Financial reporting entity

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

(b) Basis of accounting and presentation

The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The District has applied all applicable GASB pronouncements including GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. In addition, the District has elected to early implement GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. With implementation of GASB 63 and 65, the District restated its 2012 financial statements (see note 14). The District has also applied Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

(c) Revenue recognition

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

Notes to Financial Statements

June 30, 2013
(dollars in thousands)
continued

(d) Restricted Assets

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

(e) 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 0.7137 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 historical trends in payroll tax cash receipts. TriMet records an allowance for past due amounts that have not been collected by the state as of year-end.

Annually, TriMet has levied 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 6). 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. TriMet's final levy of property tax occurred in fiscal year 2012.

(f) 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, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(g) Cash and cash equivalents

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

(h) 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 with discount or premium amortized on a straight-line basis over the life of the investments. The District records all other investments at fair value based upon quoted market rates, with changes in unrealized gains and losses reported as investment income.

(i) Materials and supplies

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

(j) Prepaid expenses

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

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Notes to Financial Statements

June 30, 2013
(dollars in thousands)
continued

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(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. 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 position as other revenue.

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

Capital assets are assigned the following estimated useful lives:

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

(m) Self insurance liabilities

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

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

(n) Compensated absences

Vacation leave that has been earned but not paid has been accrued. Vacation pay and floating holidays are payable upon termination, retirement or death for both union and non-union employees. Sick leave is accrued as benefits are earned, but only to the extent the District will compensate the employee through a cash payment conditional on the employee's termination or death. Pursuant to the TriMet Defined Contribution Retirement Plan for Management and Staff Employees (the Management DC Plan) and the TriMet Defined Contribution Retirement Plan for Union Employees (The Union DC Plan), the District contributes 60 percent of unused sick leave when the employee leaves TriMet. The District records a liability in the accompanying financial statements related to the unused sick leave for employees covered by the Management DC Plan and the Union DC Plan. Unused sick leave benefits that enhance either defined benefit pension plan are included in the actuarial accrued liability.

Notes to Financial Statements

June 30, 2013
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(o) Bond discounts, premiums and refundings

Unamortized bond discounts and premiums are amortized to interest expense, using the effective interest method, over the term of the bonds. The excess of costs incurred over the carrying value of bonds refunded on early extinguishment of debt is amortized, using the effective interest method, over the shorter of the remaining life of the old bonds or the life of the new issue and recorded as a deferred outflow of resources.

(p) Contributed capital

Contributions received for the construction of capital assets are initially recorded as liabilities, then reclassified to revenue (contributed capital) when the associated capital projects are constructed or acquired.

(q) Net position

Net investment in capital assets consists of capital assets, net of accumulated depreciation; plus borrowed monies not yet spent; less outstanding debt balances related to the purchase or construction of capital assets. Restricted net position represents funds with a specified restricted purpose such as capital construction or acquisition, or debt service payments. Unrestricted net position includes all other balances not included in either Net investment in capital assets or Restricted net position.

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:

	2013			2012		
	Fair value	% of portfolio	Weighted average maturity (years)	Fair value	% of portfolio	Weighted average maturity (years)
Cash and investments:						
Cash on hand	$ 125	0.02%	-	$ 125	0.03%	-
Demand deposits with financial institutions	38,813	7.02%	-	37,456	9.51%	-
State of Oregon local government investment pool	38,788	7.02%	-	44,502	11.30%	-
Federal Farm Credit Bank	-	0.00%	-	29,982	7.61%	0.39
Federal Agricultural Mortgage Corp.	27,982	5.06%	0.57	6,023	1.53%	0.14
Federal Home Loan Bank	50,735	9.18%	0.16	114,325	29.03%	0.19
Federal Home Loan Mortgage Corp.	75,801	13.71%	0.41	62,981	15.99%	0.27
Federal National Mortgage Association	24,568	4.44%	0.18	63,429	16.11%	0.16
U.S. Treasuries	296,065	53.55%	0.24	14,988	3.81%	0.90
Temporary Liquidity Guarantee Program Commercial paper	-	0.00%	-	10,947	2.79%	0.26
Commercial paper	-	0.00%	-	9,005	2.29%	0.12
Total cash and investments	$ 552,877			$ 393,763		
Cash and investments are reflected in the Statements of net position as follows:						
Cash and cash equivalents						
Unrestricted	$ 69,841			$ 134,864		
Restricted	75,345			26,474		
Investments						
Unrestricted	19,729			8,284		
Restricted	387,962			224,141		
Total cash and investments	$ 552,877			$ 393,763		

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, 2013
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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, 2013, the weighted average maturity of the investment portfolio was 0.24 years.

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

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

Concentration of credit risk. Concentration of credit risk is the risk associated with the lack of diversification or having too much invested in a few individual issues. TriMet's investment policy sets forth the procedures, guidelines, and criteria for the operation of TriMet's investment program. This policy governs the investment of all TriMet funds, except funds held in trust for pensions and deferred compensation. The investment policy establishes maximum amounts, either as a percentage of total portfolio or fixed dollar amount, that may be invested in investment types and any single issuer including U.S. government securities (no limit), agency securities (33% maximum with any one agency, 90% maximum of the total portfolio), commercial paper (2.5% maximum with any issuer, 10% maximum of the total portfolio), local government investment pool (limited to maximum per ORS 294.810), time deposits, certificates of deposit and savings accounts (5% maximum with any issuer, 15% maximum of the total portfolio), corporate indebtedness (2.5% maximum with any issuer, 10% maximum of the total portfolio) and municipal debt obligations (5% maximum with any issuer, 10% maximum of the total portfolio). At June 30, 2013, the District had 53.6 percent invested in U.S. government securities, 32.4 percent in agency securities, 7.0 percent in demand deposits, and 7.0 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. All banks holding funds in TriMet's name, that are not held in trust for debt service, are included on the list of qualified depositories maintained by the Oregon State Treasurer.

