



**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
JUNE 30, 2010 AND 2009**

(WITH INDEPENDENT AUDITORS' REPORT THEREON)

TABLE OF CONTENTS

	<u>Page</u>
Financial Section	1-35
Independent Auditors' Report	2-3
Management's Discussion and Analysis	4-9
Balance Sheets	10
Statements of Revenues, Expenses and Changes in Net Assets	11
Statements of Cash Flows	12-13
Notes to Financial Statements	14-35
Required Supplementary Information	36-37
Schedules of Funding Progress	37
Supplementary Information	38-43
Reconciliation of Revenues and Expenses (Budget Basis) to Schedule of Revenues and Expenses (GAAP Basis)	39
Reconciliation of Fund Balance (Budget Basis) to Net Assets (GAAP Basis)	39
Schedule of Revenues and Expenses Budget (Budget Basis) and Actual – General Fund	40
Schedule of Revenues and Expenses Budget (Budget Basis) and Actual – G.O. Bond Debt Service Fund	41
Schedule of Property Tax Levies and Collections Last Five Fiscal Years	42
Schedule of Property Tax Transactions and Outstanding Balances	43



FINANCIAL SECTION

MOSS ADAMS LLP

CERTIFIED PUBLIC ACCOUNTANTS | BUSINESS CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Tri-County Metropolitan Transportation District of Oregon

We have audited the balance sheet, statement of revenues, expenses and changes in net assets, and statement of cash flows of Tri-County Metropolitan Transportation District of Oregon (the District), as of and for the years ended June 30, 2010 and 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2010 and 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2010, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4 through 9, and the required supplementary information on page 39, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

MOSS ADAMS L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS | BUSINESS CONSULTANTS

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplemental budgetary schedules and property tax schedule on pages 41 through 45 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Moss Adams LLP

Portland, Oregon
September 20, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

(dollars in thousands)

The following Management's Discussion and Analysis (MD&A) provides an overview of the Tri-County Metropolitan Transportation District of Oregon's (TriMet or the District) financial performance for the fiscal years ended June 30, 2010 and 2009. It is designed to assist the reader in focusing on significant financial issues, provide an overview of the District's financial activity and identify changes in the District's financial position.

As with other sections of the financial report, the information contained within this MD&A should be considered only as part of a greater whole. The reader of this MD&A should take time to read and evaluate all sections of this report, including the notes to financial statements and other supplementary information that is provided in addition to this MD&A.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's financial statements consist of balance sheets, statements of revenues, expenses and changes in net assets, statements of cash flows and related notes. The financial statements provide both long-term and short-term information about the District's overall financial position. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

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

FINANCIAL HIGHLIGHTS

- Total operating and non-operating revenues increased 6.5 percent, to \$433,609, during fiscal year 2010.
- Passenger revenue increased 4.1 percent, to \$93,729, during fiscal year 2010. Fixed route ridership decreased 2.2 percent during fiscal year 2010.
- Total payroll and other tax revenues decreased \$1,004, or 0.5 percent, compared to fiscal year 2009. Employer payroll tax revenue decreased \$4,623, or 2.3 percent, while self employment and other tax revenues increased \$3,619, or 32.6 percent, over fiscal year 2009.
- 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 will be phased in over a 10 year period. The rate is scheduled to increase by .0001 each January 1 thereafter until the rate reaches .007218 on January 1, 2014. The rate was .006718 on January 1, 2009 and .006818 on January 1, 2010.

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

- Total operating and non-operating expenses increased 13.2 percent to \$558,244, during fiscal year 2010. Fringe benefits expense increased 16.9 percent or \$27,675 due to costs associated with retiree pension and other post employment benefits. Materials and services increased 6.1 percent or \$5,215 due primarily to increases in transit enhancement expense (\$6,008) and facilities maintenance (\$3,850) performed in association with receipt of Federal Stimulus funding.
- Total net assets at June 30, 2010, were \$1,792,848, a decrease of \$14,015 from 2009. The decrease in net assets is due to an increase in Other postemployment benefits (OPEB) liability. The net OPEB obligation at June 30, 2010 was \$152,581, an increase of \$61,318 over 2009. TriMet funds OPEB on a pay-as-you-go basis, funding benefits for current retirees, but does not make contributions towards the unfunded accrued OPEB liability.
- Total capital assets, net of accumulated depreciation, were \$2,035,933 at June 30, 2010, a decrease of \$13,806 from 2009. This decrease was due primarily to the net impact of completion of construction on the I-205/Portland Mall Light Rail project, offset by increases in depreciation expense upon the start of operations of this portion of the light rail system in September 2009.

FINANCIAL SUMMARY

NET ASSETS

The balance sheet presents the financial position of the District at the end of the fiscal year. The difference between total assets and total liabilities – net assets – is one indicator of the current financial condition of the District. Changes in net assets over time is an indicator of whether the finances of the District are improving or declining.

The District's total net assets at June 30, 2010, were \$1,792,848, a 0.8 percent decrease from June 30, 2009 (see Table 1). Total assets increased \$68,154, or 2.6 percent, and total liabilities increased \$82,169 or 10.4 percent. Total net assets at June 30, 2009, were \$1,806,863, a 2.6 percent increase from June 30, 2008. In fiscal year 2009, total assets decreased \$75,119, or 2.8 percent, and total liabilities decreased \$121,504 or 13.3 percent.

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>Increase (decrease) 2010 - 2009</u>	<u>Percentage change 2010 - 2009</u>	<u>Increase (decrease) 2009 - 2008</u>	<u>Percentage change 2009 - 2008</u>
Assets							
Current and other assets	\$ 630,395	\$ 548,435	\$ 778,539	\$ 81,960	14.9%	\$ (230,104)	(29.6)%
Capital assets, net of depreciation	2,035,933	2,049,739	1,894,754	(13,806)	(0.7)%	154,985	8.2%
Total assets	<u>2,666,328</u>	<u>2,598,174</u>	<u>2,673,293</u>	<u>68,154</u>	<u>2.6%</u>	<u>(75,119)</u>	<u>(2.8)%</u>
Liabilities							
Current liabilities	261,293	224,362	216,474	36,931	16.5%	7,888	3.6%
Noncurrent liabilities	612,187	566,949	696,341	45,238	8.0%	(129,392)	(18.6)%
Total liabilities	<u>873,480</u>	<u>791,311</u>	<u>912,815</u>	<u>82,169</u>	<u>10.4%</u>	<u>(121,504)</u>	<u>(13.3)%</u>
Net assets							
Invested in capital assets, net of related debt	1,712,456	1,679,816	1,427,816	32,640	1.9%	252,000	17.6%
Restricted for capital projects	46,279	25,610	72,572	20,669	80.7%	(46,962)	(64.7)%
Restricted for debt service	133,677	133,620	103,218	57	0.0%	30,402	29.5%
Unrestricted	(99,564)	(32,183)	156,872	(67,381)	209.4%	(189,055)	(120.5)%
Total net assets	<u>1,792,848</u>	<u>1,806,863</u>	<u>1,760,478</u>	<u>(14,015)</u>	<u>(0.8)%</u>	<u>46,385</u>	<u>2.6%</u>
Total liabilities and net assets	<u>\$ 2,666,328</u>	<u>\$ 2,598,174</u>	<u>\$ 2,673,293</u>	<u>\$ 68,154</u>	<u>2.6%</u>	<u>\$ (75,119)</u>	<u>(2.8)%</u>

In October 2009, TriMet issued \$49,550 in revenue bonds to finance capital acquisitions and pay off the outstanding balance on the District's interim financing.

Current and other assets increased \$81,960, or 14.9 percent, in 2010, due primarily to the increase in cash and investments associated with the receipt of final federal funding for the I205/Portland Mall light rail project, that is restricted for payment of outstanding revenue bonds used to finance the project, and receipt of funding from the Oregon Department of Transportation (ODOT) for the Milwaukie light rail project.

The decrease in current and other assets of \$230,104, or 29.6 percent, in 2009 resulted primarily from debt payments made during the year.

Current liabilities consist primarily of accounts payable, accrued compensation, current portion of bonds payable and unearned revenue. The increase in current liabilities of \$36,931, or 16.5 percent, in 2010, is primarily the result of increases in Accounts payable associated with pass-through funding of the Eastside Streetcar project for the City of Portland, and increases in unearned capital project revenue associated with funding received from ODOT for the Milwaukie light rail project. The increase of \$7,888, or 3.6 percent, in 2009 was primarily a result of increases in the current portion of long term debt related to funding of debt service to be used in fiscal year 2010 to call outstanding bonds, offset by decreases in accounts payable.

Noncurrent liabilities consist primarily of long term debt, long term lease liabilities and OPEB liabilities. Noncurrent liabilities increased \$45,238, or 8.0%, in 2010, primarily due to an increase of \$59,873 in OPEB liabilities, offset by a decline in long term debt of \$16,069.

Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the amount of outstanding indebtedness attributable to the acquisition, construction, or improvement of those

assets. When there are significant unspent bond proceeds, the proceeds are an offset to the related indebtedness. The amount restricted for capital projects represents the amount that will be used to finance construction projects. Net assets restricted for debt service represents amounts restricted for principal and interest payments of amounts due related to outstanding revenue and general obligation bonds (discussed in Note 9), as well as restricted deposits related to the lease transactions (discussed in Note 12).

Unrestricted net assets have negative balances for both fiscal years 2010 and 2009. This change resulted primarily from the adoption of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*. This statement established standards for the measurement, recognition, and presentation of other postemployment benefits in the District's financial statements. Prior to implementation of this statement in fiscal year 2008, the District recorded costs associated with Other postemployment benefits on a pay-as-you-go basis. Other postemployment benefit liabilities recorded on the balance sheet in accordance with this statement totaled \$152,581 and \$91,263 for the years ended June 30, 2010 and 2009, respectively.

CHANGES IN NET ASSETS

The District's total revenues increased \$26,611, or 6.5 percent, during fiscal year 2010 (see Table 2). Passenger revenue increased \$3,712, or 4.1 percent, and grant revenue increased \$20,618, or 32.4 percent.

Total revenues increased \$2,517, or 0.6 percent, during fiscal year 2009. Passenger revenue increased \$9,202, or 11.4 percent, and operating grant revenue increased \$3,159, or 5.2 percent.

