TRIMET

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
JUNE 30, 2008 AND 2007

(WITH INDEPENDENT AUDITORS' REPORT THEREON)

BOARD OF DIRECTORS

at June 30, 2008

Name	District
Rick Van Beveren	#1
Tiffany Sweitzer	#2
George J. Passadore, President	#3
Sue Van Brocklin	#4
George E. Richardson, Jr.	#5
Lynn Lehrbach	#6
Robert Williams	#7

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Board of Directors	4012 S.E. 17th Avenue Portland, Oregon 97202
General Manager	Fred Hansen 4012 S.E. 17th Avenue Portland, Oregon 97202
General Counsel and Registered Agent	M. Brian Playfair 4012 S.E. 17th Avenue Portland, Oregon 97202

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TRI MET

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, 2008 and 2007, 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 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, 2008 and 2007, and the changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming 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 34 through 39 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

CERTIFIED PUBLIC ACCOUNTANTS | BUSINESS CONSULTANTS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2008, 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.

James C. Lanzarotta

For Moss Adams LLP
Portland, Oregon
September 24, 2008

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, 2008 and 2007. 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 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, as defined by GAAP.

FINANCIAL HIGHLIGHTS

- Materials and services expense increased $15,507 or 27.0 percent. The following costs, included in materials and services, increased in 2008: Diesel fuel costs ($5,747), intergovernmental services ($3,171), security services ($1,111), maintenance materials – revenue vehicles ($592), and Portland Streetcar ($565).
- Passenger revenue increased 6.5 percent, to $80,815, during 2008 due to fare increases. Ridership increased 2.1 percent in FY08 over FY07.
- Total payroll and other tax revenues increased $7,875, or 3.8 percent, from 2007. Employer payroll tax revenue increased $10,090, or 5.3 percent, while self employment and other tax revenues decreased $2,215, or 13.7 percent, from 2007.
- In 2004, the TriMet Board of Directors 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 was increased to .006318 on January 1, 2005, to .006418 on January 1, 2006, to .006518 on January 2007 and to .006618 on January 2008. The rate is scheduled to increase by .0001 each January 1 thereafter until the rate reaches .007218 on January 1, 2014.

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, 2008, were $1,760,478, a 5.0 percent increase from June 30, 2007 (see Table 1). Total assets increased $127,115, or 5.0 percent, and total liabilities increased $42,866 or 4.9 percent. Total net assets at June 30, 2007, were $1,676,229, a 14.3 percent increase from June 30, 2006. In FY07, total assets increased $496,811, or 24.2 percent, and total liabilities increased $286,648, or 49.1 percent.

Table 1

Net Assets
As of June 30
(dollars in thousands)

	2008	2007	2006	Increase (Decrease) 2008 - 2007	Percentage Change 2008 - 2007	Increase (Decrease) 2007 - 2006	Percentage Change 2007 - 2006
Assets							
Current and other assets	$ 778,539	$ 903,540	$ 528,413	$ (125,001)	(13.8)%	$ 375,127	71.0%
Capital assets, net of depreciation	1,894,754	1,642,638	1,520,954	252,116	15.3%	121,684	8.0%
Total assets	2,673,293	2,546,178	2,049,367	127,115	5.0%	496,811	24.2%
Liabilities							
Current liabilities	217,508	140,995	113,916	76,513	54.3%	$ 27,079	23.8%
Noncurrent liabilities	695,307	728,954	469,385	(33,647)	(4.6)%	259,569	55.3%
Total liabilities	912,815	869,949	583,301	42,866	4.9%	286,648	49.1%
Net assets							
Invested in capital assets, net of related debt	1,427,816	1,390,665	1,373,810	37,151	2.7%	16,855	1.2%
Restricted for capital projects	72,572	99,131	412	(26,559)	(26.8)%	98,719	23,960.9%
Restricted for debt service	103,218	63,801	36,383	39,417	61.8%	27,418	75.4%
Unrestricted	156,872	122,632	55,461	34,240	27.9%	67,171	121.1%
Total net assets	1,760,478	1,676,229	1,466,066	84,249	5.0%	210,163	14.3%
Total liabilities and net assets	$2,673,293	$2,546,178	$ 2,049,367	$ 127,115	5.0%	$ 496,811	24.2%

In 2007, TriMet issued a total of $275,450 in revenue bonds to finance the construction of the I-205/Portland Mall Light Rail and Washington County Commuter Rail Projects. $230,000 of the proceeds from these issuances will be used to fund the project expenditures incurred in advance of the availability of federal grant funds. $45,450 of the proceeds funds TriMet's share of the projects. Capital assets, net of depreciation, increased $252,116, or 15.3 percent, in 2008, and $121,684, or 8.0%, in 2007, primarily due to expenditures related to these construction projects.

Current and other assets decreased $125,001, or 13.8 percent, in 2008, due to the net impact of expenditures for construction projects prior to the receipt of federal and local grant funds.

The increase in current and other assets of $375,127, or 71.0 percent, in 2007, is the result of an increase in grants receivable of $154,204, restricted assets of $116,937 and restricted cash and investments of $91,697. The increases resulted from the net impact of expenditures for construction projects prior to the receipt of federal and local grant funds and the receipt of proceeds of bond funds noted above.

Current liabilities consist primarily of accounts payable, accrued compensation, current portion of bonds payable and deferred revenue. The increase in current liabilities of $76,513, or 54.3 percent, in 2008, is primarily the result of funding of debt service to be used in May 2009 to call outstanding bonds (discussed in Note 8), the implementation of recording the current portion of other postemployment benefits liabilities under GASB No. 45 (discussed in Note 7), and increases in accounts payable associated with the construction expenditures in 2008. The increase of $27,079, or 23.8 percent, in 2007 was primarily a result of increases in accounts payable associated with the construction expenditures in 2007.

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

Net assets restricted for debt service represents amounts restricted for principal and interest payments of amounts due related to outstanding revenue and general obligation bonds (discussed in Note 8), as well as restricted deposits related to the lease transactions (discussed in Note 10).

CHANGES IN NET ASSETS

The District's total revenues increased $29,319, or 7.8 percent, during 2008 (see Table 2). Passenger revenue increased $4,959, or 6.5 percent, and operating grant revenue increased $10,183, or 20.3 percent.

Total revenues increased $32,888, or 9.6 percent, during 2007 (see Table 2). Passenger revenue increased $7,392, or 10.8 percent, and operating grant revenue increased $5,931, or 13.4 percent.