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

Notes to Financial Statements
June 30, 2013
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continued

4. Receivables

At June 30, 2013 and 2012, the District had the following receivables under various federal and state grant agreements:

2013	Unrestricted	Restricted	Total
Federal pass through	$ -	$ 2,917	$ 2,917
Other federal	9,605	98,249	107,854
State grants	303	-	303
Local governments	16	-	16
	$ 9,924	$ 101,166	$ 111,090

2012	Unrestricted	Restricted	Total
Federal pass through	$ 293	$ 1,981	$ 2,274
Other federal	663	118	781
State grants	596	2,590	3,186
Local governments	243	11	254
	$ 1,795	$ 4,700	$ 6,495

Taxes and other receivables at June 30, 2013 and 2012, including the applicable allowances for uncollectible accounts, are as follows:

2013	Receivable	Allowance for uncollectible accounts	Net receivable
Unrestricted:			
Payroll tax	$ 65,847	$ 2,154	$ 63,693
Self-employment tax	8,161	946	7,215
Trade accounts	7,989	350	7,639
Property Tax	285	51	234
Other	7,901	-	7,901
Total unrestricted	90,183	3,501	86,682
Restricted:			
Other	419	-	419
Total restricted	419	-	419
Total taxes and other receivables	$ 90,602	$ 3,501	$ 87,101

2012	Receivable	Allowance for uncollectible accounts	Net receivable
Unrestricted:			
Payroll tax	$ 61,001	$ 1,976	$ 59,025
Self-employment tax	7,238	744	6,494
Trade accounts	6,553	400	6,153
Other	11,654	-	11,654
Total unrestricted	86,446	3,120	83,326
Restricted:			
Property tax	853	182	671
Other	222	-	222
Total restricted	1,075	182	893
Total taxes and other receivables	$ 87,521	$ 3,302	$ 84,219

Notes to Financial Statements

June 30, 2013
(dollars in thousands)
continued

5. Capital Assets

Capital assets at June 30 consisted of the following:

2013	Lives (in years)	Beginning balance	Additions	Deletions	Transfers	Ending balance
Capital assets, not being depreciated						
Land and other		$ 208,485	$ 41,001	$ -	$ (26,199)	$ 223,287
Construction in process		316,186	348,565	(68)	(7,032)	657,651
Total capital assets, not being depreciated		524,671	389,566	(68)	(33,231)	880,938
Capital assets, being depreciated						
Rail right-of-way and stations	5-40	1,832,926	141	(4,169)	-	1,828,898
Buildings	40	361,414	17	(7)	573	361,997
Transportation equipment	5-30	503,212	13	(13,437)	31,617	521,405
Furniture and other equipment	3-20	131,036	353	(1,988)	1,041	130,442
Total capital assets, being depreciated		2,828,588	524	(19,601)	33,231	2,842,742
Less accumulated depreciation for						
Rail right-of-way and stations		(585,505)	(47,381)	4,169	-	(628,717)
Buildings		(163,700)	(7,758)	7	-	(171,451)
Transportation equipment		(266,054)	(20,480)	13,356	-	(273,178)
Furniture and other equipment		(96,314)	(3,336)	1,970	-	(97,680)
Total accumulated depreciation		(1,111,573)	(78,955)	19,502	-	(1,171,026)
Total capital assets, being depreciated, net		1,717,015	(78,431)	(99)	33,231	1,671,716
Total capital assets, net		$ 2,241,686	$ 311,135	$ (167)	$ -	$ 2,552,654

2012	Lives (in years)	Beginning balance	Additions	Deletions	Transfers	Ending balance
Capital assets, not being depreciated						
Land and other		$ 187,877	$ 66,846	$ -	$ (46,238)	$ 208,485
Construction in process		93,958	185,239	-	36,989	316,186
Total capital assets, not being depreciated		281,835	252,085	-	(9,249)	524,671
Capital assets, being depreciated						
Rail right-of-way and stations	5-40	1,832,113	-	(8)	821	1,832,926
Buildings	40	360,546	-	(60)	928	361,414
Transportation equipment	5-30	500,646	39	(4,444)	6,971	503,212
Furniture and other equipment	3-20	131,257	1,084	(1,834)	529	131,036
Total capital assets, being depreciated		2,824,562	1,123	(6,346)	9,249	2,828,588
Less accumulated depreciation for						
Rail right-of-way and stations		(537,277)	(48,236)	8	-	(585,505)
Buildings		(155,759)	(8,001)	60	-	(163,700)
Transportation equipment		(251,804)	(18,605)	4,355	-	(266,054)
Furniture and other equipment		(94,822)	(3,326)	1,834	-	(96,314)
Total accumulated depreciation		(1,039,662)	(78,168)	6,257	-	(1,111,573)
Total capital assets, being depreciated, net		1,784,900	(77,045)	(89)	9,249	1,717,015
Total capital assets, net		$ 2,066,735	$ 175,040	$ (89)	$ -	$ 2,241,686

Notes to Financial Statements
June 30, 2013
(dollars in thousands)
continued

6. Long-Term Debt

Debt at June 30 consists of the following:

2013	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Long-term debt:					
General Obligation Bonds:					
1999 General Obligation Refunding Bonds, Series A	$ 9,800	$ -	$ (9,800)	$ -	$ -
Payroll Tax Bonds:					
2003 Revenue Refunding Bonds, Series A	8,355	-	(8,355)	-	-
2005 Revenue Refunding Bonds, Series A	38,405	-	(3,465)	34,940	3,645
2007 Revenue Bonds, Series A	39,470	-	(1,330)	38,140	1,380
2009 Revenue Bonds, Series A and B	46,950	-	(1,360)	45,590	1,405
2012 Senior Lien Payroll Tax Bonds, Series A	-	93,290	-	93,290	2,050
2013 Payroll Tax and Grant Receipts Revenue Bonds	-	325,000	-	325,000	-
Capital Grant Receipt Revenue Bonds:					
Capital Grant Receipt Revenue Bonds, Series 2005	40,515	-	(8,775)	31,740	9,200
2011 Capital Grant Receipt Revenue Bonds	142,380	-	-	142,380	-
Capital Leases:					
Other	499	-	(106)	393	112
	326,374	418,290	(33,191)	711,473	17,792
Add (deduct):					
Unamortized bond premium	19,117	46,886	(7,801)	58,202	
Current portion	(26,368)			(17,792)	
Long-term debt, net	$ 319,123			$ 751,883	