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>Increase (decrease) 2010 - 2009</u>	<u>Percentage change 2010 - 2009</u>	<u>Increase (decrease) 2009 - 2008</u>	<u>Percentage change 2009 - 2008</u>
Revenues							
Operating revenues							
Passenger revenue	\$ 93,729	\$ 90,017	\$ 80,815	\$ 3,712	4.1%	\$ 9,202	11.4%
Auxiliary transportation and other revenue	35,872	32,770	31,803	3,102	9.5%	967	3.0%
Nonoperating revenues							
Payroll and other tax revenue	208,933	209,937	215,133	(1,004)	(0.5)%	(5,196)	(2.4)%
Property tax revenue	10,132	8,908	9,416	1,224	13.7%	(508)	(5.4)%
Grant revenue	84,217	63,599	60,440	20,618	32.4%	3,159	5.2%
Interest revenue	726	1,767	6,874	(1,041)	(58.9)%	(5,107)	(74.3)%
Total operating and nonoperating revenues	<u>433,609</u>	<u>406,998</u>	<u>404,481</u>	<u>26,611</u>	<u>6.5%</u>	<u>2,517</u>	<u>0.6%</u>
Expenses							
Labor	125,688	127,309	121,227	(1,621)	(1.3)%	6,082	5.0%
Fringe benefits	191,263	163,588	157,836	27,675	16.9%	5,752	3.6%
Materials and services	90,358	85,143	72,928	5,215	6.1%	12,215	16.7%
Utilities	7,682	6,858	6,152	824	12.0%	706	11.5%
Purchased transportation	36,359	35,430	33,010	929	2.6%	2,420	7.3%
Depreciation expense	82,452	65,013	63,960	17,439	26.8%	1,053	1.6%
Other operating expense	11,358	8,391	7,854	2,967	35.4%	537	6.8%
Net leveraged lease (income) expense	85	(2,464)	765	2,549	(103.4)%	(3,229)	(422.1)%
Interest and other expense	12,999	4,068	7,401	8,931	219.5%	(3,333)	(45.0)%
Total expenses	<u>558,244</u>	<u>493,336</u>	<u>471,133</u>	<u>64,908</u>	<u>13.2%</u>	<u>22,203</u>	<u>4.7%</u>
Loss before contributions	(124,635)	(86,338)	(66,652)	(38,297)	44.4%	(19,686)	29.5%
Capital contributions	110,620	127,349	151,522	(16,729)	(13.1)%	(24,173)	(16.0)%
Special items	-	5,374	(621)	(5,374)	(100.0)%	5,995	100.0%
Increase (decrease) in net assets	<u>(14,015)</u>	<u>46,385</u>	<u>84,249</u>	<u>(60,400)</u>	<u>(130.2)%</u>	<u>(37,864)</u>	<u>(44.9)%</u>
Total net assets - beginning	1,806,863	1,760,478	1,676,229	46,385	2.6%	84,249	5.0%
Total net assets - ending	<u>\$ 1,792,848</u>	<u>\$ 1,806,863</u>	<u>\$ 1,760,478</u>	<u>\$ (14,015)</u>	<u>(0.8)%</u>	<u>\$ 46,385</u>	<u>2.6%</u>

The Oregon economy began slowing in fiscal year 2008, after experiencing strong growth from 2004 to 2007. In fiscal year 2009, the economic recession began to impact the District's revenues, due to declining regional employment. This impact on revenues continued through fiscal year 2010. After six consecutive years of increases, the District's main source of revenue – payroll taxes – decreased for two consecutive years. Payroll and other tax revenues decreased \$1,004, or 0.5 percent in fiscal year 2010, while they decreased \$5,196, or 2.4 percent, in fiscal year 2009.

Total expenses increased \$64,908, or 13.2 percent, during fiscal year 2010. Labor costs decreased \$1,621, or 1.3 percent, primarily due to service cuts and decreases in staffing. Fringe benefits increased \$27,675, or 16.9 percent, due to

increased costs of medical premiums, other post-employment benefits costs and pension funding requirements. Materials and services increased \$5,215, or 6.1 percent, primarily due to increases related to Federal stimulus funded projects.

Total expenses increased \$22,203, or 4.7 percent, during fiscal year 2009. Labor costs increased \$6,082, or 5.0 percent, primarily due to contractual salary increases and increases in overtime costs. Fringe benefits increased \$5,752, or 3.6 percent, due to the increased cost of medical premiums and pension funding requirements. Materials and services increased \$12,215, or 16.7 percent, primarily due to increases in security services, track materials, vehicle maintenance and diesel fuel costs.

Capital contributions include federal grants and other local government contributions restricted for purchase or construction of capital assets. Capital contributions decreased \$16,729, or 13.1 percent, during fiscal year 2010. Capital contributions decreased \$24,173, or 16.0 percent, during fiscal year 2009.

CAPITAL ASSETS

At June 30, 2010, the District had invested \$2,035,933, net of accumulated depreciation, in a variety of capital assets (see Table 3 and Note 6).

	2010	2009	2008	Increase (decrease) 2010 - 2009	Percentage change 2010 - 2009	Increase (decrease) 2009 - 2008	Percentage change 2009 - 2008
Land and other	\$ 147,331	\$ 145,414	\$ 138,516	\$ 1,917	1.3%	\$ 6,898	5.0%
Rail right-of-way and stations	1,341,256	1,019,966	956,339	321,290	31.5%	63,627	6.7%
Buildings	194,710	118,777	100,188	75,933	63.9%	18,589	18.6%
Transportation equipment	268,858	204,534	174,585	64,324	31.4%	29,949	17.2%
Furniture and other equipment	38,713	22,550	20,511	16,163	71.7%	2,039	9.9%
Construction in progress	45,065	538,498	504,615	(493,433)	(91.6)%	33,883	6.7%
Total capital assets	\$ 2,035,933	\$ 2,049,739	\$ 1,894,754	\$ (13,806)	(0.7)%	\$ 154,985	8.2%

Total capital assets net of depreciation decreased \$13,806, or 0.7 percent, during fiscal year 2010, primarily due to completion the I-205/Portland Mall Light Rail Project and the impact of depreciation of the related assets beginning with the opening of the light rail line in September 2009. Total capital assets net of depreciation increased \$154,985, or 8.2 percent, during fiscal year 2009, primarily due to work on the I-205/Portland Mall Light Rail Project and completion of the Washington County Commuter Rail Project.

The I-205/Portland Mall Light Rail Project began operation in September 2009, expanding TriMet’s light rail system by adding 6.5 miles of track and eight stations, from the Clackamas Town Center along Interstate 205 (I-205) to the existing Gateway Transit Center. Additionally, the Project extended light rail through downtown Portland on 5th and 6th Avenues between Portland State University and Union Station. The Washington County Commuter Rail line opened in February 2009, and offers a new transportation route within the Interstate 5 and Highway 217 corridor. Using primarily freight tracks, it connects to TriMet’s MAX Light Rail in Beaverton and serves Washington Square, Tigard, Tualatin, and Wilsonville. The 14.7 mile project shares tracks with the Portland & Western Railroad.

LONG-TERM DEBT

Long-term debt includes revenue bonds and general obligation bonds. At June 30, 2010, the District had \$288,810 in revenue bonds outstanding and \$27,960 in general obligation bonds outstanding (see Note 9).

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

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

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:

	<u>Original issue amount</u>	<u>Moody's</u>	<u>Standard & Poor's</u>
General obligation bonds			
1999 Series A Refunding	\$ 79,965	Aaa	AAA
Revenue bonds			
2001 Series A Refunding	23,090	Aa2	AAA
2003 Series A Refunding	19,705	Aa2	AAA
2005 Series A Refunding	65,475	Aa2	AAA
2005 Series 2005 Capital Grant Receipt	79,320	A1	A
2006 Series 2006 Payroll Tax and Grant Receipt	230,000	Aa3	A+
2007 Series A	45,450	Aa2	AAA
2009 Series A and B	49,550	Aa2	AAA

LEASE TRANSACTIONS

In prior years, TriMet entered into several lease-leaseback and sale-leaseback transactions with investors (see Note 12).

During 2009, U.S. financial markets were under tremendous liquidity pressure, which led to the sale, bankruptcy, and takeover of some of the largest financial institutions in the country. Two financial institutions involved in TriMet lease transactions experienced rating downgrades that triggered collateralization requirements under the leases.

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

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

The District is not aware of any default, event of default or event of loss under any of the operative lease documents at June 30, 2010.

ACCOUNTING GUIDANCE AND RECLASSIFICATIONS

During 2009, TriMet adopted GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement requires accrual of pollution remediation liability when an obligating event occurs.

TriMet elected to adopt GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, during 2009. This statement requires measurement of derivative instruments at fair value in the balance sheet. During 2009, the District recorded other debits and derivative instruments at a value of \$5,882 related to the adoption of this statement.

GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB authoritative literature. GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, addresses three issues not included in the authoritative literature that establishes accounting principles – related party transactions, going concern considerations and subsequent events. Both statements were effective in March 2009.

The District adopted GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, in fiscal year 2010. The statement requires that all intangible assets not specifically excluded by scope provisions of the statement should be classified as capital assets.

The following statement is effective for years beginning after June 15, 2010:

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

TriMet anticipates that the adoption of this statement will not have a material impact on the District's financial results.

Certain reclassifications have been recorded to prior year balances to provide consistent presentation with the current year financial statements. In fiscal year 2010, all costs associated with Other post-employment benefits, including funding of current retiree medical costs, are recorded as part of fringe benefits. In 2010, amounts related to capitalization of labor and fringe benefits are recorded as offsets to labor and fringe benefits. These costs and offsets were recorded in other operating expense in the prior year.

ECONOMIC FACTORS AND FISCAL YEAR 2011 BUDGET

The District's Board of Directors adopted the fiscal year 2011 budget on June 23, 2010. The fiscal year 2011 budget includes \$580,621 for operating expenses, a 0.7 percent decrease from fiscal year 2010 due to the continued impact of the economic downturn in the region. This budget also includes \$114,056 for light rail construction projects and \$35,359 for other capital expenditures. The budget reflects the impact of the economic recession on TriMet revenues, with across the board operating cost reductions. The budget reductions include elimination of 145 operating program positions.