Table 2

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

	2008	2007	2006	Increase (Decrease) 2008 - 2007	Percentage Change 2008 - 2007	Increase (Decrease) 2007 - 2006	Percentage Change 2007 - 2006
Revenues							
Operating revenues							
Passenger revenue	$ 80,815	$ 75,856	$ 68,464	$ 4,959	6.5%	$ 7,392	10.8%
Auxiliary transportation and other revenue	31,803	26,369	19,833	5,434	20.6%	6,536	33.0%
Nonoperating revenues							
Payroll and other tax revenue	215,133	207,258	192,450	7,875	3.8%	14,808	7.7%
Property tax revenue	9,416	10,114	11,655	(698)	(6.9)%	(1,541)	(13.2)%
Grant revenue	60,440	50,257	44,326	10,183	20.3%	5,931	13.4%
Interest revenue	6,874	5,308	5,546	1,566	29.5%	(238)	(4.3)%
Total operating and nonoperating revenues	404,481	375,162	342,274	29,319	7.8%	32,888	9.6%
Expenses							
Labor	128,586	121,098	113,595	7,488	6.2%	7,503	6.6%
Fringe benefits	151,831	98,465	94,788	53,366	54.2%	3,677	3.9%
Materials and services	72,928	57,421	59,922	15,507	27.0%	(2,501)	(4.2)%
Utilities	6,152	5,864	5,682	288	4.9%	182	3.2%
Purchased transportation	33,010	30,123	27,475	2,887	9.6%	2,648	9.6%
Depreciation expense	63,960	67,390	73,577	(3,430)	(5.1)%	(6,187)	(8.4)%
Other operating expense	6,500	10,956	11,259	(4,456)	(40.7)%	(303)	(2.7)%
Nonoperating expenses, net	8,166	9,018	12,345	(852)	(9.4)%	(3,327)	(27.0)%
Total expenses	471,133	400,335	398,643	70,798	17.7%	1,692	0.4%
Loss before contributions	(66,652)	(25,173)	(56,369)	(41,479)	164.8%	31,196	(55.3)%
Capital contributions	151,522	245,833	36,750	(94,311)	(38.4)%	209,083	568.9%
Special items - donation to local agency/government	(621)	(10,497)	-	9,876	(100.0)%	(10,497)	100.0%
Increase (decrease) in net assets	84,249	210,163	(19,619)	(125,914)	(59.9)%	229,782	(1,171.2)%
Total net assets - beginning	1,676,229	1,466,066	1,485,685	210,163	14.3%	(19,619)	(1.3)%
Total net assets - ending	$ 1,760,478	$ 1,676,229	$ 1,466,066	$ 84,249	5.0%	$ 210,163	14.3%

The Oregon economy began slowing in 2008, after experiencing strong growth from 2004 to 2007. The District's main source of revenue – payroll taxes – increased for the fifth consecutive year due to underlying growth and increases in tax rate noted above. Payroll and other tax revenues increased $7,875, or 3.8 percent in 2008, while they increased $14,808, or 7.7 percent, in 2007.

Total expenses increased $70,798, or 17.7 percent, during 2008. Labor costs increased $7,488, or 6.2 percent, primarily due to contractual salary increases and increases in overtime costs. Fringe benefits increased $53,366, or 54.2 percent, due to the increased cost of medical premiums, pension funding requirements, and the implementation of recording postemployment medical benefit liabilities under GASB Statement No. 45. Materials and services increased $15,507, or 27.0 percent, primarily due to increases in diesel fuel prices, intergovernmental services and security services.

Total expenses increased $1,692, or 0.4 percent, during 2007. Labor costs increased $7,503, or 6.6%, primarily due to increases in overtime costs. Fringe benefits increased $3,677, or 3.9 percent, due to the increased medical and pension costs. Materials and services decreased $2,501, or 4.2 percent, primarily as the result of one-time costs incurred in 2006 to assist various governmental agencies with transit-oriented projects, offset by continuing increases in diesel fuel prices.

Capital contributions decreased $94,311, or 38.4 percent, during 2008. Capital contributions increased $209,083, or 568.9 percent, during 2007 due to increased federal grant contributions and contributions from local sources related to the I-205/Portland Mall Light Rail and the Washington County Commuter Rail Projects.

CAPITAL ASSETS

At June 30, 2008, the District had invested $1,894,754, net of accumulated depreciation, in a variety of capital assets (see Table 3 and Note 5).

Table 3

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

	2008	2007	2006	Increase (Decrease) 2008 - 2007	Percentage Change 2008 - 2007	Increase (Decrease) 2007 - 2006	Percentage Change 2007 - 2006
Land and other	$ 138,516	$ 119,883	$ 113,805	$ 18,633	15.5%	$ 6,078	5.3%
Rail right-of-way and stations	956,339	991,947	1,030,217	(35,608)	(3.6)%	(38,270)	(3.7)%
Buildings	100,188	97,458	104,387	2,730	2.8%	(6,929)	(6.6)%
Transportation equipment	174,585	188,021	200,447	(13,436)	(7.1)%	(12,426)	(6.2)%
Furniture and other equipment	20,511	20,443	24,538	68	0.3%	(4,095)	(16.7)%
Construction in progress	504,615	224,886	47,560	279,729	124.4%	177,326	372.8%
Total capital assets	$ 1,894,754	$ 1,642,638	$ 1,520,954	$ 252,116	15.3%	$ 121,684	8.0%

Total capital assets net of depreciation increased $252,116, or 15.3 percent primarily due to $317,525 in capital additions less $63,960 in depreciation expense. The increase of $279,729, or 124.4 percent, in construction in progress is primarily related to work on the Washington County Commuter Rail and I-205/Portland Mall Light Rail Projects (see Economic Factors for additional discussion).

LONG-TERM DEBT

Long-term debt includes revenue bonds and general obligation bonds. At June 30, 2008, the District had $419,940 in revenue bonds outstanding and $44,395 in general obligation bonds outstanding (see Note 8).

During 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, and no other revenues or funds of TriMet are pledged as security for the payment of interest or principal on the bonds. During 2008, the District received $42,987 in grant funds that were placed in a debt service account with the bond trustee solely for funding optional redemption of eligible term bonds.

In addition, during 2007 the District issued $45,450 in limited tax pledge revenue bonds to pay for a portion of the costs of capital projects, including costs of the I-205/Portland Mall Light Rail and Washington County Commuter Rail Projects. The bonds are secured by a senior lien of payroll and self employment tax revenues. The limited tax pledge revenue bonds are not general obligations of the District, and no other revenues or funds of TriMet are pledged as security for the payment of interest or principal on the bonds.