2012 (As Restated)	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Long-term debt:					
General Obligation Bonds:					
1999 General Obligation Refunding Bonds, Series A	$ 19,115	$ -	$ (9,315)	$ 9,800	$ 9,800
Payroll Tax Bonds:					
2001 Revenue Refunding Bonds, Series A	1,750	-	(1,750)	-	-
2003 Revenue Refunding Bonds, Series A	9,835	-	(1,480)	8,355	1,535
2005 Revenue Refunding Bonds, Series A	41,700	-	(3,295)	38,405	3,465
2007 Revenue Bonds, Series A	40,755	-	(1,285)	39,470	1,330
2009 Revenue Bonds, Series A and B	48,270	-	(1,320)	46,950	1,360
2006 Payroll Tax and Grant Receipts Revenue Bonds	40,000	-	(40,000)	-	-
Capital Grant Receipt Revenue Bonds:					
Capital Grant Receipt Revenue Bonds, Series 2005	48,885	-	(8,370)	40,515	8,775
2011 Capital Grant Receipt Revenue Bonds	142,380	-	-	142,380	-
Capital Leases:					
Other	288	300	(89)	499	103
	392,978	300	(66,904)	326,374	26,368
Add (deduct):					
Unamortized bond premium	21,714	-	(2,597)	19,117	
Unamortized bond discount	(1)	-	1	-	
Current portion	(66,901)			(26,368)	
Long-term debt, net	$ 347,790			$ 319,123	

Total interest cost on all outstanding debt was $18,660 and $13,457 in fiscal years 2013 and 2012, respectively. During fiscal year 2013, $8,746 of interest cost was capitalized and $9,914 was charged to expense, while during fiscal year 2012, $6,083 of interest cost was capitalized and $7,374 was charged to expense.

Notes to Financial Statements

June 30, 2013
(dollars in thousands)
continued

		June 30, 2013		
Description of Debt:	Description of Pledged Revenue	Principal and interest to maturity	Principal and interest paid in the year	Pledged revenue for the year
Payroll Tax Bonds:				
2003 Revenue Refunding Bonds, Series A	Employer payroll and self employment tax revenues	$ -	$ 8,694	
2005 Revenue Refunding Bonds, Series A	Employer payroll and self employment tax revenues	42,385	5,299	
2007 Revenue Bonds, Series A	Employer payroll and self employment tax revenues	55,457	3,011	
2009 Revenue Bonds, Series A and B	Employer payroll and self employment tax revenues	73,592	3,504	
2012 Senior Lien Payroll Tax Bonds, Series A	Employer payroll and self employment tax revenues	162,653	2,246	
2013 Payroll Tax and Grant Receipts Bonds - Interest	Employer payroll and self employment tax revenues	58,473	-	
		$ 392,560	$ 22,754	$ 258,513
Capital Grant Receipt Revenue Bonds:				
Capital Grant Receipt Revenue Bonds, Series 2005	Section 5307, STP, and CMAQ grant receipts	$ 34,350	$ 10,511	
2011 Capital Grant Receipt Revenue Bonds	Section 5307, STP, and CMAQ grant receipts	209,023	6,826	
		$ 243,373	$ 17,337	$ 72,385
2013 Payroll Tax and Grant Receipts Bonds - Principal	Section 5309 full funding grant agreement receipts	$ 325,000	$ -	$ 94,511

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

Under U.S. Treasury Department regulations, all governmental tax exempt debt issued after August 31, 1986 is subject to arbitrage rebate requirements. The requirements stipulate, in general, that the yield on earnings from the investment of tax exempt bond proceeds, which exceed yield on related bonds, must be remitted to the Federal Government on every fifth anniversary of each bond issue. The District has evaluated each bond issue and has recognized no arbitrage liabilities as of June 30, 2013 and 2012.

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 matured serially each July 1, beginning July 1, 2000 through 2012. Interest was payable semiannually on July 1 and January 1, and fixed interest rates ranged from 4.0 percent to 5.25 percent on various maturities.

The 1999 G.O. Bonds were payable each year with proceeds from TriMet's ad valorem property tax through fiscal year ending June 30, 2013. The bonds were paid in full as of July 1, 2012.

Payroll Tax Bonds

TriMet has the following Revenue Bonds outstanding which are backed by Payroll Tax Revenues: 2005 Revenue Refunding Bonds Series A, 2007 Revenue Bonds Series A, 2009 Revenue Bonds Series A and B and 2012 Senior Lien Payroll Tax Revenue Bonds Series A. The Revenue Bonds are payable from and secured by a pledge of the employer payroll and self employment taxes levied by the District. The Payroll Tax Revenue Bonds are not general obligations of the District.

Notes to Financial Statements

June 30, 2013
(dollars in thousands)
continued

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 carried a face amount of $19,705 and matured serially each September 1, beginning September 1, 2003 through 2016, with an option to call the bonds in 2013. In March 2013, the District exercised the call option and paid the remaining principal on the bonds.

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 rate of 5.0 percent on outstanding maturities. The 2005 Revenue bonds are subject to redemption prior to maturity at the option of TriMet on any date on or after September 1, 2016, at a price of par (100%) plus accrued interest thereon to the date of redemption.

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

	Principal	Interest
Fiscal year ending June 30:		
2014	$ 3,645	$ 1,656
2015	3,830	1,469
2016	4,025	1,273
2017	4,230	1,066
2018	4,450	849
2019-2021	14,760	1,132
	$ 34,940	$ 7,445

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 mature serially each September 1, beginning September 1, 2007 through 2026, with a $13,025 term bond due September 1, 2031. The term bond is subject to mandatory sinking fund requirements annually on September 1, 2027 through 2031. Interest is payable semiannually on March 1 and September 1 and fixed interest rates range from 4.0 percent to 5.0 percent on outstanding 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:

	Principal	Interest
Fiscal year ending June 30:		
2014	$ 1,380	$ 1,613
2015	1,430	1,542
2016	1,485	1,470
2017	1,545	1,394
2018	1,605	1,324
2019-2023	9,020	5,575
2024-2028	11,045	3,471
2029-2032	10,630	928
	$ 38,140	$ 17,317

Notes to Financial Statements
June 30, 2013
(dollars in thousands)
continued

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 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 outstanding 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:

	Principal	Interest
Fiscal year ending June 30:		
2014	$ 1,405	$ 2,102
2015	1,445	2,060
2016	1,490	2,016
2017	1,540	1,962
2018	1,600	1,904
2019-2023	8,980	8,541
2024-2028	11,285	6,239
2029-2033	14,440	3,081
2034	3,405	97
	$ 45,590	$ 28,002

2012 Senior Lien Payroll Tax Bonds, Series A

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

The 2012 Revenue Bonds mature serially each September 1, beginning September 1, 2013 through 2032, with $28,705 in term bonds maturing on September 1, 2037. Interest is payable semiannually on March 1 and September 1 and fixed interest rates range from 1.0 percent to 5.0 percent on outstanding maturities. The 2012 Revenue Bonds are subject to redemption prior to maturity in whole or in part at the option of TriMet on any date on or after September 1, 2022, at a price of par (100%) plus accrued interest thereon to the date of redemption.