The I-205/Portland Mall Light Rail Project began operation in September 2009, and expanded TriMet's light rail system, adding 6.5 miles of track and eight stations, from the Clackamas Town Center along Interstate 205 (I-205) to the existing Gateway Transit Center. Additionally, the Project extends light rail through downtown Portland on 5th and 6th Avenues between Portland State University and Union Station.

During fiscal year 2009, TriMet was granted permission by FTA to enter preliminary engineering on the Portland to Milwaukie Light Rail Project. During fiscal year 2007, the Oregon State Legislature passed legislation providing for \$250 million of lottery bond proceeds to be used for payment of expenses for this project. During fiscal year 2010, TriMet received \$55.4 million of the lottery bond proceeds, a portion of which was drawn down to fund preliminary engineering costs on the project.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

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

BALANCE SHEETS
 JUNE 30, 2010 AND 2009
 (dollars in thousands)

	2010	2009
Assets		
Current assets (unrestricted):		
Cash and cash equivalents	\$ 94,877	\$ 56,665
Investments	250	-
Taxes and other receivables, net	69,612	72,998
Grants receivable	8,660	12,142
Prepaid expenses	7,375	10,457
Prepaid lease	2,234	2,234
Current assets (restricted):		
Cash and cash equivalents	27,266	42,948
Investments	137,682	42,532
Taxes and other receivables, net	945	603
Grants receivable	27,167	54,083
Total current assets	<u>376,068</u>	<u>294,662</u>
Capital assets		
Land and other	147,331	145,414
Construction in process	45,065	538,498
Property and equipment	2,813,534	2,265,978
Less accumulated depreciation	(969,997)	(900,151)
Net capital assets	<u>2,035,933</u>	<u>2,049,739</u>
Prepaid lease expenses	168,973	171,642
Long-term restricted lease deposit	61,655	58,007
Long-term restricted receivable	3,054	6,109
Materials, supplies and other	18,400	15,060
Other assets	<u>2,245</u>	<u>2,955</u>
Total assets	<u>\$ 2,666,328</u>	<u>\$ 2,598,174</u>
Liabilities		
Current liabilities:		
Accounts payable	\$ 19,556	\$ 13,484
Accounts payable from restricted funds	38,699	18,134
Accrued payroll	18,933	18,902
Current portion of long-term debt	66,553	96,928
Accrued pension obligation	38,842	32,920
Current portion of other postemployment benefits	14,743	13,298
Current portion of noncurrent liabilities	8,614	6,221
Unearned revenue	13,279	8,752
Unearned capital project revenue	32,528	-
Other accrued liabilities	7,312	13,489
Unearned lease revenue, current portion	2,234	2,234
Total current liabilities	<u>261,293</u>	<u>224,362</u>
Noncurrent liabilities:		
Long-term debt	257,019	273,088
Unearned lease revenue	74,830	78,138
Long-term lease liability	134,814	130,810
Other postemployment benefits liability	137,838	77,965
Other long-term liabilities	7,686	6,948
Total noncurrent liabilities	<u>612,187</u>	<u>566,949</u>
Total liabilities	<u>873,480</u>	<u>791,311</u>
Net assets		
Invested in capital assets, net of related debt	1,712,456	1,679,816
Restricted for capital projects	46,279	25,610
Restricted for debt service	133,677	133,620
Unrestricted	(99,564)	(32,183)
Total net assets	<u>1,792,848</u>	<u>1,806,863</u>
Total liabilities and net assets	<u>\$ 2,666,328</u>	<u>\$ 2,598,174</u>

See accompanying notes to basic financial statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
 (dollars in thousands)

	2010	2009
Operating revenues		
Passenger revenue	\$ 93,729	\$ 90,017
Auxiliary transportation and other revenue	35,872	32,770
Total operating revenues	<u>129,601</u>	<u>122,787</u>
Operating expenses		
Labor	125,688	127,309
Fringe benefits	191,263	163,588
Materials and services	90,358	85,143
Utilities	7,682	6,858
Purchased transportation	36,359	35,430
Depreciation expense	82,452	65,013
Other operating expense	11,358	8,391
Total operating expenses	<u>545,160</u>	<u>491,732</u>
Operating loss	<u>(415,559)</u>	<u>(368,945)</u>
Nonoperating revenues and (expenses)		
Payroll and other tax revenue	208,933	209,937
Property tax revenue	10,132	8,908
Grant revenue	84,217	63,599
Interest income	726	1,767
Net leveraged lease income (expense)	(85)	2,464
Interest and other expense	(12,999)	(4,068)
Total nonoperating revenues, net	<u>290,924</u>	<u>282,607</u>
Loss before contributions and special items	(124,635)	(86,338)
Capital contributions	110,620	127,349
Special items	-	5,374
Changes in net assets	<u>(14,015)</u>	<u>46,385</u>
Total net assets - beginning	1,806,863	1,760,478
Total net assets - ending	<u>\$ 1,792,848</u>	<u>\$ 1,806,863</u>

See accompanying notes to basic financial statements

STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
 (dollars in thousands)

	2010	2009
Cash flows from operating activities		
Receipts from passengers	\$ 94,200	\$ 88,331
Receipts from other sources	45,278	33,811
Payments to employees	(249,577)	(248,081)
Payments to suppliers	(141,474)	(133,694)
Net cash used in operating activities	<u>(251,573)</u>	<u>(259,633)</u>
Cash flows from noncapital financing activities		
Receipts from payroll taxes	207,673	213,748
Receipts from operating grants	58,577	62,513
Net cash provided by noncapital financing activities	<u>266,250</u>	<u>276,261</u>
Cash flows from capital and related financing activities		
Receipts from capital grants	201,888	89,103
Receipts from property taxes	10,105	9,008
Receipts from (payments to) other sources	(368)	13,926
Receipts from sales or lease of capital assets	6,577	2,576
Acquisition and construction of capital assets	(53,089)	(235,863)
Proceeds from issuance of debt and capital leases	68,550	28
Principal payments on long-term debt	(115,928)	(100,373)
Interest payments on long-term debt activities	(14,984)	(20,312)
Net cash provided by (used in) capital and related financing activities	<u>102,751</u>	<u>(241,907)</u>
Cash flows from investing activities		
Purchases of investment securities	(321,587)	(96,603)
Proceeds from sales and maturities of investment securities	226,187	383,376
Interest received	502	3,853
Net cash provided by (used in) investing activities	<u>(94,898)</u>	<u>290,626</u>
Net increase in cash and cash equivalents	22,530	65,347
Cash and cash equivalents, beginning of year	99,613	34,266
Cash and cash equivalents, end of year	<u>\$ 122,143</u>	<u>\$ 99,613</u>
Reconciliation of cash and cash equivalents		
Unrestricted cash and cash equivalents	\$ 94,877	\$ 56,665
Restricted cash and cash equivalents	27,266	42,948
Total cash and cash equivalents	<u>\$ 122,143</u>	<u>\$ 99,613</u>

See accompanying notes to basic financial statements

STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
 (dollars in thousands)
CONTINUED

	2010	2009
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (415,559)	\$ (368,945)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	82,452	65,013
(Gain) loss on disposal of capital assets	280	(97)
Decrease in taxes and other receivables	4,646	79
Increase in materials, supplies and other	(3,340)	(3,364)
(Increase) decrease in prepaid and other assets	(1,406)	726
Increase in operating accounts payable	6,072	1,800
Increase in accrued payroll	31	1,723
Increase (decrease) in unearned revenue	4,880	(629)
Increase (decrease) in pension obligation	5,922	(757)
Increase in other post-employment benefit obligation	61,318	45,230
Increase (decrease) in other liabilities	3,131	(412)
Total adjustments	<u>163,986</u>	<u>109,312</u>
Net cash used in operating activities	<u>\$ (251,573)</u>	<u>\$ (259,633)</u>

**SUPPLEMENTAL DISCLOSURES OF NON-CASH OPERATING,
 INVESTING AND FINANCING ACTIVITIES**
 (dollars in thousands)

	2010	2009
Lease income (expense) - net	\$ (85)	\$ 2,464
Accretion/amortization of investments	737	208
Fiber optic lease	282	280
Amortization of bond issue cost, premium/discount, and deferred amounts	(979)	(1,095)

See accompanying notes to basic financial statements

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

(dollars in thousands)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The District is governed by a seven-member Board of Directors appointed by the Governor of the State of Oregon. Board members represent and must live in certain geographical sub-districts. The Board of Directors sets District policy, levies taxes, appropriates funds, adopts budgets and performs other duties required by state and federal law.

The District uses two budgetary funds to account for its activities: General and Debt Service. The General Fund accounts for the financial resources associated with operating the District. Principal sources of revenue in the General Fund are passenger fares, employer payroll and self employment taxes, State of Oregon payroll assessments, federal grants, and interest. Primary expenditures in the General Fund are personal services, materials and services, and principal and interest on debt secured by General Fund revenues. The Debt Service Fund accounts for the servicing of general obligation bond debt. The principal source of revenue in the Debt Service Fund is ad valorem tax. The primary expenditures in the Debt Service Fund are principal repayments and interest expense.

(a) Financial reporting entity

The financial reporting entity consists of the primary government, as well as its component units, which are legally separate organizations for which the officials of the primary government are financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board and either (1) the ability to impose will by the primary government, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

Based upon the above criteria, the District does not have any component units that require inclusion in the financial statements. Conversely, the District is not a component unit of another government.

(b) Basis of accounting and revenue recognition

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

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

Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, requires that governments' proprietary activities apply all GASB pronouncements, as well as the pronouncements of the Financial Accounting Standards Board (FASB) and its predecessors issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. As allowed by GASB Statement No. 20, the District has elected not to implement FASB Statements and Interpretations issued after November 30, 1989.