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

Table 4

General Obligation and Revenue Bond Ratings
As of June 30, 2008
(dollars in thousands)

	Original Issue Amount	Moody's	Standard & Poor's
General obligation bonds			
1999 Series A Refunding	$ 79,965	Aa1	AAA
Revenue bonds - ratings based on underlying credit only			
2001 Series A Refunding	23,090	Aa3	AAA
2003 Series A Refunding	19,705	Aa3	AAA
2005 Series A Refunding	65,475	Aa3	AAA
2005 Series 2005 Capital Grant Receipt	79,320	A2	A
2006 Series 2006 Payroll Tax and Grant Receipt	230,000	A1	A+
2007 Series A	45,450	Aa3	AAA
	Insured by		
Revenue bonds- the higher of ratings based upon insurance or underlying credit			
2001 Series A Refunding	FSA	Aaa	AAA
2005 Series A Refunding	FSA	Aaa	AAA
2005 Series 2005 Capital Grant Receipt	Ambac	Aa3	AA
2006 Series 2006 Payroll Tax and Grant Receipt	MBIA	A1	AA
2007 Series A	MBIA	Aa3	AAA

LEASE TRANSACTIONS

Subsequent to June 30, 2008, U.S. Financial markets remain under tremendous liquidity pressure. This has led to the sale, takeover and bankruptcy of some of the largest financial institutions in the country. Two financial institutions involved in TriMet lease transactions discussed in note 10(b) and 10(c) have experienced rating downgrades that trigger 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. American International Group, Inc. was also downgraded by Moody's and Standard and Poor's, and is required to collateralize obligations pursuant to the 1997 and 1998 lease transactions.

ECONOMIC FACTORS

The rise in diesel fuel costs has significantly impacted TriMet's operating budget. The District started fiscal year 2008 with a budget of $15,592 for 6,650,000 gallons of diesel fuel based on a price of $2.31 per gallon for its fixed route bus fleet and $2.56 per gallon for paratransit vehicles. For the fiscal year beginning July 1, 2008, TriMet budgeted $28,473 for diesel fuel based on an average price of $4.00 per gallon for its fixed route bus fleet and commuter rail trains and $4.48 per gallon for paratransit vehicles. TriMet's fixed route buses and trains consume approximately 508,000 gallons of diesel fuel per month.

In August 2008, the District entered into a two-year agreement with KeyBank National Association (the Bank) to hedge a portion of the District's diesel fuel consumption. These transactions are commonly referred to as "swaps." Under the terms of the agreement, on a monthly basis, average near month NYMEX home heating oil contract price is compared to the agreed upon price of $3.265 per gallon. If the average NYMEX price is greater, the Bank will pay TriMet the difference times the agreed upon gallons stated below. If the NYMEX price is lower than $3.265 per gallon, TriMet will pay the Bank the price difference times the agreed upon gallons. Agreed upon gallons per month are as follows:

September 2008 through March 2009	420,000 gallons
April 2009 through September 2009	336,000 gallons
October 2009 through September 2010	210,000 gallons

Simultaneously, TriMet and its diesel fuel supply contractor have amended the pricing mechanism of the District's diesel fuel supply contract to price 210,000 gallons per month at a NYMEX based floating price plus $0.162 per gallon. The balance of TriMet's diesel fuel is priced daily based on an independently compiled average wholesale price per gallon in Portland, commonly referred to as "rack price" minus $0.035 per gallon.

The District's Board of Directors adopted the fiscal 2009 budget on June 25, 2008. The 2009 budget includes $502,340 for operating expenses, a 24.2 percent increase from fiscal 2008. This budget also includes $296,120 for light rail construction projects and $38,364 for other capital expenditures.

During 2008, TriMet has continued to invest in the progress of the next two rail expansion projects for its transit system – Washington County Commuter Rail and the I-205/Portland Mall Light Rail Projects.

The Washington County Commuter Rail line will offer a new transportation route within the Interstate 5 and Highway 217 corridor. Using primarily existing freight tracks, it will connect to TriMet's MAX Light Rail in Beaverton and serve Washington Square, Tigard, Tualatin and Wilsonville. The 14.7 mile project will share tracks with the Portland & Western Railroad.

In October 2006, the Federal Transit Administration (FTA) and TriMet signed a Full Funding Grant Agreement (FFGA) for the Washington County Commuter Rail Project. The FFGA outlines the scope of the project and the federal and local funding plan for the project. The FFGA funding plan is outlined below:

Funding source	Amount
Section 5309 new starts	$ 58,650
TriMet capital grant receipt revenue bonds	12,200
TriMet and other local governments	46,450
	$ 117,300

The I-205/Portland Mall Light Rail Project will expand 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.

In June 2007, FTA and TriMet signed a FFGA for the I-205/Portland Mall Light Rail Project. The FFGA funding plan is outlined below:

Funding source	Amount
Section 5309 new starts	$ 345,413
TriMet capital grant receipt revenue bonds	64,793
TriMet and other local governments	139,347
Other federal grants	26,147
	$ 575,700

During 2008, TriMet adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and presentation of other postemployment benefits (OPEB) in the District's financial statements. The District provides medical, dental, and life insurance for eligible retirees and dependents. During 2008, the District recorded $46,033 in net expense and liability related to the adoption of this statement.

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, is effective for periods beginning after December 15, 2007. This statement requires accrual of pollution remediation liability when an obligating event occurs. The District does not anticipate that this statement will have a material impact on financial results.

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, 2008 AND 2007
(dollars in thousands)

	2008	2007
Assets		
Current assets (unrestricted):		
Cash and cash equivalents	$ 17,777	$ 67,438
Investments	209,891	-
Taxes and other receivables, net	76,888	65,754
Grants receivable	10,293	93,968
Materials, supplies and other	11,696	11,768
Prepaid expenses	5,933	4,120
Prepaid lease	5,337	5,337
Current assets (restricted):		
Cash and cash equivalents	16,489	45,857
Investments	119,414	79,804
Taxes and other receivables, net	1,321	2,071
Grants receivable	321	64,645
Total current assets	475,360	440,762
Capital assets		
Land and other	138,516	119,883
Construction in process	504,615	224,886
Property and equipment	2,093,280	2,083,403
Less accumulated depreciation	(841,657)	(785,534)
Net capital assets	1,894,754	1,642,638
Prepaid expenses	192,959	200,719
Long-term restricted lease deposit	85,489	80,334
Long-term restricted receivable	22,035	-
Other assets	2,696	3,072
Restricted investments	-	178,653
Total assets	$ 2,673,293	$ 2,546,178
Liabilities		
Current liabilities:		
Accounts payable	$ 11,683	$ 8,004
Accounts payable from restricted funds	46,796	35,591
Accrued payroll	17,179	16,433
Current portion of long-term debt	66,125	20,737
Accrued pension obligation	33,677	30,548
Current portion of other postemployment benefits	11,340	-
Current portion of noncurrent liabilities	6,508	6,524
Deferred revenue	10,062	11,117
Other accrued liabilities	8,801	6,704
Deferred lease revenue, current portion	5,337	5,337
Total current liabilities	217,508	140,995
Noncurrent liabilities:		
Long-term debt	405,331	471,906
Deferred lease revenue	123,582	129,320
Long-term lease liability	127,044	123,014
Other postemployment benefits liability	34,693	-
Other long-term liabilities	4,657	4,714
Total noncurrent liabilities	695,307	728,954
Total liabilities	912,815	869,949
Net assets		
Invested in capital assets, net of related debt	1,427,816	1,390,665
Restricted for capital projects	72,572	99,131
Restricted for debt service	103,218	63,801
Unrestricted	156,872	122,632
Total net assets	1,760,478	1,676,229
Total liabilities and net assets	$ 2,673,293	$ 2,546,178