Future maturities and mandatory sinking fund requirements of the 2012 Revenue Bonds, Series A, are as follows:

	Principal	Interest
Fiscal year ending June 30:		
2014	$ 2,050	$ 4,457
2015	2,090	4,415
2016	2,165	4,340
2017	2,265	4,240
2018	2,380	4,124
2019-2023	13,670	18,859
2024-2028	17,460	15,072
2029-2033	22,420	10,112
2034-2038	28,790	3,744
	$ 93,290	$ 69,363

Notes to Financial Statements

June 30, 2013
(dollars in thousands)
continued

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

Payroll Tax and Grant Receipt Revenue Bonds, Series 2013

On March 7, 2013, TriMet issued $325,000 in Payroll Tax and Grant Receipt Revenue Bonds, Series 2013 to provide interim financing for the Portland to Milwaukie Light Rail Project. Bond proceeds are being used to provide project cash flow in advance of federal grants.

The Payroll Tax and Grant Receipt Revenue Bonds, Series 2013 bonds are payable from and secured by Section 5309 federal grant funds related to the Portland to Milwaukie Light Rail Project, with interest payable from a pledge of the employer and self employment taxes levied by the District, and debt service account. The Payroll Tax and Grant Receipt Revenue Bonds mature serially each November 1, beginning November 1, 2016 through 2019. Interest is payable semiannually on May 1 and November 1, and fixed interest rates range from 3.0 percent to 5.0 percent on outstanding maturities. The Payroll Tax and Grant Receipt Revenue Bonds, Series 2013 are subject to redemption prior to maturity in whole or in part at the option of TriMet on any date 18 months before each serial maturity, prior to maturity at a price of par (100%) plus accrued interest thereon to the date of redemption.

Future maturities and mandatory sinking fund requirements of the 2013 Payroll Tax and Grant Receipt Revenue Bonds, are as follows:

Fiscal year ending June 30:	Principal	Interest
2014	$ -	$ 13,398
2015	-	11,650
2016	-	11,650
2017	90,000	10,300
2018	90,000	7,150
2019-2020	145,000	4,325
	$ 325,000	$ 58,473

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 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, Series 2005 are not general obligations of the District.

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The Grant Receipt Revenue Bonds, Series 2005 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 3.50 percent to 5.0 percent on outstanding maturities. The 2005 Capital Grant Receipt 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, 2015 at a price of par (100%) plus accrued interest thereon to the date of redemption.

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

	Principal	Interest
Fiscal year ending June 30:		
2014	$ 9,200	$ 1,307
2015	9,660	846
2016	10,150	354
2017	1,335	77
2018	1,395	26
	$ 31,740	$ 2,610

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 Portland to Milwaukie light rail project, and other regional projects. The 2011 Capital Grant Receipt Revenue Bonds are not general obligations of the District.

The 2011 Capital Grant Receipt Revenue Bonds mature serially each October 1, beginning October 1, 2016 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 outstanding maturities. The 2011 Capital Grant Receipt Revenue Bonds are subject to redemption prior to maturity in whole or in part at the option of TriMet on any date on or after October 1, 2021 at a price of par (100%) plus accrued interest thereon to the date of redemption.

Future maturities of the 2011 Capital Grant Receipt Revenue Bonds, are as follows:

	Principal	Interest
Fiscal year ending June 30:		
2014	$ -	$ 6,826
2015	-	6,826
2016	-	6,826
2017	9,170	6,686
2018	9,450	6,320
2019-2023	54,470	24,195
2024-2028	69,290	8,964
	$ 142,380	$ 66,643

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7. 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 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, 2013, the per claims limit was $600 and the per occurrence limit was $1,200.

The District is self-insured for all public liability claims, subject to the limits under Oregon SB 311. The District is self-insured to the extent of the first $2,000 per occurrence for industrial accident claims. The District provides for the estimated losses to be incurred from the pending and potential claims that result from industrial and public liability accidents occurring prior to year end. The liabilities include estimated claims that have been incurred but not reported and development of existing claims of $3,140 for 2013 and 2012. 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.

Changes in the District's public liability and industrial accident claims liabilities are as follows for the years ended June 30, 2013 and 2012:

	2013		2012	
	Industrial accident claims	Public liability	Industrial accident claims	Public liability
Liability at beginning of year	$ 5,271	$ 3,899	$ 5,265	$ 3,766
Current year claims	2,626	602	2,117	854
Changes in estimates for claims of prior periods	765	2,205	824	126
Payments of claims	(3,353)	(1,250)	(2,935)	(847)
Liability at end of year	$ 5,309	$ 5,456	$ 5,271	$ 3,899

Based on historical experience, the District has classified $7,404 and $6,030 of the industrial accident and public liability claims liabilities as current liabilities, at June 30, 2013 and 2012, respectively.

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8. 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 June 30, 2011	Additions	Reductions	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Current portion
Uninsured claims liability:								
Industrial accident claims	$ 5,265	$ 2,941	$ (2,935)	$ 5,271	$ 3,391	$ (3,353)	$ 5,309	$ 3,533
Employee Dental Insurance	-	250	-	250	90	-	340	340
Other claims	-	-	-	-	5,145	-	5,145	5,146
Public liability	3,766	980	(847)	3,899	2,807	(1,250)	5,456	3,872
Total claims liability	9,031	4,171	(3,782)	9,420	11,433	(4,603)	16,250	12,890
Long-term employee sick leave	1,743	283	-	2,026	245	-	2,271	-
Rent payable	54	11	-	65	1,755	-	1,820	-
Unearned lease revenue	2,347	-	(24)	2,323	-	(25)	2,298	-
Total other liabilities	13,175	4,465	(3,806)	13,834	13,433	(4,628)	22,639	12,890
Deduct current portion	(5,580)			(6,030)			(12,890)	
Other long-term liabilities	$ 7,595			$ 7,804			$ 9,749	

9. Lease Transactions

(a) Office and equipment leases

The District leases office space under non-cancelable operating leases. Total costs for such leases were $1,077 and $847 in 2013 and 2012, respectively. The future minimum lease payments for these leases are as follows:

Fiscal year ending June 30:	
2014	$ 2,063
2015	1,837
2016	1,241
2017	1,115
2018	1,138
Thereafter	6,601
	$ 13,995

(b) 1997 and 1998 Lease transactions

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

Equipment sales to the foreign investor resulted in original proceeds to the District of $80,600. The investor leased all assets back to the District for a period of 18 years. The leases qualify for accounting treatment as operating leases. Using the proceeds of the sales, the District fully funded payment agreements with American International Group, Inc. and its subsidiaries (AIG) totaling $65,849. Under the payment agreements, AIG is obligated to make all required lease payments. The prepayments by the District to AIG are recorded as prepaid lease expense in the accompanying statement of net position 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.