(c) Restricted assets

Certain proceeds of the District's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

(d) Tax revenues

Funding of day-to-day operations is primarily provided by the payroll tax imposed by TriMet pursuant to ORS 267.380 and the self employment tax imposed by TriMet pursuant to ORS 267.385. The payroll tax is imposed on employers with respect to wages earned within the TriMet service district. An employer is not permitted to deduct any portion of the tax from the wages of an employee. The self employment tax is imposed on self-employed individuals with respect to their net earnings generated within the TriMet service district. TriMet currently imposes these taxes at a rate of 0.6818 percent of the wages paid to individuals (for the payroll tax) and the net earnings from self-employed individuals (for the self employment tax). The taxes are collected on TriMet's behalf by the Department of Revenue of the State of Oregon under an agreement entered into pursuant to ORS 305.620. Imposed tax revenues are recorded as assets and revenues in the period that the obligation is incurred by the employers and the self-employed individuals. Amounts accrued are estimated based upon current cash receipts and are trued up in the period that cash is collected. TriMet records an allowance for past due amounts that have not been collected as of year-end.

Annually, TriMet levies an *ad valorem* property tax on all the taxable property within the boundaries of the District in an amount sufficient to pay the annual principal and interest on all voter-approved general obligation bonds (see Note 9). Uncollected property taxes are shown on the balance sheet as receivables. Property is valued at January 1. Taxes are assessed and become property liens on July 1, annually. Property tax statements are mailed in October, and taxes are due in three installments on November 15, February 15, and May 15. Discounts, less than or equal to 3.0 percent, are offered to those paying early.

(e) Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues and expenses as of and for the years ended June 30, 2010 and 2009. Actual results may differ from those estimates.

(f) Cash and cash equivalents

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

(g) Investments

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

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

(h) Materials and supplies

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

(i) Prepaid expenses

Prepaid expenses include amounts paid to vendors for services to be received in future months and short-term deferred outflows associated with commodity swaps.

(j) Other assets

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

(k) Receivables

Taxes and other receivables

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

Grants receivable

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

(l) Capital assets and depreciation

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

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

Capital assets are assigned the following estimated useful lives:

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

(m) Compensated absences

Vacation leave that has been earned but not paid has been accrued in the accompanying financial statements. Vacation pay and floating holidays are payable upon termination, retirement or death for both union and non-union employees.

Sick leave is accrued as benefits are earned, but only to the extent the District will compensate the employee through a cash payment conditional on the employee's termination or death. Pursuant to the TriMet Defined Contribution Retirement Plan for Management and Staff Employees (the Management DC Plan), the District contributes 60 percent of unused sick leave when the employee leaves TriMet. The District has recorded a liability in the accompanying financial statements related to the unused sick leave for employees covered by the Management DC Plan of \$1,091 and \$800 at June 30, 2010 and June 30, 2009, respectively. Unused sick leave benefits that enhance either defined benefit pension plan discussed in Note 5 are included in the actuarial accrued liability in accordance with GASB Statement No. 16 and GASB Statement No. 27.

(n) Restricted resources

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

(o) New pronouncements

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

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

During 2009, TriMet implemented the following new GASB pronouncements:

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement requires accrual of pollution remediation liability when an obligating event occurs.

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

GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB authoritative literature.

GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. This statement addresses three issues not included in the authoritative literature that establishes accounting principles – related party transactions, going concern considerations and subsequent events.

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:

	2010			2009		
	Fair value	% of portfolio	Weighted average maturity (years)	Fair value	% of portfolio	Weighted average maturity (years)
Cash and investments:						
Cash on hand	\$ 125	0.0%	-	\$ 83	0.1%	-
Demand deposits with financial institutions	1,324	0.5%	-	1,105	0.8%	-
State of Oregon local government investment pool	43,135	16.6%	-	41,970	29.5%	-
Federal Farm Credit Bank	10,059	3.9%	1.77	-	0.0%	-
Federal Home Loan Bank	60,452	23.2%	0.14	9,999	7.0%	0.08
Federal Home Loan Mortgage Corp.	57,884	22.3%	0.70	1,026	0.7%	0.19
Federal National Mortgage Association	20,487	7.9%	0.92	40,630	28.6%	0.08
U.S. Treasuries	58,477	22.5%	0.88	47,332	33.3%	0.56
Commercial paper	8,132	3.1%	0.21	-	0.0%	-
Total cash and investments	<u>\$ 260,075</u>			<u>\$ 142,145</u>		
Cash and investments are reflected in the balance sheets as follows:						
Cash and cash equivalents						
Unrestricted	\$ 94,877			\$ 56,665		
Restricted	27,266			42,948		
Investments						
Unrestricted	250			-		
Restricted	137,682			42,532		
Total cash and investments	<u>\$ 260,075</u>			<u>\$ 142,145</u>		

Interest rate risk. 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.

Credit risk. TriMet's investment policy, which is consistent with Oregon State law (ORS 294 and 295), limits investment in corporate indebtedness on the settlement date to a rating of P-1 or Aa or better by Moody's Investors Service or A-1 or AA or better by Standard & Poor's Corporation or equivalent rating by any nationally recognized statistical rating organization. All investments identified in the ORS are permitted investments for the District per their investment policy.

The Local Government Investment Pool (LGIP) is an open-ended, diversified portfolio offered to eligible participants including Oregon municipalities and political subdivisions. The Oregon State Treasurer's Office manages the LGIP in the same manner it oversees the management of the State's funds and in accordance with the prudent investor rule. The LGIP is commingled with the State's short-term funds in the Oregon Short-Term Fund (OSTF). The OSTF is not managed as a stable net asset value fund, and it is not currently rated by an independent rating agency. The OSTF is an external investment pool as defined by GASB 31 and does not report all investments at fair value in accordance with the provisions of GASB 31. The LGIP is not registered with the U.S. Securities and Exchange Commission. The State's investment policies are governed by Oregon Revised Statutes and the Oregon Investment Council (Council). The State Treasurer is the investment officer for the Council. Investments in the LGIP are further governed by portfolio guidelines issued by the Fund Board. At June 30, 2010 and 2009, the LGIP reported an unrealized loss. The District's share of the unrealized loss was calculated in accordance with ORS, and would not have a significant impact on the District's financial statements.

Concentration of credit risk. TriMet’s investment policy sets forth the procedures, guidelines, and criteria for the operation of TriMet’s investment program. This policy governs the investment of all TriMet funds, except funds held in trust for pensions and deferred compensation. The investment policy establishes maximum amounts, either as a percentage of total portfolio or fixed dollar amount, that may be invested in investment types and any single issuer including U.S. government securities (no limit), agency securities (35% maximum with any one agency, 90% maximum of the total portfolio), local government investment pool (limited to maximum per ORS 294.810), FDIC guaranteed issues (35% maximum with any issuers, 90% maximum of the total portfolio), corporate indebtedness (5% maximum with any issuer, 20% maximum of the total portfolio) and commercial paper, bankers acceptances, bank time deposits/certificates of deposit/savings accounts and municipal debt obligations (5% maximum with any issuer, 10% maximum of the total portfolio). At June 30, 2010, the District had 22.6 percent invested in U.S. government securities, 57.6 percent in agency securities, 16.7 percent in local government investment pool, and 3.1 percent in commercial paper.

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 deposit insurance amounts. Oregon Public Funds Collateralization Program does not cover monies held in trust for debt service. All banks holding funds in TriMet’s name were properly 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 TriMet’s 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).

4. DIESEL FUEL HEDGE

The District has entered into commodity swap agreements to hedge a portion of the District’s fuel consumption. As of June 30, 2010, the District has three outstanding commodity swaps.

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

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

The objective for the hedge transaction is to hedge the changes in cash flows due to market price fluctuations related to expected purchases of diesel fuel. The terms of the hedge agreements are as follows:

Counterparty	Fixed rate paid (dollars per gallon)	Variable rate received	Fair value at June 30, 2010 (dollars in thousands)	Fair value at June 30, 2009 (dollars in thousands)	Start date	End date	Monthly notional amount in gallons
KeyBank National Association	3.2650	NYMEX home heating oil	-	(1,462)	7/1/2009	9/30/2009	336,000
KeyBank National Association	3.2650	NYMEX home heating oil	(783)	(3,104)	10/1/2009	9/30/2010	210,000
J. Aron & Company	2.9400	NYMEX home heating oil	(348)	(1,812)	7/1/2009	9/30/2010	126,000
KeyBank National Association	1.8525	NYMEX home heating oil	-	23	10/1/2009	12/31/2009	126,000
KeyBank National Association	1.8525	NYMEX home heating oil	40	123	1/1/2010	9/30/2010	84,000
KeyBank National Association	1.8525	NYMEX home heating oil	344	351	10/1/2010	1/31/2011	336,000
			<u>\$ (747)</u>	<u>\$ (5,881)</u>			

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

The following risks are generally associated with swap agreements:

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

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

The aggregate fair values of commodity swap agreements in asset positions at June 30, 2010 is \$384. This represents the maximum loss that would be recognized as the reporting date if the counterparty fails to perform as contracted. At June 30, 2010, credit ratings for the counterparties were as follows:

Counterparty	Moody's	Standard & Poors
KeyBank National Association	A2	A-
J. Aron & Company	Aa3	A

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

5. RECEIVABLES

At June 30, 2010 and 2009, the District had the following receivables under various federal and state grant agreements:

2010	Unrestricted	Restricted	Total
Federal pass through	\$ -	\$ 16,423	\$ 16,423
Other federal	3,783	-	3,783
State grants	988	116	1,104
Local governments	3,889	10,628	14,517
	\$ 8,660	\$ 27,167	\$ 35,827
2009	Unrestricted	Restricted	Total
Federal pass through	\$ 2,224	\$ -	\$ 2,224
Other federal	1,982	32,000	33,982
State grants	1,445	-	1,445
Local governments	6,491	22,083	28,574
	\$ 12,142	\$ 54,083	\$ 66,225

Taxes and other receivables at June 30, 2010 and 2009, including the applicable allowances for uncollectible accounts, are as follows:

<u>2010</u>	Receivable	Allowance for uncollectible accounts	Net receivable
Unrestricted:			
Payroll tax	\$ 53,283	\$ 3,485	\$ 49,798
Self-employment tax	6,336	1,483	4,853
Trade accounts	9,578	300	9,278
Other	5,683	-	5,683
Total unrestricted	<u>74,880</u>	<u>5,268</u>	<u>69,612</u>
Restricted:			
Property tax	590	124	466
Other	479	-	479
Total restricted	<u>1,069</u>	<u>124</u>	<u>945</u>
Total taxes and other receivables	<u>\$ 75,949</u>	<u>\$ 5,392</u>	<u>\$ 70,557</u>
<u>2009</u>	Receivable	Allowance for uncollectible accounts	Net receivable
Unrestricted:			
Payroll tax	\$ 52,497	\$ 1,927	\$ 50,570
Self-employment tax	5,980	732	5,248
Trade accounts	9,903	300	9,603
Other	7,577	-	7,577
Total unrestricted	<u>75,957</u>	<u>2,959</u>	<u>72,998</u>
Restricted:			
Property tax	554	115	439
Other	164	-	164
Total restricted	<u>718</u>	<u>115</u>	<u>603</u>
Total taxes and other receivables	<u>\$ 76,675</u>	<u>\$ 3,074</u>	<u>\$ 73,601</u>

6. CAPITAL ASSETS

Capital assets at June 30 consisted of the following:

2010	Lives (in years)	Beginning balance	Additions	Deletions	Transfers	Ending balance
Capital assets, not being depreciated						
Land and other		\$ 145,414	\$ 6,137	\$ (374)	\$ (3,846)	\$ 147,331
Construction in process		538,498	68,565	(6,477)	(555,521)	45,065
Total capital assets, not being depreciated		<u>683,912</u>	<u>74,702</u>	<u>(6,851)</u>	<u>(559,367)</u>	<u>192,396</u>
Capital assets, being depreciated						
Rail right-of-way and stations	5-40	1,463,965	56	(5,089)	369,572	1,828,504
Buildings	40	260,988	-	(128)	86,221	347,081
Transportation equipment	5-30	425,951	-	(3,830)	84,858	506,979
Furniture and other equipment	3-20	115,074	745	(3,565)	18,716	130,970
Total capital assets, being depreciated		<u>2,265,978</u>	<u>801</u>	<u>(12,612)</u>	<u>559,367</u>	<u>2,813,534</u>
Less accumulated depreciation for						
Rail right-of-way and stations		(443,998)	(48,339)	5,089	-	(487,248)
Buildings		(142,212)	(10,286)	127	-	(152,371)
Transportation equipment		(221,416)	(20,535)	3,830	-	(238,121)
Furniture and other equipment		(92,525)	(3,292)	3,560	-	(92,257)
Total accumulated depreciation		<u>(900,151)</u>	<u>(82,452)</u>	<u>12,606</u>	<u>-</u>	<u>(969,997)</u>
Total capital assets, being depreciated, net		<u>1,365,827</u>	<u>(81,651)</u>	<u>(6)</u>	<u>559,367</u>	<u>1,843,537</u>
Total capital assets, net		<u>\$ 2,049,739</u>	<u>\$ (6,949)</u>	<u>\$ (6,857)</u>	<u>\$ -</u>	<u>\$ 2,035,933</u>
2009						
	Lives (in years)	Beginning balance	Additions	Deletions	Transfers	Ending balance
Capital assets, not being depreciated						
Land and other		\$ 138,516	\$ 7,191	\$ -	\$ (293)	\$ 145,414
Construction in process		504,615	210,531	-	(176,648)	538,498
Total capital assets, not being depreciated		<u>643,131</u>	<u>217,722</u>	<u>-</u>	<u>(176,941)</u>	<u>683,912</u>
Capital assets, being depreciated						
Rail right-of-way and stations	5-40	1,362,345	-	(3)	101,623	1,463,965
Buildings	40	236,783	6	(1,012)	25,211	260,988
Transportation equipment	5-30	382,084	-	(3,613)	47,480	425,951
Furniture and other equipment	3-20	112,068	2,334	(1,955)	2,627	115,074
Total capital assets, being depreciated		<u>2,093,280</u>	<u>2,340</u>	<u>(6,583)</u>	<u>176,941</u>	<u>2,265,978</u>
Less accumulated depreciation for						
Rail right-of-way and stations		(406,006)	(37,995)	2	1	(443,998)
Buildings		(136,595)	(6,646)	1,011	18	(142,212)
Transportation equipment		(207,499)	(17,519)	3,613	(11)	(221,416)
Furniture and other equipment		(91,557)	(2,853)	1,893	(8)	(92,525)
Total accumulated depreciation		<u>(841,657)</u>	<u>(65,013)</u>	<u>6,519</u>	<u>-</u>	<u>(900,151)</u>
Total capital assets, being depreciated, net		<u>1,251,623</u>	<u>(62,673)</u>	<u>(64)</u>	<u>176,941</u>	<u>1,365,827</u>
Total capital assets, net		<u>\$ 1,894,754</u>	<u>\$ 155,049</u>	<u>\$ (64)</u>	<u>\$ -</u>	<u>\$ 2,049,739</u>

7. PENSION BENEFITS

TriMet contributes to a single employer defined contribution plan - the TriMet Defined Contribution Retirement Plan for Management and Staff Employees (the Management DC Plan) and two single employer defined benefit public employee retirement plans - the TriMet Defined Benefit Retirement Plan for Management and Staff Employees (the Management DB Plan) and the Pension Plan for Bargaining Unit Employees of TriMet (the Bargaining Unit DB Plan).

Each plan is administered by TriMet and maintained on the accrual basis of accounting. Each plan's assets are held in trust, independent of TriMet, and solely for the purpose of paying each plan's benefits and administrative expenses. The plans are not included in the reporting entity of TriMet. The assets are invested in a variety of stocks, bonds, and other securities. None of the retirement plans include in its assets any TriMet securities or securities of any related parties. No loans have been granted to TriMet from plan funds.

A third party administrator, The Standard, provides administration of the Management DC Plan trust. The TriMet Board of Directors (“Board”) has appointed a committee to oversee the Management DC Plan. The Board has appointed four people to oversee the Management DB Plan. Three trustees appointed by the Board and three union representatives appointed by the Amalgamated Transit Union (“Union”) oversee the Bargaining Unit DB Plan.

TriMet’s annual required contributions under both defined benefit plans are actuarially determined and recognized in the current reporting period. TriMet funds each defined benefit plan based upon the annual required contribution and in accordance with the assumptions included under each plan. Funding of the defined contribution plan is done on a perpetual basis as part of the District’s normal payroll processes.

Management DC Plan

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 the Management DB Plan, (2) freeze their credited service as of April 27, 2003 in the Management DB Plan (but not their final average salary) and be covered by the Management DC Plan for all service after April 26, 2003, or (3) transfer the present value of their accrued benefit under the Management DB Plan as of April 27, 2003 to the Management DC Plan and be covered by the Management DC Plan for all service after April 26, 2003.

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

Basis of accounting

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

Method used to value investments

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

As of June 30, 2010 and 2009 there were 201 and 214 active employees, respectively, covered by the Management DC Plan. District contributions to the Management DC Plan were \$1,261 and \$1,155 for the years ending June 30, 2010 and 2009, respectively. Employee contributions to the Management DC Plan were \$616 and \$577 for the years ending June 30, 2010 and 2009, respectively.

Management DB Plan

Plan description

The Management DB 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.

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.

Method used to value investments

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

Management DB Plan	Actuarial valuation date		
	June 30, 2010	June 30, 2009	June 30, 2008
	Actuarial value of plan assets	\$ 67,689	\$ 65,202
Actuarial accrued liability (AAL)	98,834	96,749	84,974
Unfunded AAL	31,145	31,547	25,908
Funded ratio	68.5%	67.4%	69.5%
Annual covered payroll	\$ 15,626	\$ 17,130	\$ 17,842
Unfunded AAL as a percentage of covered payroll	199.3%	184.2%	145.2%

Actuarial methods and assumptions

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

Management DB Plan	Actuarial valuation date		
	June 30, 2010	June 30, 2009	June 30, 2008
	Annual required contribution (ARC)	\$ 3,962	\$ 4,088
ARC Contributions made by June 30	-	-	-
Contributions made as a percentage of ARC	0.0%	0.0%	0.0%
Contributions made as a percentage of covered payroll	0.0%	0.0%	0.0%
Net pension obligation	\$ 3,962	\$ 4,088	\$ 6,888

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

Management DB Plan	Fiscal year		
	2010	2009	2008
	Annual required contribution (ARC)	\$ 3,962	\$ 4,088
Interest on annual contribution	55	86	55
Annual cost	4,017	4,174	6,943
Contributions made in September	(4,143)	(6,974)	(3,887)
Change in net pension obligation	(126)	(2,800)	3,056
Beginning net pension obligation	4,088	6,888	3,832
Ending net pension obligation	\$ 3,962	\$ 4,088	\$ 6,888
Contributions made as a percentage of net pension obligation	-101.3%	-101.2%	-101.4%
Contributions made as a percentage of covered payroll	-24.2%	-39.1%	-19.8%

Bargaining Unit DB Plan

Plan description

The Bargaining Unit DB Plan covers all full-time and part-time employees represented by the Amalgamated Transit Union. Union employees begin to participate on their date of hire with benefits being 100 percent vested after 10 years of service. Under the terms of the Bargaining Unit Pension Plan and Permanent Disability Agreement, covered members retiring at or after age 58 with 10 or more years of service will receive a monthly benefit for life with annual cost of living adjustments. Pension benefits for covered members retiring after September 1, 2009 are \$72.96 per month, per year of service. Each September 1, the retirement benefit is adjusted based on the amount of any general wage adjustments received by bargaining unit employees during the previous 12 months. Pension benefits for retirees in payout status are adjusted each February 1, also based on the general wage adjustments during the prior 12 months. Provisions of the Working and Wage Agreement between TriMet and the Union effective December 1, 2003, requires vested union employees to convert any unused accumulated sick leave (up to a maximum of 1,700 hours) to monthly pension benefits at a rate of 25 cents per hour. No employee contributions are required or permitted under the Bargaining Unit DB Plan.