See accompanying notes to basic financial statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007
(dollars in thousands)

	2008	2007
Operating revenues		
Passenger revenue	$ 80,815	$ 75,856
Auxiliary transportation and other revenue	31,803	26,369
Total operating revenues	112,618	102,225
Operating expenses		
Labor	128,586	121,098
Fringe benefits	151,831	98,465
Materials and services	72,928	57,421
Utilities	6,152	5,864
Purchased transportation	33,010	30,123
Depreciation expense	63,960	67,390
Other operating expense	6,500	10,956
Total operating expenses	462,967	391,317
Operating loss	(350,349)	(289,092)
Nonoperating revenues and (expenses)		
Payroll and other tax revenue	215,133	207,258
Property tax revenue	9,416	10,114
Grant revenue	60,440	50,257
Interest income	6,874	5,308
Net leveraged lease expense	(765)	(1,079)
Interest and other expense	(7,401)	(7,939)
Total nonoperating revenues, net	283,697	263,919
Loss before contributions and special items	(66,652)	(25,173)
Capital contributions	151,522	245,833
Special item - local agency/government donation	(621)	(10,497)
Changes in net assets	84,249	210,163
Total net assets - beginning	1,676,229	1,466,066
Total net assets - ending	$ 1,760,478	$ 1,676,229

See accompanying notes to basic financial statements

STATEMENTS OF CASH FLOWS

OR THE YEARS ENDED JUNE 30, 2008 AND 2007
(dollars in thousands)

	2008	2007
Cash flows from operating activities		
Receipts from passengers	$ 78,947	$ 76,122
Receipts from other	23,449	30,888
Payments to employees	(230,495)	(218,308)
Payments to suppliers	(116,753)	(103,729)
Net cash used in operating activities	(244,852)	(215,027)
Cash flows from noncapital financing activities		
Receipts from payroll taxes	214,279	202,294
Receipts from operating grants	57,575	49,978
Other noncapital, nonoperating expenses	-	(10,497)
Net cash provided by noncapital financing activities	271,854	241,775
Cash flows from capital and related financing activities		
Receipts from capital grants	276,731	90,273
Receipts from property taxes	9,278	10,064
Receipts from other sources	105	105
Receipts from sales of capital assets	368	1,367
Acquisition and construction of capital assets	(296,281)	(170,604)
Proceeds from issuance of debt and capital leases	252	277,888
Principal payments on long-term debt	(20,751)	(18,520)
Interest payments on long-term debt activities	(21,288)	(17,216)
Net cash provided by (used in) capital and related financing activities	(51,586)	173,357
Cash flows from investing activities		
Purchases of investment securities	(720,170)	(416,641)
Proceeds from sales and maturities of investment securities	647,044	271,893
Interest received	18,681	6,737
Net cash used in investing activities	(54,445)	(138,011)
Net (decrease) increase in cash and cash equivalents	(79,029)	62,094
Cash and cash equivalents, beginning of year	113,295	51,201
Cash and cash equivalents, end of year	$ 34,266	$ 113,295
Reconciliation of cash and cash equivalents		
Unrestricted cash and cash equivalents	$ 17,777	$ 67,438
Restricted cash and cash equivalents	16,489	45,857
Total cash and cash equivalents	$ 34,266	$ 113,295

See accompanying notes to basic financial statements

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007
(dollars in thousands)
CONTINUED

	2008	2007
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (350,349)	$ (289,092)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	63,960	67,390
(Gain) loss on disposal of capital assets	460	(423)
(Increase) decrease in taxes and other receivables	(10,280)	2,576
(Increase) decrease in materials, supplies and other	72	(160)
Increase in prepaid and other assets	(1,810)	(93)
Increase (decrease) in operating accounts payable	3,679	(190)
Increase in accrued payroll	746	1,253
Increase (decrease) in deferred revenue	(419)	2,506
Increase in pension obligation	3,129	1,158
Increase in other post-employment benefit obligation	46,033	-
Increase (decrease) in other liabilities	(73)	48
Total adjustments	105,497	74,065
Net cash used in operating activities	$ (244,852)	$ (215,027)

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

	2008	2007
Lease expenses - net	$ (765)	$ (1,079)
Accretion/amortization of investments	9,177	10,659
Fiber optic lease	258	258
Amortization of bond issue cost, premium/discount, and deferred amounts	(688)	(816)

See accompanying notes to basic financial statements

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007
(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 expenditure in the Debt Service Fund is principal 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. 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 0.6618 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 8).

(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, 2008 and 2007. 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) 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.

(j) 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.

(k) 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, including amounts resulting from the amortization of the premium and issuance 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 depreciated using the straight line method over 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

(l) 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 Management Defined Contribution Pension Plan (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 $803 and $655 at June 30, 2008 and 2007, 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.

(m) 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.

(n) New pronouncements

During 2008, TriMet implemented the following new GASB pronouncements:

GASB Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* This statement establishes standards for measurement, recognition, and presentation of Other Postemployment Benefits (OPEB) in the District's financial statements. The District provides medical, dental, and life insurance for eligible retirees and dependents.

GASB Statement No. 48 *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.* This statement establishes criteria that governments should use to determine whether proceeds from sale or pledges of receivables and future revenues should be reported as a revenue or a liability. This statement also requires additional note disclosure for pledged revenues. This statement had no financial statement impact on the District in 2008.

GASB Statement No. 50 *Pension Disclosures – an Amendment of GASB Statements No. 25 and No. 27.* This statement requires additional note disclosure for defined benefit plans.

The following GASB pronouncements have been issued, but are not yet effective at June 30, 2008:

GASB Statement No. 49 *Accounting and Financial Reporting for Pollution Remediation Obligations*

GASB Statement No. 51 *Accounting and Financial Reporting for Intangible Assets*

GASB Statement No. 52 *Land and Other Real Estate Held as Investments by Endowments*

The District will implement the new GASB pronouncements in the fiscal year no later than the required effective date. TriMet does not anticipate that the above listed new GASB pronouncements will have a significant financial impact to the District.