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Under the foreign sale-leaseback agreement, the foreign investor has a put option which requires the District to buy back the leased equipment if exercised. If the investor does not exercise the put option, the District may offer to buy the equipment pursuant to the terms of the lease agreement and the lessor shall accept such offer. The District also deposited $11,995 with AIG, which represents the present value of the options at the buy back dates. These deposits earn interest at rates ranging from 5.3 percent to 5.9 percent and are recorded as long-term restricted lease deposits on the District's statement of net position. 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 position. 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. Also, in 1997 and 1998 TriMet entered into similar transactions for additional rail equipment and maintenance facilities. 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 statement of net position. 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 statement of net position and are expensed over the terms of the leases.

In addition, the District deposited the present value of the 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 statement of net position. 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 are recorded as deferred inflows of resources 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, 2013 and 2012, a third party custodian is holding securities with a market value of $17,444 and $30,880, 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, 2013.

In the 1997 transactions, in the event that TriMet's 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 Annual Debt Service plus the total of the equity portion of the basic rent payments plus the equity portion of the purchase price option divided by 20 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.

As of June 30, 2013, TriMet is not aware of any default, event of default or event of loss under any of the operative documents.

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In 2009 and 2013, TriMet and all other parties to four of the lease-leaseback transactions negotiated early terminations of those transactions. TriMet has no further obligations concerning the four early terminated transactions. The following is a summary of TriMet's remaining obligations (including purchase option payments) under the two foreign sale-leaseback transactions and two remaining lease-leaseback transactions:

	AIG uncollateralized	AIG collateralized	Total payment obligations
Fiscal year ending June 30:			
2014	$ 10,318	$ 3,678	$ 13,996
2015	10,318	-	10,318
2016	19,971	42,820	62,791
2017	-	5,051	5,051
	$ 40,607	$ 51,549	$ 92,156

(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 statement of net position as unamortized 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 statement of net position 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 deferred inflows of resources 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 deferred inflow of resources and is recognized over the remaining term of the lease.

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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 long-term senior lien payroll tax revenue bonds are rated AAA by Standard & Poors and Aa1 by Moody’s at June 30, 2013.

As of June 30, 2013, TriMet is not aware of any default, event of default or event of loss under any of the operative documents. The total outstanding lease obligations under the 2005 leases are as follows:

	Total payment obligations
Fiscal year ending June 30:	
2014	$ 18,934
2015	5,240
2016	13,450
2017	-
2018	808
2019-2023	6,298
2024-2028	27
2029-2033	114
2034-2038	149,703
	$ 194,574

(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, 2013 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.

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continued

(e) Financial Statement Summary

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

	2013	2012
Assets:		(As Restated)
Prepaid lease expense - current	$ 4,352	$ 13,556
Prepaid lease expense	102,659	163,124
Long-term restricted lease deposit	40,788	41,790
Total assets	$ 147,799	$ 218,470
Liabilities:		
Unearned lease revenue - current	$ 4,352	$ 13,556
Unearned lease revenue	16,681	22,160
Long-term lease liability	81,390	143,595
Total liabilities	102,423	179,311
Deferred Inflows of Resources:		
Unamortized gain on leases	$ 20,517	$ 21,591
Total liabilities and deferred inflows of resources	$ 122,940	$ 200,902
Net leveraged lease expense	$ 240	$ 1,058

10. 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, 2013 were $659,292.

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.

11. Enterprise Fund Pension Benefits

Union Defined Contribution Plan

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

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Plan description

Effective July 13, 2012, the District adopted the Union DC Plan in accordance with Internal Revenue Code (IRC) Section 401(a). Participation in the Union DC Plan is mandatory for all union employees hired on or after August 1, 2012. Under the Union DC Plan, the District will contribute 8.0 percent of considered compensation each pay period. Considered compensation is taxable compensation plus employee elected pre-tax deferrals, less overtime pay, bonuses, commissions, or other extraordinary pay and cash-out of unused vacation. Within 30 days of becoming eligible for the Union DC Plan, employees 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 employee's account. The TriMet Board has authority over amendments to plan benefit and contribution provisions, in conjunction with the Working and Wage Agreement.

Basis of accounting

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

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, 2013 there were 195 active employees covered by the Union DC Plan. District contributions to the Union DC Plan were $146 for the year ending June 30, 2013. Employee contributions to the Union DC Plan were $57 for the year ending June 30, 2013.

Management Defined Contribution Plan

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

Plan description

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

Under the Management DC Plan, the District contributes 8.0 percent of considered compensation each pay period. Considered compensation is taxable compensation plus employee elected pre-tax deferrals, less overtime pay, bonuses, commissions, or other extraordinary pay and cash-out of unused vacation. Within 30 days of becoming eligible for the 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 employee's account. The TriMet Board has authority over amendments to plan benefit and contribution provisions.

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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 earned.

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, 2013 and 2012 there were 271 and 225 active employees, respectively, covered by the Management DC Plan. District contributions to the Management DC Plan were $1,595 and $1,093 for the years ending June 30, 2013 and 2012, respectively. Employee contributions to the Management DC Plan were $623 and $627 for the years ending June 30, 2013 and 2012, respectively.

12. 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.

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, 2013 and 2012, the District's vacation pay liability was $10,982 and $10,068, respectively, all of which was classified as a current liability in Accrued payroll.

Postemployment benefits other than pension

Plan description

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

Funding policy

The District has a trust fund for future net OPEB obligations. In fiscal year 2012, the District funded $400 into the trust fund. The District pays for the premiums for eligible retirees. Retirees may not convert the benefit into an in lieu payment to secure coverage under independent plans. There were 2,066 and 1,961 union and non-union retirees, dependents, and surviving spouses receiving the postemployment health care and life insurance benefits, at December 31, 2012 and 2011, respectively. The District’s contribution covers actual pay-as-you-go funding requirements. The District contributed costs of postemployment health care and life insurance benefits totaling $15,649 and $16,255 in fiscal year 2013 and 2012, respectively.