Funding policy and annual pension cost

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

Method used to value investments

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

	Actuarial valuation date		
	July 1, 2010	July 1, 2009	July 1, 2008
Bargaining Unit DB Plan			
Actuarial value of plan assets	\$ 255,279	\$ 217,113	\$ 238,883
Actuarial accrued liability (AAL)	491,495	460,333	427,305
Unfunded AAL	236,216	243,220	188,422
Funded ratio	51.9%	47.2%	55.9%
Annual covered payroll	\$ 121,124	\$ 123,784	\$ 116,418
Unfunded AAL as a percentage of covered payroll	195.0%	196.5%	161.8%

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 8.0 percent, a benefits in payment status annual increase of 3.0 percent, and a 3.0 percent annual rate to determine the normal retirement benefit for active employees. The actuarial value of plan assets is calculated as the market value of assets held in trust, plus investment returns using a smoothing technique. This method recognizes the difference in actual investment return and the assumed 8.0 percent rate of return over a five year period. The resulting actuarial valuation cannot be less than 80 percent or greater than 120 percent of the market value of plan assets on the valuation date. As of June 30, 2010, the actuarial value of plan assets exceeded the market value of plan assets by \$42.2 million, which indicates that \$42.2 million in investment market value losses have yet to be recognized in the actuarial value of plan assets. The asset valuation method is consistent with the method described in IRS Revenue Procedure 2000-40.

	Actuarial valuation date		
	July 1, 2010	July 1, 2009	July 1, 2008
Bargaining Unit DB Plan			
Annual required contribution (ARC)	\$ 34,028	\$ 28,051	\$ 26,154
ARC Contributions made by June 30	-	-	-
Contributions made as a percentage of ARC	0.0%	0.0%	0.0%
Contributions made as a percentage of covered payroll	0.0%	0.0%	0.0%
Net pension obligation	\$ 34,028	\$ 28,051	\$ 26,154

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

Management DB Plan	Fiscal year		
	2010	2009	2008
Annual required contribution (ARC)	\$ 34,028	\$ 28,051	\$ 26,154
Contribution made in September	(28,051)	(26,154)	(26,177)
Change in net pension obligation	5,977	1,897	(23)
Beginning net pension obligation	28,051	26,154	26,177
Ending net pension obligation	\$ 34,028	\$ 28,051	\$ 26,154
Contributions made as a percentage of net pension obligation	-100.0%	-100.0%	-100.0%
Contributions made as a percentage of covered payroll	-22.7%	-22.5%	-23.4%

8. OTHER EMPLOYEE BENEFITS

Deferred compensation plan

The District offers all employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457(b). The plan permits employees to defer a portion of their current salary until termination, retirement, death or financial hardship. Tax laws governing IRC Section 457(b) plans changed, requiring existing plans like the District's to transfer all assets and income of the plan to a trust for the exclusive benefit of the participants and their beneficiaries. The District complied with this requirement before January 1, 1999. Due to transfer of plan assets and liabilities, the District no longer has a liability for losses under the plan. The plan investments are determined by the employee participants. The Board appoints a committee to perform the administrative 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, 2010 and 2009, the District's vacation pay liability was \$9,838 and \$9,826, respectively, all of which was classified as a current liability.

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 the premiums for primary medical and hospitalization, dental and vision benefits for eligible retirees and spouses. TriMet-provided benefits are secondary to Medicare benefits, where applicable. The District provides a \$10 life insurance benefit to union retirees and \$7.5 to non-union retirees. The District's postemployment insurance plan does not issue a financial report.

Funding policy

The District has created, but not funded, a trust fund for future net OPEB obligations. The District pays for 100% of the premiums for eligible retirees. Retirees may not convert the benefit into an in lieu payment to secure coverage under independent plans. There were 1,188 and 1,029 union and non-union retirees, dependents, and surviving spouses receiving the postemployment health care and life insurance benefits, at June 30, 2010 and 2009, respectively. The District's contribution is based on actual pay-as-you-go financing requirements. The District contributed costs of postemployment health care and life insurance benefits totaling \$14,256 and \$12,797 in fiscal 2010 and 2009, respectively.

Annual OPEB cost and net OPEB obligation

The District's annual OPEB cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the guidance of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize unfunded actuarial liabilities over a closed period of 30 years. A schedule of the components of the District's annual OPEB cost for the year ended June 30, 2010 is presented below:

	2010	2009	2008
Annual required contribution (ARC)	\$ 75,402	\$ 54,867	\$ 54,867
Interest on net OPEB obligation	4,107	3,160	1,078
Adjustment to annual required contribution	(3,935)	-	1,235
Annual OPEB cost	75,574	58,027	57,180
Contributions made	(14,256)	(12,797)	(11,147)
Increase in net OPEB obligation	61,318	45,230	46,033
Net OPEB obligation - beginning of year	91,263	46,033	-
Net OPEB obligation - end of year	\$ 152,581	\$ 91,263	\$ 46,033
Percentage of annual OPEB cost contributed	19%	22%	19%

Funded status and funding progress

The schedule of funding progress is presented below:

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

Actuarial methods and assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the January 1, 2010 actuarial valuation, the funding method used to develop the actuarial required contribution is entry age normal, with normal cost developed as a level percentage of payroll. Significant actuarial assumptions used in the valuation include a discount rate of 4.5%, and health care cost rates trending down from 10% in 2010 to 5% in 2020 for the major medical component, which is representative of the entire plan. The District's UAAL is being amortized using the level-dollar method with a closed group 30 year amortization methodology.

9. LONG-TERM DEBT

Debt at June 30, consists of the following:

2010	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Long-term debt:					
1999 General Obligation Refunding Bonds, Series A	\$ 36,380	\$ -	\$ (8,420)	\$ 27,960	\$ 8,845
2001 Revenue Refunding Bonds, Series A	6,730	-	(2,435)	4,295	2,545
2003 Revenue Refunding Bonds, Series A	12,640	-	(1,380)	11,260	1,425
2005 Revenue Refunding Bonds, Series A	47,830	-	(2,995)	44,835	3,135
Capital Grant Receipt Revenue Bonds, Series 2005	64,515	-	(7,640)	56,875	7,990
2006 Payroll Tax and Grant Receipts Revenue Bonds	152,770	-	(72,770)	80,000	40,000
2007 Revenue Bonds, Series A	43,190	-	(1,195)	41,995	1,240
2009 Revenue Bonds, Series A and B	-	49,550	-	49,550	1,280
Other	253	-	(93)	160	93
	<u>364,308</u>	<u>49,550</u>	<u>(96,928)</u>	<u>316,930</u>	<u>66,553</u>
Interim financing	-	19,000	(19,000)	-	-
Add (deduct):					
Unamortized bond premium	10,314	1,913	(1,892)	10,335	
Unamortized bond discount	(14)	-	7	(7)	
Deferred amount on legal defeasance	(4,592)	-	906	(3,686)	
Current portion	(96,928)			(66,553)	
Long-term debt, net	<u>\$ 273,088</u>			<u>\$ 257,019</u>	
2009					
Long-term debt:					
1999 General Obligation Refunding Bonds, Series A	\$ 44,395	\$ -	\$ (8,015)	\$ 36,380	\$ 8,420
2001 Revenue Refunding Bonds, Series A	9,070	-	(2,340)	6,730	2,435
2003 Revenue Refunding Bonds, Series A	13,975	-	(1,335)	12,640	1,380
2005 Revenue Refunding Bonds, Series A	50,710	-	(2,880)	47,830	2,995
Capital Grant Receipt Revenue Bonds, Series 2005	71,845	-	(7,330)	64,515	7,640
2006 Payroll Tax and Grant Receipts Revenue Bonds	230,000	-	(77,230)	152,770	72,770
2007 Revenue Bonds, Series A	44,340	-	(1,150)	43,190	1,195
Other	318	28	(93)	253	93
	<u>464,653</u>	<u>28</u>	<u>(100,373)</u>	<u>364,308</u>	<u>96,928</u>
Add (deduct):					
Unamortized bond premium	12,350	-	(2,036)	10,314	
Unamortized bond discount	(21)	-	7	(14)	
Deferred amount on legal defeasance	(5,526)	-	934	(4,592)	
Current portion	(66,125)			(96,928)	
Long-term debt, net	<u>\$ 405,331</u>			<u>\$ 273,088</u>	

Total interest cost on all outstanding debt was \$14,938 and \$18,396 in fiscal 2010 and fiscal 2009, respectively. During fiscal 2010, \$1,939 of interest cost was capitalized and \$12,999 was charged to expense, while during fiscal 2009, \$14,328 of interest cost was capitalized and \$4,068 was charged to expense.

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

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 earnings from the investment of tax exempt bond proceeds, which exceed related interest expenditures on the bonds, must be remitted to the Federal Government on every fifth anniversary of each bond issue. The District has evaluated each bond issue and has recognized an arbitrage liability of \$2,204 and \$3,102 as of June 30, 2010 and 2009, respectively. This arbitrage liability is reported in other accrued liabilities.

(a) 1999 Revenue Bonds, Series A

On June 16, 1999, TriMet issued \$36,660 in 1999 Revenue Bonds, Series A (1999 Revenue Bonds) to finance the acquisition, construction, installation and equipping of facilities for TriMet’s mass transit system related to the Airport MAX Light Rail Project.

The 1999 Revenue Bonds were legally defeased with the issuance of the 2005 Revenue Refunding Bonds, Series A. As of June 30, 2009, there were \$24,255, in legally defeased bonds. Final payment of all remaining redeemed 1999 Revenue Bonds was completed on August 1, 2009.

(b) 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. The 1999 General Obligation Refunding Bonds, Series A (1999 G.O. Bonds) carry an original face amount of \$79,965 and mature serially each July 1, beginning July 1, 2000 through 2012. Interest is payable semiannually on July 1 and January 1, and fixed interest rates range from 4.0 percent to 5.25 percent on various maturities.

The 1999 G.O. Bonds are payable with proceeds from TriMet's ad valorem property tax levied each year and are payable through fiscal year ending June 30, 2013. The principal and interest remaining on the bonds is \$30,207. Principal and interest paid for the current year and total property tax revenues were \$10,100 and \$10,132, respectively.

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

Fiscal year ending June 30:	Principal	Interest
2011	\$ 8,845	\$ 1,234
2012	9,315	757
2013	9,800	256
	\$ 27,960	\$ 2,247

(c) 2000 Revenue Bonds, Series A

On October 26, 2000, TriMet issued \$45,000 in 2000 Revenue Bonds, Series A (2000 Revenue Bonds) to finance the acquisition, construction, installation and equipping of facilities for TriMet's mass transit system regarding the Interstate Avenue Light Rail Project.