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:

	2008			2007		
	Fair Value	% of Portfolio	Weighted Average Maturity (years)	Fair Value	% of Portfolio	Weighted Average Maturity (years)
Cash						
Cash on hand	$ 83			$ 83		
Demand deposits with financial institutions	1,179			(4,513)		
Total cash	$ 1,262			$ (4,430)		
Investments						
State of Oregon local government investment pool	$ 27,090	7.5%	-	$ 40,771	10.8%	-
Federal Home Loan Bank	-	0.0%	-	9,707	2.6%	0.42
Federal Home Loan Mortgage Corp.	-	0.0%	-	64,713	17.2%	0.15
Federal National Mortgage Association	14,899	4.1%	0.51	61,700	16.4%	0.41
U.S. Treasuries	269,238	74.3%	0.33	101,762	27.1%	0.33
Commercial paper	51,082	14.1%	0.29	97,529	25.9%	0.11
Total investments	362,309			376,182		
Total cash and investments	$ 363,571			$ 371,752		
Cash and investments are reflected in the balance sheets as follows:						
Cash and cash equivalents						
Unrestricted	$ 17,777			$ 67,438		
Restricted	16,489			45,857		
Investments						
Unrestricted	209,891			-		
Restricted	119,414			79,804		
Restricted investments	-			178,653		
Total cash and investments	$ 363,571			$ 371,752		

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 18 months. Funds held for long-term construction projects may be invested under the authority of ORS 294.135 with maturities longer than 18 months.

Credit risk. Oregon State law (ORS 294 and 295), which is consistent with TriMet's investment policy, 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; however, the policy states that the District intends to confine its investments to government securities, agency securities, repurchase agreements, bank liabilities, commercial paper and corporate bonds and the local government investment pools. All commercial paper investments are A-1, P-1 or better. The Local Government Investment Pools are comprised primarily of highly rated government securities and are managed by the Oregon State Treasurer; however, the pool itself is a 2a7-like pool and is unrated.

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, deferred compensation and bonds. 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 (25% maximum with any one agency), repurchase agreements (25% maximum with any one institution), bank liabilities (25% maximum with any one financial institution), local government investment pool (limited to maximum per ORS 294.810), and commercial paper and corporate bonds (10% maximum with any Oregon issuer, 5% with any non-Oregon issuer). At June 30, 2008, the District had 74.3 percent invested in U.S. government securities, 4.1 percent in agency securities, 14.1 percent in commercial paper, and 7.5 percent in local government investment pool.

Custodial credit risk - deposits and investments. For deposits, this is the risk that in the event of a bank failure, TriMet's deposits may not be returned to the District. All deposits are collateralized with eligible securities in amounts equal to at least 25 percent of the book value of the deposits. As of June 30, 2008, the book value of TriMet's deposits was $1,179. All collateral securities were held by third parties in TriMet's name, and were not exposed to custodial credit risk.

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 investments are invested in an external investment pool, held by the State of Oregon in the local government investment pool (LGIP). Numerous local governments in Oregon, as well as State agencies, participate in the fund. The LGIP does not report all investments at fair value in accordance with the provisions of GASB Statement No. 31. The LGIP is required by Oregon Revised Statutes (ORS) to compute the fair value of all investments maturing more than 270 days from the date the computation is made. If the fair value totals more than one (1%) percent of the balance of the LGIP in terms of unrealized gain or loss, the amount is required to be distributed to the pool participants. 50 percent of the LGIP portfolio must mature within 93 days. Up to 25 percent of the LGIP portfolio may mature in over one year and no investment may mature in over three years. At June 30, 2008, the District's share of the amount of unrealized gain reported by the LGIP, in accordance with ORS, was considered immaterial.

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 LGIP are further governed by portfolio guidelines issued by the Fund Board.

4. RECEIVABLES

Taxes and other receivables at June 30, 2008 and 2007, including the applicable allowances for uncollectible accounts, are as follows:

2008	Receivable	Allowance for uncollectible accounts	Net receivable
Unrestricted:			
Payroll tax	$ 53,491	$ 671	$ 52,820
Self-employment tax	7,436	583	6,853
Trade accounts	7,295	300	6,995
Other	10,220	-	10,220
Total unrestricted	78,442	1,554	76,888
Restricted:			
Property tax	825	287	538
Other	783	-	783
Total restricted	1,608	287	1,321
Total taxes and other receivables	$ 80,050	$ 1,841	$ 78,209

2007	Receivable	Allowance for uncollectible accounts	Net receivable
Unrestricted:			
Payroll tax	$ 53,028	$ 1,351	$ 51,677
Self-employment tax	7,642	457	7,185
Trade accounts	5,223	250	4,973
Other	1,919	-	1,919
Total unrestricted	67,812	2,058	65,754
Restricted:			
Property tax	656	256	400
Other	1,671	-	1,671
Total restricted	2,327	256	2,071
Total taxes and other receivables	$ 70,139	$ 2,314	$ 67,825

At June 30, 2008 and 2007, the District had the following receivables under various federal and state grant agreements:

2008	Grant Receivable
Federal pass through	$ 2,125
Other federal	1,090
State grants	170
Local governments	7,229
	$ 10,614

2007	Grant Receivable
Section 5309 (I-205/Portland Mall Light Rail Project)	$ 80,000
Section 5309 (other)	1,200
CMAQ/STP	158
Other federal	464
State grants	125
Local governments	76,666
	$ 158,613

The District had incurred costs of $74,876 and $11,657 at June 30, 2008 and 2007, respectively, which are, or are likely to be eligible for reimbursement under the Federal Transit Administration (FTA) Capital Program (Section 5309) current and future Full Funding Grant Agreements relating to the I-205/Portland Mall Light Rail Project. TriMet has not recorded capital contributions in the respective year associated with these expenditures because the amounts have not yet been appropriated.