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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:

	2013	2012	2011
Annual required contribution (ARC)	$ 81,869	$ 83,279	$ 77,664
Interest on net OPEB obligation	13,074	9,810	8,538
Adjustment to annual required contribution	(14,055)	(8,727)	-
Annual OPEB cost	80,888	84,362	86,202
Contributions made	(15,649)	(16,655)	(15,936)
Increase in net OPEB obligation	65,239	67,707	70,266
Net OPEB obligation - beginning of year	290,554	222,847	152,581
Net OPEB obligation - end of year	$ 355,793	$ 290,554	$ 222,847
Percentage of annual OPEB cost contributed	19%	20%	18%

Funded status and funding progress

The schedule of funding progress is presented below:

Schedule of funding progress

Actuarial valuation date	January 1, 2013	January 1, 2012	January 1, 2010
Actuarial value of assets	$ 401	$ -	$ -
Actuarial accrued liability (AAL)	852,756	900,541	816,544
Unfunded AAL (UAAL)	852,355	900,541	816,544
Funded ratio	0%	0%	0%
Covered payroll	$ 151,180	$ 151,448	$ 137,869
UAAL as a percentage of covered payroll	564%	595%	592%

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, 2013 actuarial valuation, the funding method used to develop the actuarial required contribution is entry age normal, with normal cost developed as a level percentage of payroll. Significant actuarial assumptions used in the valuation include a discount rate of 4.5%, and health care cost rates trending down from 9% in 2013 to 5% in 2021 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, 2013 there are 25 years of amortization remaining.

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continued

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

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

Summary of accounting policies

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

Investment policy and method to value investments

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

Investments – concentration of credit risk

The plan trustees have adopted an Investment Policy which defines target allocations in each class of investment. The target allocations are based upon asset liability studies, which are performed every five years. As of June 30, 2013, 2012 and 2011, the plan had the following investments of more than 10% of the total Plan investments:

	2013	2012	2011
Fidelity Institutional Trust US Equity Index Fund	0.0%	0.0%	15.2%
Vanguard Russell 1000 Fund	15.6%	15.6%	0.0%
State Street RAFI	17.2%	17.7%	0.0%
PIMCO All Asset Fund	14.7%	14.3%	14.1%

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, 2013
(dollars in thousands)
continued

Funding policy and annual pension cost

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

Schedule of Funding Progress

	Actuarial valuation date		
Management DB Plan	June 30, 2013	June 30, 2012	June 30, 2011
Actuarial value of plan assets	$ 87,320	$ 76,728	$ 72,170
Actuarial accrued liability (AAL)	121,918	113,750	105,750
Unfunded AAL	34,598	37,022	33,580
Funded ratio	71.6%	67.5%	68.2%
Annual covered payroll	$ 14,200	$ 14,869	$ 15,099
Unfunded AAL as a percentage of covered payroll	243.7%	249.0%	222.4%

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, 2013, the actuarial value of plan assets was less than the market value of plan assets by $3.9 million.

Schedule of Annual Required Contributions

	Actuarial valuation date		
Management DB Plan	June 30, 2013	June 30, 2012	June 30, 2011
Annual required contribution (ARC)	$ 5,135	$ 4,834	$ 4,576
ARC Contributions made by June 30	4,900	-	1,600
Contributions made as a percentage of ARC	95.4%	0.0%	35.0%
Contributions made as a percentage of covered payroll	34.5%	0.0%	10.6%
Net pension obligation	$ 235	$ 4,834	$ 2,976

A portion of the annual required contribution was deposited to the Management DB Plan subsequent to June 30, 2013 and 2012 and, accordingly, an equivalent amount is reflected in the accompanying statement of net position within accrued pension obligation.

Notes to Financial Statements

June 30, 2013
(dollars in thousands)
continued

Schedule of Annual Pension Costs and Payments

	Fiscal year		
Management DB Plan	2013	2012	2011
Annual required contribution (ARC)	$ 5,135	$ 4,834	$ 4,576
Interest on annual contribution	42	30	53
Annual cost	5,177	4,864	4,629
Contributions made towards obligation	(9,776)	(3,006)	(5,615)
Change in net pension obligation (NPO)	(4,599)	1,858	(986)
Beginning net pension obligation	4,834	2,976	3,962
Ending net pension obligation	$ 235	$ 4,834	$ 2,976
Contributions made as a percentage of NPO	202.2%	101.0%	141.7%
Contributions made as a percentage of covered payroll	68.8%	20.2%	37.2%

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

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

Summary of accounting policies

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

Investment policy and method to value investments

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

Investments – concentration of credit risk

The plan trustees have adopted an Investment Policy which defines target allocations in each class of investment. The target allocations are based upon asset liability studies, which are performed every five years. As of June 30, 2013, 2012 and 2011, the plan had the following investments of more than 10% of the total Plan investments:

	2013	2012	2011
Aurora Offshore Fund	8.6%	10.4%	10.7%
PIMCO All Asset Fund	0.0%	10.8%	10.2%
Vanguard Russell 2000 Fund	2.3%	27.0%	0.0%
Vanguard Russell 1000 Fund	17.8%	2.1%	0.0%
State Street RAFI	18.6%	0.0%	0.0%
PIMCO Total Return Fund	15.9%	15.9%	16.5%

Notes to Financial Statements

June 30, 2013
(dollars in thousands)
continued

Plan description

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

Funding policy and annual pension cost

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

Schedule of Funding Progress

	Actuarial valuation date		
Bargaining Unit DB Plan	July 1, 2013	July 1, 2012	July 1, 2011
Actuarial value of plan assets	$ 350,670	$ 290,642	$ 289,425
Actuarial accrued liability (AAL)	590,018	557,131	517,979
Unfunded AAL	239,348	266,489	228,554
Funded ratio	59.4%	52.2%	55.9%
Annual covered payroll	$ 125,143	$ 125,142	$ 119,166
Unfunded AAL as a percentage of covered payroll	191.3%	212.9%	191.8%

Actuarial methods and assumptions

Significant actuarial assumptions used in the valuation include a rate of return on the investment of present and future assets of 7.75 percent, a benefits in payment status annual increase of 3.0 percent, and a 2.7 percent annual rate to determine the normal retirement benefit for active employees retiring after August 1, 2012. The actuarial value of plan assets is calculated as the market value of assets held in trust, plus investment returns using a smoothing technique. This method recognizes the difference in actual investment return and the assumed 7.75 percent rate of return over a five year period. The resulting actuarial valuation cannot be less than 80 percent or greater than 120 percent of the market value of plan assets on the valuation date. As of June 30, 2013, the actuarial value of plan assets was less than the market value of plan assets by $15.2 million. The asset valuation method is consistent with the method described in IRS Revenue Procedure 2000-40.