The 2000 Revenue Bonds were legally defeased with the issuance of the 2005 Revenue Refunding Bonds, Series A. As of June 30, 2010 and 2009 there were \$19,485 and \$20,745, respectively, in legally defeased bonds. Final payment of all remaining redeemed 2000 Revenue Bonds was completed August 1, 2010.

(d) 2001 Revenue Refunding Bonds, Series A

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

The 2001 Revenue Bonds are payable from and secured by a pledge of the employer payroll and self employment taxes levied by the District and are payable through fiscal year 2012. The total remaining principal and interest on the Revenue Bonds is \$4,460. Principal and interest paid for the current year and total employer payroll and self employment taxes were \$2,666 and \$207,082, respectively.

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

Fiscal year ending June 30:	Principal	Interest
2011	\$ 2,545	\$ 128
2012	1,750	37
	<u>\$ 4,295</u>	<u>\$ 165</u>

(e) 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). The 2003 Revenue Bonds carry a face amount of \$19,705 and mature serially each September 1, beginning September 1, 2003 through 2016. Interest is payable semiannually on September 1 and March 1, and fixed interest rates on outstanding maturities range from 3.25 percent to 5.0 percent on various maturities.

The 2003 Revenue Bonds are payable from and secured by a pledge of the employer and self employment taxes levied by the District and are payable through fiscal year 2017. The total remaining principal and interest on the 2003 Revenue Bonds is \$13,121. Principal and interest paid for the current year and total employer payroll and self employment taxes were \$1,881 and \$207,082, respectively.

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

Fiscal year ending June 30:	Principal	Interest
2011	\$ 1,425	\$ 454
2012	1,480	399
2013	1,535	339
2014	1,595	277
2015	1,665	211
2016-2017	3,560	181
	<u>\$ 11,260</u>	<u>\$ 1,861</u>

(f) 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). The 2005 Revenue Bonds carry a face amount of \$65,475 and mature serially each September 1, beginning September 1, 2005 through 2020. Interest is payable semiannually on September 1 and March 1, and fixed interest rates range from 4.0 percent to 5.0 percent on outstanding maturities.

The 2005 Revenue Bonds are payable from and secured by a pledge of the employer and self employment taxes levied by the District and are payable through fiscal year 2021. The total remaining principal and interest on the 2005 Revenue Bonds is \$58,279. Principal and interest paid for the current year and total employer payroll and self employment taxes were \$5,297 and \$207,082, respectively.

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

Fiscal year ending June 30:	Principal	Interest
2011	\$ 3,135	\$ 2,163
2012	3,295	2,003
2013	3,465	1,834
2014	3,645	1,656
2015	3,830	1,469
2016-2020	22,295	4,190
2021	5,170	129
	<u>\$ 44,835</u>	<u>\$ 13,444</u>

(g) Capital Grant Receipt Revenue Bonds, Series 2005

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

The Grant Receipt Revenue Bonds are payable 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, and are payable through fiscal year 2018. The total remaining principal and interest on the Revenue Bonds is \$65,898. Principal and interest paid for the current year and total Section 5307, STP, and CMAQ grant receipts for the District were \$10,521 and \$76,225, respectively. The Grant Receipt Revenue Bonds are not general obligations of the District.

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

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

Fiscal year ending June 30:	Principal	Interest
2011	\$ 7,990	\$ 2,531
2012	8,370	2,145
2013	8,775	1,736
2014	9,200	1,307
2015	9,660	846
2016-2018	12,880	458
	\$ 56,875	\$ 9,023

(h) Payroll Tax and Grant Receipt Revenue Bonds, Series 2006

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

The Payroll Tax and Grant Receipt Revenue Bonds are payable from and secured solely by Section 5309 federal grant funds related to the I-205/Portland Mall Light Rail Project, a subordinated pledge of the employer and self employment taxes levied by the District, and debt service account and originally matured through fiscal year 2014. The total remaining principal and interest on the Payroll Tax and Grant Receipt Revenue Bonds is \$85,618. Principal and interest paid for the current year and total Section 5309 federal grant funds related to the I-205/Portland Mall Light Rail Project were \$77,841 and \$106,229, respectively. The Payroll Tax and Grant Receipts Revenue Bonds are not general obligations of the District. In fiscal year 2010, the District received the final draw on Section 5309 federal grant funds related to the I-205/Portland Mall Light Rail project. All outstanding principal payments are fully funded in an account held by the trustee which is included in restricted investments.

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

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

Fiscal year ending June 30:	Principal	Interest
2011	\$ 40,000	\$ 3,728
2012	40,000	1,890
	\$ 80,000	\$ 5,618

(i) 2007 Revenue Bonds, Series A

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

The 2007 Revenue Bonds are payable from and secured solely by a pledge of the employer payroll and self employment taxes levied by the District, and are payable through fiscal year 2032. The total remaining principal and interest on the Revenue Bonds is \$64,550. Principal and interest paid for the current year and total employer payroll and self employment taxes were \$3,065 and \$207,082, respectively. The 2007 Revenue Bonds are not general obligations of the District.

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

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

Fiscal year ending June 30:	Principal	Interest
2011	\$ 1,240	\$ 1,810
2012	1,285	1,746
2013	1,330	1,681
2014	1,380	1,613
2015	1,430	1,543
2016-2020	8,030	6,637
2021-2025	9,770	4,794
2026-2030	11,995	2,493
2031-2032	5,535	238
	<u>\$ 41,995</u>	<u>\$ 22,555</u>

(j) 2009 Revenue Bonds, Series A and B

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

The 2009 Revenue Bonds are payable from and secured solely by a pledge of the employer payroll and self employment taxes levied by the District, and are payable through fiscal year 2034. The total remaining principal and interest on the Revenue Bonds is \$84,103. Principal and interest paid for the current year and total employer payroll and self employment taxes were \$772 and \$207,082, respectively. The 2009 Revenue Bonds are not general obligations of the District.

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

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

Fiscal year ending June 30:	Principal	Interest
2011	\$ 1,280	\$ 2,223
2012	1,320	2,184
2013	1,360	2,144
2014	1,405	2,102
2015	1,445	2,060
2016-2020	8,010	9,508
2021-2025	9,800	7,728
2026-2030	12,400	5,117
2031-2034	12,530	1,487
	<u>\$ 49,550</u>	<u>\$ 34,553</u>

(k) Interim Financing

On June 22, 2009, the District entered into a Revolving credit agreement to provide interim financing for capital project costs or for working capital. The Revolving credit agreement provides for up to \$50,000 in advances. Under the agreement, TriMet may make tax-exempt or taxable draws at either fixed or variable rates. As of June 30, 2010 and 2009, there were no balances due or draws on the credit line.

10. RISK MANAGEMENT

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

The District is self insured for all public liability claims, which are limited to \$500 per claim and \$1,000 per event occurrence by Oregon SB 311. The District is self insured to the extent of the first \$2,000 per occurrence for industrial accident claims. The District provides for the estimated losses to be incurred from the pending and potential claims that result from accidents occurring prior to year end. The liabilities include estimated claims that have been incurred but not reported and development of existing claims of \$3,139 and \$2,541 for 2010 and 2009, respectively. The District's policy is to record claims incurred but not reported at the estimated level of the undiscounted liability. The liabilities are based on the ultimate cost of settling the claims, including the effects of inflation and other legal and economic factors.

The Oregon Tort Claims Act (the Act) is the common law sovereign immunity from suit for public bodies in Oregon, including TriMet. Prior to July 1, 2009, the Act capped the liability of public bodies, including TriMet, at \$200 for individual claims. In addition, the public body may be substituted as a defendant in lieu of individual employees of the public body, thereby limiting recovery for claims against individual employees to the limits applicable to public bodies. Under the Act, TriMet currently indemnifies its employees for any liability that they incur within the scope of their work. Effective July 1, 2009, Oregon SB 311 increases 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.

Changes in the District's public liability and industrial accident claims liabilities are as follows for the years ended June 30, 2010 and 2009:

	2010		2009	
	Industrial accident claims	Public liability	Industrial accident claims	Public liability
Liability at beginning of year	\$ 5,495	\$ 3,487	\$ 4,477	\$ 4,319
Current year claims	2,468	2,741	1,760	986
Changes in estimates for claims of prior periods	1,104	1,238	1,867	604
Payments of claims	(2,997)	(1,482)	(2,609)	(2,422)
Liability at end of year	<u>\$ 6,070</u>	<u>\$ 5,984</u>	<u>\$ 5,495</u>	<u>\$ 3,487</u>

Based on historical experience, the District has classified \$8,604 and \$6,104 of the industrial accident and public liability claims liabilities at June 30, 2010 and 2009, respectively, as current liabilities.

11. OTHER LONG-TERM LIABILITIES

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

	Beginning balance	Additions	Reductions	Ending balance	Current portion	Long-term balance
Uninsured losses:						
Industrial accident claims	\$ 5,495	\$ 3,572	\$ (2,997)	\$ 6,070	\$ 3,605	\$ 2,465
Public liability	3,487	3,979	(1,482)	5,984	5,000	984
Total uninsured losses	<u>8,982</u>	<u>7,551</u>	<u>(4,479)</u>	<u>12,054</u>	<u>8,605</u>	<u>3,449</u>
Long-term employee sick leave	1,662	204	-	1,866	-	1,866
Rent payable	126	-	(117)	9	9	-
Deferred Lease	2,399	-	(28)	2,371	-	2,371
Total other long-term liabilities	<u>\$ 13,169</u>	<u>\$ 7,755</u>	<u>\$ (4,624)</u>	<u>\$ 16,300</u>	<u>\$ 8,614</u>	<u>\$ 7,686</u>

12. LEASE TRANSACTIONS

(a) Office and equipment leases

The District leases office space under non-cancelable operating leases. Total costs for such leases were \$1,104 and \$869 in 2010 and 2009, respectively. The future minimum lease payments for these leases are as follows:

Fiscal year ending June 30:	
2011	\$ 1,134
2012	1,102
2013	1,085
2014	860
2015	627
Thereafter	699
	<u>\$ 5,507</u>

(b) 1997 and 1998 Lease transactions

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

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

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

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

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

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

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

In the event AIG's ratings are downgraded by Standard & Poors below "AA" or by Moody's below "Aa3", AIG is required to pledge collateral equal to the present value of AIG's future obligations under those agreements. In September 2008, AIG was downgraded to A- by Standard & Poors and A2 by Moody's, thus triggering the collateral requirement. By November 2008, AIG had met all collateralization requirements. As of June 30, 2010 and 2009, a third party custodian is holding securities with a market value of \$40,278 and \$37,411, 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.