5. CAPITAL ASSETS

Capital assets at June 30 consisted of the following:

2008	Lives (in years)	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Capital assets, not being depreciated						
Land and other		$ 119,883	$ 7,838	$ (1,255)	$ 12,050	$ 138,516
Construction in process		224,886	308,267	-	(28,538)	504,615
Total capital assets, not being depreciated		344,769	316,105	(1,255)	(16,488)	643,131
Capital assets, being depreciated						
Rail right-of-way and stations	5-40	1,360,986	-	(124)	1,483	1,362,345
Buildings	40	228,756	-	(1,021)	9,048	236,783
Transportation equipment	5-30	380,688	-	(2,262)	3,658	382,084
Furniture and other equipment	3-20	112,973	1,420	(4,624)	2,299	112,068
Total capital assets, being depreciated		2,083,403	1,420	(8,031)	16,488	2,093,280
Less accumulated depreciation for						
Rail right-of-way and stations		(369,039)	(37,091)	124	-	(406,006)
Buildings		(131,298)	(6,820)	828	695	(136,595)
Transportation equipment		(192,667)	(17,094)	2,262	-	(207,499)
Furniture and other equipment		(92,530)	(2,955)	4,623	(695)	(91,557)
Total accumulated depreciation		(785,534)	(63,960)	7,837	-	(841,657)
Total capital assets, being depreciated, net		1,297,869	(62,540)	(194)	16,488	1,251,623
Total capital assets, net		$ 1,642,638	$ 253,565	$ (1,449)	$ -	$ 1,894,754

2007	Lives (in years)	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Capital assets, not being depreciated						
Land and other		$ 113,805	$ 5,418	$ (942)	$ 1,602	$ 119,883
Construction in process		47,560	178,633	-	(1,307)	224,886
Total capital assets, not being depreciated		161,365	184,051	(942)	295	344,769
Capital assets, being depreciated						
Rail right-of-way and stations	5-40	1,361,750	107	(8)	(863)	1,360,986
Buildings	40	228,352	242	(10)	172	228,756
Transportation equipment	5-30	384,106	4,761	(8,275)	96	380,688
Furniture and other equipment	3-20	115,649	856	(3,832)	300	112,973
Total capital assets, being depreciated		2,089,857	5,966	(12,125)	(295)	2,083,403
Less accumulated depreciation for						
Rail right-of-way and stations		(331,533)	(37,514)	8		(369,039)
Buildings		(123,965)	(7,343)	10	-	(131,298)
Transportation equipment		(183,659)	(17,283)	8,275	-	(192,667)
Furniture and other equipment		(91,111)	(5,249)	3,830	-	(92,530)
Total accumulated depreciation		(730,268)	(67,389)	12,123	-	(785,534)
Total capital assets, being depreciated, net		1,359,589	(61,423)	(2)	(295)	1,297,869
Total capital assets, net		$ 1,520,954	$ 122,628	$ (944)	$ -	$ 1,642,638

6. 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 TriMet Bargaining Unit Defined Benefit Plan (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 oversight of the Management DC Plan trust. The TriMet Board of Directors ("Board") has appointed five 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 in conjunction with the District's normal payroll processes.

Management DC Plan

Plan description

Effective April 27, 2003, the District adopted the Management DC Plan. 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 1,650 hours). The maximum accumulated sick leave hours will increase 50 hours each December 1 until the maximum reaches 1,700 hours on December 1, 2008.

Basis of accounting

Management DC Plan financial statements are prepared using 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, 2008 and 2007 there were 201 and 167 active employees, respectively, covered by the Management DC Plan. District contributions to the Management DC Plan were $1,143 and $811 for the years ending June 30, 2008 and 2007, respectively. Employee contributions to the Management DC Plan were $518 and $374 for the years ending June 30, 2008 and 2007, 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 825 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 and July 1, 2006. 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 Frozen Entry Age Normal actuarial cost method. The required contribution consists of normal cost and an amortization of the unfunded frozen actuarial accrued liability. The normal cost is determined as the level percentage of covered payroll that will pay for the excess of the actuarial present value of all projected benefits of the group over the sum of the market value of Plan assets and the unfunded frozen actuarial accrued liability. The normal cost is determined on a closed group basis, and it will remain level as a percentage of covered pay if all actuarial assumptions are met. 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 are funded over the average expected future working life of the active participants, seven years in 2008, and eight years in 2007 and 2006.

A schedule of funding progress is presented below.

Schedule of Funding Progress
Required Supplementary Information - Unaudited

	Actuarial valuation date		
Management DB Plan	June 30, 2008	June 30, 2007	June 30, 2006
Actuarial value of plan assets	$ 59,066	$ 61,016	$ 50,212
Actuarial accrued liability (AAL)	84,974	75,616	69,383
Funded ratio	69.5%	80.7%	72.4%
Annual covered payroll	17,842	19,644	19,920
Unfunded AAL	25,908	14,600	19,171
Unfunded AAL as a percentage of covered payroll	145.2%	74.3%	96.2%
Annual required contribution (ARC)	6,888	3,832	4,539
Contributions made	6,974	3,887	4,604
Contributions made as a percentage of ARC	101.2%	101.4%	101.4%
Contributions made as a percentage of covered payroll	39.1%	19.8%	23.1%
Net pension obligation	-	-	-

The actuarial value of plan assets is calculated as the market value of assets held in trust, plus any accrued income and accrued contributions for the prior plan year.

The 2008 required contribution was funded to the Management DB Plan subsequent to June 30, 2008 and, accordingly, an equivalent amount is reflected in the accompanying June 30, 2008 balance sheet within accrued pension obligation.

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.

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, 2007 are $68.25 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 1,650 hours) to monthly pension benefits at a rate of 25 cents per hour. The maximum accumulated sick leave hours will increase 50 hours each December 1 until the maximum reaches 1,700 hours on December 1, 2008. 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, 2008 TriMet is amortizing past service liabilities over 20 years. The funding policy of the Bargaining Unit DB Plan provides for an actuarially computed 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.

A schedule of funding progress is presented below.

Schedule of Funding Progress

Required Supplementary Information - Unaudited

	Actuarial valuation date		
Bargaining Unit DB Plan	July 1, 2008	July 1, 2007	July 1, 2006
Actuarial value of plan assets	$ 238,883	$ 209,392	$ 178,157
Actuarial accrued liability (AAL)	427,305	399,237	370,711
Funded ratio	55.9%	52.4%	48.1%
Annual covered payroll	116,418	111,877	106,705
Unfunded AAL	188,422	189,845	192,554
Unfunded AAL as a percentage of covered payroll	161.8%	169.7%	180.5%
Annual required contribution (ARC)	26,154	26,177	25,511
Contributions made	26,154	26,177	25,511
Contributions made as a percentage of ARC	100.0%	100.0%	100.0%
Contributions made as a percentage of covered payroll	22.5%	23.4%	23.9%
Net pension obligation	-	-	-

The 2008 required contribution was funded to the Bargaining Unit DB Plan subsequent to June 30, 2008 and, accordingly, an equivalent amount is reflected in the accompanying June 30, 2008 balance sheet within accrued pension obligation.

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 is used to determine the normal retirement benefit for active employees.

7. OTHER EMPLOYEE BENEFITS

Deferred compensation plan

The District offers all employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457(b). The plan permits employees to defer a portion of their current salary until termination, retirement, death or financial hardship. 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 on assets subject to claims of the District's general creditors. TriMet also has IRC Section 457(f) deferred compensation agreements. The expense associated with these agreements is recognized over their vesting period.