Notes to Financial Statements

June 30, 2013
(dollars in thousands)
continued

Schedule of Annual Required Contributions

Bargaining Unit DB Plan	Actuarial valuation date July 1, 2013	July 1, 2012	July 1, 2011
Annual required contribution (ARC)	$ 32,335	$ 34,826	$ 32,224
ARC Contributions made by June 30	32,335	-	13,400
Contributions made as a percentage of ARC	100.0%	0.0%	41.6%
Contributions made as a percentage of covered payroll	25.8%	0.0%	11.2%
Net pension obligation	$ -	$ 34,826	$ 18,824

A portion of the annual required contribution is deposited to the Bargaining Unit DB Plan subsequent to June 30, 2013 and 2012 and, accordingly, an equivalent amount is reflected in the accompanying statement of net position within accrued pension obligation.

Schedule of Annual Pension Costs and Payments

Bargaining Unit DB Plan	Fiscal year 2013	2012	2011
Annual required contribution (ARC)	$ 32,335	$ 34,826	$ 32,224
Contribution made towards obligation	(67,161)	(18,824)	(47,428)
Change in net pension obligation (NPO)	(34,826)	16,002	(15,204)
Beginning net pension obligation	34,826	18,824	34,028
Ending net pension obligation	$ -	$ 34,826	$ 18,824
Contributions made as a percentage of NPO	192.8%	100.0%	139.4%
Contributions made as a percentage of covered payroll	53.7%	15.0%	39.8%

15. Adoption of New Accounting Pronouncement

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement provides guidance for reclassifying certain items as deferred outflows of resources or deferred inflows of resources. The statement further requires reclassification of certain items previously recorded as assets and liabilities to be presented as expenses or revenues. The specific accounts impacting the District are detailed below.

Bond issuance costs – Previous standards required that certain costs associated with the issuance of bonds, including underwriter's discounts, be recognized as an asset and amortized over the life of the bonds. Statement No. 65 requires that bond issuance costs be fully expensed at issuance.

Gain/Loss on refunding of debt – Previous standards required that the gain or loss associated with refunding of debt be reported net of the debt on the combined statements of net position. Statement No. 65 defines this balance as a deferred outflow of resources or deferred inflow of resources.

Unamortized gain on leases – Previous standards required that unamortized gains on leases be reported as a liability on the statement of net position. Statement No. 65 defines this balance as a deferred inflow of resources.

Deferred inflows of resources and deferred outflows of resources – Statement No. 65 includes the following definitions:

Assets – Resources with present service capacity that the government presently controls.

Deferred outflow of resources – A consumption of net assets by the government that is applicable to a future reporting period.

Notes to Financial Statements

June 30, 2013
(dollars in thousands)
continued

Liabilities – Present obligations to sacrifice resources that the government has little or no discretion to avoid.

Deferred inflow of resources – An acquisition of net assets by the government that is applicable to a future reporting period.

Based upon these definitions, certain items on the District's Statement of Net Position fit the definition of deferred inflow of resources and deferred outflow of resources.

Statement No. 65 is effective for financial statement periods beginning after December 15, 2012, with the effects of accounting change to be applied retroactively by restating the financial statements. The District elected to early adopt this new pronouncement in the current year and, accordingly, has restated amounts of effected balances within the financial statements as of June 30, 2012:

	As Originally Reported	As Restated	Effect of Change
Statement of Net Position			
Noncurrent assets:			
Other assets	$ 4,288	$ 2,244	$ (2,044)
Deferred outflow of resources:			
Loss on refunding of debt	-	1,969	1,969
Noncurrent liabilities:			
Long-term debt	317,154	319,123	(1,969)
Unearned lease revenue	43,751	22,160	21,591
Deferred inflow of resources:			
Unamortized gain on lease transactions	-	21,591	(21,591)
Net position	1,822,565	1,820,521	2,044
Statement of Revenues, Expenses and Net Position			
Non-operating revenues (expenses):			
Interest and other expense	7,922	7,374	(548)
Total net position - beginning	1,753,127	1,750,535	2,592

Required Supplementary Information

Schedules of Funding Progress

(dollars in thousands)

Other postemployment benefits

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, 2013	$ 401	$ 852,756	$ 852,355	0%	$ 151,180	564%
January 1, 2012	-	900,541	900,541	0%	151,448	595%
January 1, 2010	-	816,544	816,544	0%	137,869	592%
January 1, 2008	-	632,204	632,201	0%	130,726	484%

Management DB Plan

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, 2013	$ 87,320	$ 121,918	$ 34,598	72%	$ 14,200	244%
June 30, 2012	76,728	113,750	37,022	67%	14,869	249%
June 30, 2011	72,170	105,750	33,580	68%	15,099	222%
June 30, 2010	67,689	98,834	31,145	68%	15,626	199%
June 30, 2009	65,202	96,749	31,547	67%	17,130	184%
June 30, 2008	59,066	84,974	25,908	70%	17,842	145%
June 30, 2007	61,016	75,616	14,600	81%	19,644	74%
June 30, 2006	50,212	69,383	19,171	72%	19,920	96%
June 30, 2005	46,241	60,325	14,084	77%	19,355	73%
June 30, 2004	41,734	50,639	8,905	82%	19,642	45%

Bargaining Unit DB Plan

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
June 30, 2013	$ 350,670	$ 590,018	$ 239,348	59%	$ 125,143	191%
June 30, 2012	290,642	557,131	266,489	52%	125,142	213%
June 30, 2011	289,425	517,979	228,554	56%	119,166	192%
June 30, 2010	255,279	491,495	236,216	52%	121,124	195%
June 30, 2009	217,113	460,333	243,220	47%	123,784	196%
June 30, 2008	238,883	427,305	188,422	56%	116,418	162%
June 30, 2007	209,392	399,237	189,845	52%	111,877	170%
June 30, 2006	178,157	370,711	192,554	48%	106,705	180%
June 30, 2005	155,828	345,396	189,568	45%	106,578	178%
June 30, 2004	143,184	319,829	176,645	45%	104,778	169%

Supplementary Information

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

For The Year Ended June 30, 2013
(dollars in thousands)