As of June 30, 2010, TriMet is not aware of any default, event of default or event of loss under any of the operative documents.

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

(c) 2005 Lease transaction

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

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

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

Inc. (FSA), which has subsequently been acquired by Assured Guaranty Ltd. The obligations of MBIA Inc. were unconditionally and irrevocably guaranteed by MBIA Insurance Corporation.

The District's prepayment of the payment agreements is recorded within prepaid lease expenses in the accompanying balance sheets and is reduced as payments are made over the term of the lease. The payment agreements do not constitute legal defeasance. Thus, if the financial institutions fail to fulfill their contractual obligation to make future lease payments or fund the purchase option, the District will be required to meet all financial obligations required under the lease transaction.

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

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

As of June 30, 2010, TriMet is not aware of any default, event of default or event of loss under any of the operative documents.

(d) Legislative and regulatory activities

Pursuant to the terms of the tax indemnity agreements of TriMet's 1997 and 1998 lease transactions, unless an indemnification event occurs, the District bears no liability for the related adverse U.S. federal income tax consequence to the domestic investors. As of June 30, 2010 no indemnity claims have been made against TriMet. With respect to TriMet's 1997 and 1998 lease transactions, the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA), as codified in Section 4965 of the Internal Revenue Code of 1986 as amended (Code), the guidance provided by the Internal Revenue Service (IRS) in IRS Notice 2007-18 published on February 7, 2007 and the Proposed and Temporary Regulations released on July 6, 2007 subsequently thereto, TriMet does not have a TIPRA excise tax liability.

(e) Financial Statement Summary

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

	2010	2009
Assets:		
Prepaid lease expense - current	\$ 2,234	\$ 2,234
Prepaid lease expense	168,973	171,642
Long-term restricted lease deposit	61,655	58,007
Total assets	<u>\$ 232,862</u>	<u>\$ 231,883</u>
Liabilities:		
Unearned lease revenue - current	\$ 2,234	\$ 2,234
Unearned lease revenue	74,830	78,138
Long-term lease liability	134,814	130,810
Total liabilities	<u>\$ 211,878</u>	<u>\$ 211,182</u>
Net leveraged lease income (expense)	\$ (85)	\$ 7,838

13. COMMITMENTS AND CONTINGENCIES

TriMet has active light rail construction and other capital projects, as well as other funding commitments. Authorized expenditures unexpended as of June 30, 2010 were \$356,740.

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.



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, 2010	\$ -	\$ 816,544	\$ 816,544	0%	\$ 137,869	592%
January 1, 2008	-	632,204	632,204	0%	130,726	484%

Management DB Plan						
Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
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, 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, 2010
(dollars in thousands)**

	General fund	G.O. Bond debt service fund	District total
Budget basis			
Revenues	\$ 621,490	\$ 10,156	\$ 631,646
Expenses	607,121	10,077	617,198
Revenues under expenses	<u>14,369</u>	<u>79</u>	<u>14,448</u>
Add budget requirements not qualifying as expenses under GAAP:			
Principal payments on long-term debt	88,508	8,420	96,928
Capital asset additions	75,503	-	75,503
Add (subtract) additional adjustments required by GAAP:			
Other resources used to fund capital asset additions	(57,039)	-	(57,039)
Depreciation	(82,452)	-	(82,452)
Net leveraged lease income	(85)	-	(85)
OPEB Costs	(61,318)	-	(61,318)
Subtract budget resources not qualifying as revenues under GAAP:			
Federal, state and local government contributions	<u>(110,620)</u>	<u>-</u>	<u>(110,620)</u>
GAAP basis (loss) income before contributions and special items presented in statement of revenues, expenses and changes in net a	<u>\$ (133,134)</u>	<u>\$ 8,499</u>	<u>\$ (124,635)</u>

**RECONCILIATION OF FUND BALANCE (BUDGET BASIS) TO
NET ASSETS (GAAP BASIS)
JUNE 30, 2010**

Budget basis ending fund balance	
General fund	\$ 202,625
G.O. bond debt service fund	9,433
	<u>212,058</u>
Reconciliation to GAAP basis:	
Net capital assets	2,035,933
Capital related debt	(323,512)
Invested portion of capital related debt	(34)
Other postemployment benefits	(152,581)
Prepaid lease expense	168,973
Long term restricted lease deposit	61,655
Long term deferred lease revenue	(74,830)
Long term lease liability	<u>(134,814)</u>
GAAP basis net assets	<u>\$ 1,792,848</u>

**SCHEDULE OF REVENUES AND EXPENSES
BUDGET (BUDGET BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010
(dollars in thousands)**

GENERAL FUND

	Original budget	Final budget	Actual	Variance from final budget over (under)
Revenues				
Operating revenue	\$ 129,356	\$ 129,356	\$ 120,354	\$ (9,002)
Tax revenue	216,100	216,100	208,933	(7,167)
Operating grant and other revenue	95,148	95,148	94,167	(981)
Capital program resources	64,725	64,725	13,359	(51,366)
Light rail program resources	141,446	141,446	55,403	(86,043)
Resources to retire interim financing	72,770	72,770	72,770	-
Other non-operating resources	53,298	53,298	26,125	(27,173)
Other non-operating revenue	13,223	13,223	30,379	17,156
Total revenues	<u>786,066</u>	<u>786,066</u>	<u>621,490</u>	<u>(164,576)</u>
Expenses				
Operating program:				
Office of the general manager	2,442	2,442	2,308	(134)
Communications and technology	16,711	16,711	15,576	(1,135)
Finance and administration	9,206	9,206	8,160	(1,046)
General counsel/human resources	19,933	19,933	18,828	(1,105)
Operations	344,640	344,640	338,158	(6,482)
Capital projects and facilities	21,775	21,775	18,359	(3,416)
Debt service	106,201	106,201	99,850	(6,351)
Pass-through requirements	53,298	53,298	30,379	(22,919)
Contingency	10,700	10,700	-	(10,700)
Total operating program	<u>584,906</u>	<u>584,906</u>	<u>531,618</u>	<u>(53,288)</u>
Capital programs				
Communications and technology	19,210	19,210	3,970	(15,240)
Finance and administration	115	115	-	(115)
Operations	6,630	6,630	3,035	(3,595)
Capital projects and facilities	29,850	29,850	13,095	(16,755)
Total capital programs	<u>55,805</u>	<u>55,805</u>	<u>20,100</u>	<u>(35,705)</u>
Light rail programs				
Washington County Commuter Rail Project	1,642	1,642	946	(696)
I205/Portland Mall Light Rail Project	58,429	58,429	30,099	(28,330)
Columbia River Crossing	1,024	1,024	-	(1,024)
Milwaukie Light Rail Project	58,443	58,443	24,358	(34,085)
Total light rail programs	<u>119,538</u>	<u>119,538</u>	<u>55,403</u>	<u>(64,135)</u>
Total expenses	<u>760,249</u>	<u>760,249</u>	<u>607,121</u>	<u>(153,128)</u>
Revenues over(under) expenses	25,817	25,817	14,369	(11,448)
Beginning fund balance	68,794	68,794	188,256	119,462
Ending fund balance	<u>\$ 94,611</u>	<u>\$ 94,611</u>	<u>202,625</u>	<u>\$ 108,014</u>

**SCHEDULE OF REVENUES AND EXPENSES
BUDGET (BUDGET BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010
(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	\$ 350	\$ 350	\$ 368	\$ 18
Interest income	200	200	23	(177)
Taxes necessary to balance	9,760	9,760	9,765	5
Total revenues	<u>10,310</u>	<u>10,310</u>	<u>10,156</u>	<u>(154)</u>
Expenses				
Redemption of principal	8,420	8,420	8,420	-
Interest expense	1,680	1,680	1,657	(23)
Total expenses	<u>10,100</u>	<u>10,100</u>	<u>10,077</u>	<u>(23)</u>
Revenues over(under) expenses	210	210	79	(131)
Beginning fund balance	9,367	9,367	9,354	(13)
Ending fund balance	<u>\$ 9,577</u>	<u>\$ 9,577</u>	<u>9,433</u>	<u>\$ (144)</u>

**SCHEDULE OF PROPERTY TAX LEVIES AND COLLECTIONS
LAST FIVE FISCAL YEARS
FOR THE YEAR ENDED JUNE 30, 2010
(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
2010	\$ 10,422	\$ 9,765	94%	\$ -	\$ 9,765	94%
2009	9,344	8,722	93%	237	8,959	96%
2008	9,514	8,969	94%	239	9,208	97%
2007	10,269	9,730	95%	289	10,019	98%
2006	11,971	11,343	95%	342	11,685	98%

SCHEDULE OF PROPERTY TAX TRANSACTIONS AND OUTSTANDING BALANCES
 FOR THE YEAR ENDED JUNE 30, 2010
 (dollars in thousands)

Tax year	Beginning balance	Ley extended by assessor	Discounts	Interest	Adjustments	Collections	Ending balance
2009-10	\$ -	\$ 10,422	\$ (261)	\$ 3	\$ -	\$ (9,765)	\$ 399
2008-09	391	-	-	3	(56)	(237)	101
2007-08	88	-	-	1	22	(54)	57
2006-07	34	-	-	1	7	(25)	17
2005-06	20	-	-	1	1	(21)	1
2004-05	2	-	-	-	2	(1)	3
2003-04	3	-	-	-	-	(1)	2
2002-03	6	-	-	-	(4)	-	2
2001-02	2	-	-	-	-	-	2
2000-01	1	-	-	-	-	-	1
1999-00 & prior	7	-	-	-	(1)	(1)	5
	<u>\$ 554</u>	<u>\$ 10,422</u>	<u>\$ (261)</u>	<u>\$ 9</u>	<u>\$ (29)</u>	<u>\$ (10,105)</u>	<u>\$ 590</u>