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, 2008 and 2007, the District's vacation pay liability was $9,415 and $9,474, 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 thereafter. 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 publicly available financial report. The District implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* for the fiscal year ending June 30, 2008.

Funding policy – The District has not yet established 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. At June 30, 2008, 995 union and non-union retirees, dependents, and surviving spouses who were receiving the postemployment health care and life insurance benefits. The District's required contribution is based on projected pay-as-you-go financing requirements. The District contributed costs of postemployment health care and life insurance benefits totaling $11,147 and $9,756 in fiscal 2008 and 2007, 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 any unfunded actuarial liabilities over a period of 30 years. A schedule of the components of the District's annual OPEB cost for the year ended June 30, 2008 is presented below.

Annual required contribution (ARC)	$ 54,867
Interest on net OPEB obligation	1,078
Adjustment to annual required contribution	1,235
Annual OPEB cost	57,180
Contributions made	(11,147)
Increase in net OPEB obligation	46,033
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	$ 46,033
Percentage of annual OPEB cost contributed	19%

Funded status and funding progress – A schedule of funding progress is presented below.

Schedule of funding progress - unaudited

Actuarial valuation date	January 1, 2008
Actuarial value of assets	$ -
Actuarial accrued liability (AAL) - unit credit	632,204
Unfunded AAL (UAAL)	632,204
Funded ratio	0%
Covered payroll	$ 130,726
UAAL as a percentage of covered payroll	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, 2008 actuarial valuation, the funding method used to develop the actuarial required contribution is entry age normal, with normal cost developed as a level percentage of payroll. Significant actuarial assumptions used in the valuation include a discount rate of 4.5%, and health care cost rates trending down from 9% in 2008 to 5% in 2016 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. The remaining amortization period at June 30, 2008 is 29 years.

8. LONG-TERM DEBT

2008	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Long-term debt:					
1999 General Obligation Refunding Bonds, Series A	$ 52,020	$ -	$ (7,625)	$ 44,395	$ 8,015
2001 Revenue Refunding Bonds, Series A	11,320	-	(2,250)	9,070	2,340
2003 Revenue Refunding Bonds, Series A	15,270	-	(1,295)	13,975	1,335
2005 Revenue Refunding Bonds, Series A	53,475	-	(2,765)	50,710	2,880
Capital Grant Receipt Revenue Bonds, Series 2005	77,510	-	(5,665)	71,845	7,330
2006 Payroll Tax and Grant Receipts Revenue Bonds	230,000	-	-	230,000	42,987
2007 Revenue Bonds, Series A	45,450	-	(1,110)	44,340	1,150
Other	107	252	(41)	318	88
	485,152	252	(20,751)	464,653	66,125
Add (deduct):					
Unamortized bond premium	13,935	-	(1,585)	12,350	
Unamortized bond discount	(27)	-	6	(21)	
Deferred amount on legal defeasance	(6,417)	-	891	(5,526)	
Current portion	(20,737)			(66,125)	
Long-term debt, net	$ 471,906			$ 405,331	

2007	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Long-term debt:					
1999 General Obligation Refunding Bonds, Series A	$ 59,280	$ -	$ (7,260)	$ 52,020	$ 7,625
2000 Revenue Bonds, Series A	13,490	-	(2,170)	11,320	2,250
2001 Revenue Refunding Bonds, Series A	16,530	-	(1,260)	15,270	1,295
2001 Variable Rate Demand Revenue Bonds, Series A	59,475	-	(6,000)	53,475	2,765
2003 Revenue Refunding Bonds, Series A	79,320	-	(1,810)	77,510	5,665
2005 Revenue Refunding Bonds, Series A	-	230,000	-	230,000	-
Capital Grant Receipt Revenue Bonds, Series 2005	-	45,450	-	45,450	1,110
Other	22	105	(20)	107	27
	228,117	275,555	(18,520)	485,152	20,737
Add (deduct):					
Unamortized bond premium	11,717	3,745	(1,527)	13,935	
Unamortized bond discount	(33)	-	6	(27)	
Deferred amount on legal defeasance	(7,310)	-	893	(6,417)	
Current portion	(18,515)			(20,737)	
Long-term debt, net	$ 213,976			$ 471,906	

Total interest cost on all outstanding debt was $21,732 and $19,675 in fiscal 2008 and fiscal 2007, respectively. During fiscal 2008, $15,564 of interest cost was capitalized and $6,168 was charged to expense, while during fiscal 2007, $11,572 of interest cost was capitalized and $8,103 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 $3,403 and $973 as of June 30, 2008 and 2007, 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 (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 Revenue Bonds were legally defeased with the issuance of the 2005 Revenue Refunding Bonds, Series A. As of June 30, 2008 and 2007, there were $25,880 and $27,435, respectively, in advance refunded outstanding bonds. Final redemption of all remaining outstanding bonds is scheduled to occur on or before 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 (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 interest rates range from 4.0 percent to 5.25 percent on various maturities.

The G.O. Bonds 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 $50,418. Principal and interest paid for the current year and total property tax revenues were $10,117 and $9,416, respectively.

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

Fiscal year ending June 30:	Principal	Interest
2009	$ 8,015	$ 2,096
2010	8,420	1,680
2011	8,845	1,234
2012	9,315	757
2013	9,800	256
	$ 44,395	$ 6,023

(c) 2000 Revenue Bonds, Series A

On October 26, 2000, TriMet issued $45,000 in 2000 Revenue Bonds, Series A (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 Revenue Bonds were legally defeased with the issuance of the 2005 Revenue Refunding Bonds, Series A. As of June 30, 2008 and 2007 there were $21,945 and $23,090, respectively, in advance refunded outstanding bonds. Final redemption of all remaining outstanding bonds is scheduled to occur on or before 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 (Revenue Bonds). The 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 interest rates range from 3.5 percent to 4.25 percent on various maturities.

The 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 2012. The total remaining principal and interest on the Revenue Bonds is $9,795. Principal and interest paid for the current year and total employer payroll and self employment taxes were $2,669 and $214,286, respectively.

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

	Principal	Interest
Fiscal year ending June 30:		
2009	$ 2,340	$ 329
2010	2,435	231
2011	2,545	128
2012	1,750	37
	$ 9,070	$ 725

(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 (Revenue Bonds). The 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 interest rates range from 2.0 percent to 5.0 percent on various maturities.

The 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 2017. The total remaining principal and interest on the Revenue Bonds is $16,881. Principal and interest paid for the current year and total employer payroll and self employment taxes were $1,877 and $214,286, respectively.