	General fund	G.O. Bond debt service fund	District total
Budget basis			
Revenues	$ 1,186,715	$ 16	$ 1,186,731
Expenses	864,794	9,800	874,594
Revenues under expenses	321,921	(9,784)	312,137
Add (subtract) budget activity not qualifying as revenues/expenses under GAAP:			
Principal payments on long-term debt	23,391	9,800	33,191
Issuance of Debt	(465,176)	-	(465,176)
Capital asset additions	390,090	-	390,090
Add (subtract) additional adjustments required by GAAP:			
Cumulative effect of accounting changes	2,044	-	2,044
Depreciation	(78,955)	-	(78,955)
Net leveraged lease expense	(240)	-	(240)
Leveraged lease principal payments	7,502	-	7,502
Other lease changes	103	-	103
Unfunded OPEB Costs	(65,239)	-	(65,239)
Subtract budget resources not qualifying as revenues under GAAP:			
Federal, state and local government contributions	(206,775)	-	(206,775)
GAAP basis (loss) income before contributions and special items presented in statement of revenues, expenses and changes in net position	$ (71,334)	$ 16	$ (71,318)

Reconciliation of fund balance (Budget Basis) to Net position (GAAP Basis)

June 30, 2013
(dollars in thousands)

Budget basis ending fund balance	
General fund	$ 501,058
G.O. bond debt service fund	1,992
	503,050
Reconciliation to GAAP basis:	
Net capital assets	2,552,654
Capital related debt	(768,792)
Other postemployment benefits	(355,793)
Prepaid lease expense	102,659
Long term restricted lease deposit	40,788
Long term deferred lease revenue	(16,681)
Unamortized gain on leases	(20,517)
Long term lease liability	(81,390)
GAAP basis net position	$ 1,955,978

Schedule of Revenues and Expenses
Budget (Budget Basis) and Actual

For The Year Ended June 30, 2013
(dollars in thousands)

GENERAL FUND

	Original budget	Final budget	Actual	Variance from final budget over (under)
Revenues				
Operating revenue	$ 145,842	$ 145,842	$ 144,772	$ (1,070)
Tax revenue	244,458	244,458	258,513	14,055
Operating grant and other revenue	86,711	86,711	105,567	18,856
Capital program resources	82,747	82,747	95,693	12,946
Light rail program resources	444,464	444,464	576,258	131,794
Other non-operating resources	12,641	14,641	5,912	(8,729)
Total revenues	1,016,863	1,018,863	1,186,715	167,852
Expenses				
Operating program:				
Office of the general manager	1,515	1,537	1,418	(119)
Public affairs	8,306	8,417	7,833	(584)
Safety and Security	13,435	13,459	12,626	(833)
Information Technology	7,280	7,395	6,329	(1,066)
Finance and administration	11,852	12,421	11,903	(518)
Labor relations and human resources	2,953	2,998	2,584	(414)
Legal services	1,618	1,643	1,619	(24)
Operations	314,036	322,275	318,447	(3,828)
Capital projects	16,537	20,261	18,212	(2,049)
OPEB and UAAL Pension	47,758	47,758	44,970	(2,788)
Debt service	48,178	48,178	42,851	(5,327)
Pass-through requirements	12,641	14,641	5,912	(8,729)
Contingency	20,000	6,326	-	(6,326)
Total operating program	506,109	507,309	474,704	(32,605)
Capital programs				
Public affairs	487	487	344	(143)
Safety and security	309	309	285	(24)
Information technology	29,864	29,864	9,024	(20,840)
Finance and administration	370	370	185	(185)
Legal services	50	50	50	-
Operations	62,902	62,902	36,017	(26,885)
Capital projects and facilities	11,401	12,201	8,095	(4,106)
Total capital programs	105,383	106,183	54,000	(52,183)
Light rail programs				
I205/Portland Mall Light Rail Project	1,947	1,947	539	(1,408)
Milwaukie Light Rail Project	444,464	444,464	335,551	(108,913)
Total light rail programs	446,411	446,411	336,090	(110,321)
Total expenses	1,057,903	1,059,903	864,794	(195,109)
Revenues over(under) expenses	(41,040)	(41,040)	321,921	362,961
Beginning fund balance	139,287	139,287	179,137	77,577
Ending fund balance	$ 98,247	$ 98,247	$ 501,058	$ 440,538

Schedule of Revenues and Expenses
Budget (Budget Basis) and Actual

For The Year Ended June 30, 2013
(dollars in thousands)

G.O. BOND DEBT SERVICE FUND

	Original budget	Final budget	Actual	Variance from final budget over (under)
Revenues				
Previously levied taxes estimated to be received	$ 225	$ 225	$ -	$ (225)
Interest income	20	20	16	(4)
Other Resources	-	-	-	-
Taxes necessary to balance	-	-	-	-
Total revenues	245	245	16	(229)
Expenses				
Redemption of principal	9,800	9,800	9,800	-
Interest expense	256	256	-	(256)
Total expenses	10,056	10,056	9,800	(256)
Revenues over(under) expenses	(9,811)	(9,811)	(9,784)	27
Beginning fund balance	10,902	10,902	11,776	4,907
Ending fund balance	$ 1,091	$ 1,091	$ 1,992	$ 4,934

Schedule of Property Tax Levies and Collections
Last Five Fiscal Years

For The Year Ended June 30, 2013
(dollars in thousands)

Fiscal year ended June 30	Tax levy for the fiscal year	Collected within the fiscal year of levy		Collections in subsequent years	Total collections to date	
		Amount	Percentage of levy		Amount	Percentage of levy
2012	$ 7,494	$ 6,724	90%	$ 115	$ 6,839	91%
2011	10,908	10,259	94%	220	10,479	96%
2010	10,422	9,765	94%	320	10,085	97%
2009	9,344	8,722	93%	382	9,104	97%
2008	9,514	8,969	94%	306	9,275	97%

Schedule of Property Tax Transactions and Outstanding Balances

For The Year Ended June 30, 2013
(dollars in thousands)

Tax year	Beginning balance	Levy extended by assessor	Discounts	Interest	Adjustments	Collections	Ending balance
2011-12	$ 552	$ -	$ -	$ 6	$ (337)	$ (115)	$ 106
2010-11	165	-	-	-	(7)	(53)	105
2009-10	94	-	-	-	13	(48)	59
2008-09	26	-	-	-	3	(28)	1
2007-08	1	-	-	-	3	(3)	1
2006-07	3	-	-	-	-	(1)	2
2005-06	2	-	-	-	-	(1)	1
2004-05	2	-	-	-	-	-	2
2003-04	1	-	-	-	-	-	1
2002-03	2	-	-	-	-	-	2
2001-02	1	-	-	-	-	-	1
2000-01 & prior	4	-	-	-	-	-	4
	$ 853	$ -	$ -	$ 6	$ (325)	$ (249)	$ 285