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

	Principal	Interest
Fiscal year ending June 30:		
2009	$ 1,335	$ 544
2010	1,380	501
2011	1,425	454
2012	1,480	399
2013	1,535	339
2014-2017	6,820	669
	$ 13,975	$ 2,906

(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 (Revenue Bonds). The 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 interest rates range from 3.0 percent to 5.0 percent on various maturities.

The 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 2021. The total remaining principal and interest on the Revenue Bonds is $68,876. Principal and interest paid for the current year and total employer payroll and self employment taxes were $5,297 and $214,286, respectively.

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

		Principal		Interest
Fiscal year ending June 30:				
2009	$	2,880	$	2,419
2010		2,995		2,302
2011		3,135		2,163
2012		3,295		2,003
2013		3,465		1,834
2014-2018		20,180		6,313
2019-2021		14,760		1,132
	$	50,710	$	18,166

(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 debt service account and are payable through 2018. The total remaining principal and interest on the Revenue Bonds is $86,943. Principal and interest paid for the current year and total Section 5307, STP, and CMAQ grant receipts for the District were $9,093 and $42,435, respectively. The Grant Receipt Revenue Bonds are not general obligations of the District, and no other revenues or funds of TriMet are pledged as security for the payment of interest or principal on the bonds.

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 interest rates range from 3.0 percent to 5.0 percent on various maturities.

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

		Principal		Interest
Fiscal year ending June 30:				
2009	$	7,330	$	3,195
2010		7,640		2,881
2011		7,990		2,531
2012		8,370		2,145
2013		8,775		1,736
2014-2018		31,740		2,610
	$	71,845	$	15,098

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

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

The Payroll Tax and Grant Receipts 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 are payable through 2014. The total remaining principal and interest on the Revenue Bonds is $264,095. 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 $9,735 and $78,400, respectively. The Payroll Tax and Grant Receipts Revenue Bonds are not general obligations of the District, and no other revenues or funds of TriMet are pledged as security for the payment of interest or principal on the bonds.

$100,000 of the Payroll Tax and Grant Receipts Revenue Bonds mature serially each May 1, beginning May 1, 2010 through 2012. $130,000 of the Payroll Tax and Grant Receipts Revenue Bonds are term bonds maturing May

1, 2014. All term bonds are subject to optional redemption by the District, in whole or in part, on or after May 1, 2009 at a price of par (100%) plus accrued interest thereon to the date of redemption. The District has transferred $42,987 into a debt service reserve account to fund the optional redemption of eligible term bonds in May 2009. Interest is payable semiannually on May 1 and November 1, and interest rates range from 3.75 percent to 5.0 percent on various maturities.

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

	Principal	Interest
Fiscal year ending June 30:		
2009	$ 42,987	$ 9,449
2010	20,000	7,881
2011	40,000	6,903
2012	40,000	3,481
2013	-	3,481
2014	87,013	2,900
	$ 230,000	$ 34,095

(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 debt service account and are payable through 2032. The total remaining principal and interest on the Revenue Bonds is $70,693. Principal and interest paid for the current year and total employer payroll and self employment taxes were $3,096 and $214,286, respectively. The 2007 Revenue Bonds are not general obligations of the District, and no other revenues or funds of TriMet are pledged as security for the payment of interest or principal on the bonds.

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 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 Payroll Tax and Grant Receipts Revenue Bonds, Series 2006, are as follows:

	Principal	Interest
Fiscal year ending June 30:		
2009	$ 1,150	$ 1,929
2010	1,195	1,870
2011	1,240	1,810
2012	1,285	1,746
2013	1,330	1,681
2014-2018	7,445	7,344
2019-2023	9,020	5,575
2024-2028	11,045	3,471
2029-2032	10,630	927
	$ 44,340	$ 26,353

(j) Interim Financing

On February 7, 2007, the District entered into a Revolving Credit Agreement to provide interim financing for Washington County Commuter Rail capital project costs. The Credit Agreement provides for up to $40,000 in advances, at a rate of 81.4 percent of LIBOR plus 1.0 percent. As of June 30, 2008, no draws had been taken on the credit line.

9. RISK MANAGEMENT

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

The District is self insured for all public liability claims, which are limited to $500 per occurrence by ORS Chapter 30. 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 $2,240 for 2008 and 2007. 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.

On December 28, 2007, the Oregon Supreme Court decided a case challenging the constitutionality of parts of the Oregon Tort Claims Act, *Clarke v. Oregon Health & Sciences University* ("OHSU"). Under the Act, the common law sovereign immunity from suit for public bodies was lifted and claims may be brought against a public body in Oregon, including TriMet. The Act caps 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. In *Clarke*, the plaintiff was severely disabled as a result of the negligence of health professionals employed at OHSU. The damages alleged amounted to approximately $12,000.

Article I, Section 10 of the Oregon Constitution provides the right to a remedy to persons who are injured in their person, property or reputation. The Court concluded in *Clarke* that, based upon the amount of damages alleged, the substitution of OHSU for the individual plaintiffs, with the resulting $200 cap on the amount of potential recovery, did not provide a substantial remedy to plaintiff in lieu of what he would have been able to claim at common law. Therefore, the substitution of OHSU for the individual plaintiffs, under the facts at issue in *Clarke*, violated Article I, Section 10 of the Oregon Constitution.

The impact of the court's holding in this case on TriMet and other public bodies is uncertain. Under the Act, TriMet currently indemnifies its employees for any liability that they incur within the scope of their work. Accordingly, if the decision is upheld, it may mean that TriMet must pay higher amounts to indemnify its employees because TriMet may not substitute its limited liability for its employees.

Changes in the District's public liability and industrial accident claims liabilities are as follows for the years ended June 30, 2008 and 2007:

	2008		2007	
	Industrial Accident Claims	Public Liability	Industrial Accident Claims	Public Liability
Liability at beginning of year	$ 4,688	$ 4,366	$ 4,269	$ 3,816
Current year claims	1,712	1,673	1,767	2,147
Changes in estimates for claims of prior periods	886	(10)	1,188	(408)
Payments of claims	(2,809)	(1,710)	(2,536)	(1,189)
Liability at end of year	$ 4,477	$ 4,319	$ 4,688	$ 4,366

Based on historical experience, the District has classified $6,392 and $6,424 of these amounts at June 30, 2008 and 2007, respectively, as current liabilities.

10. LEASE TRANSACTIONS

(a) Office and equipment leases

The District leases office space under non-cancelable operating leases. Total costs for such leases were $823 and $1,015 in 2008 and 2007, respectively. The future minimum lease payments for these leases are as follows:

Fiscal year ending June 30:		
2009	$	1,397
2010		932
2011		292
2012		246
2013		215
Thereafter		9
	$	3,091

(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 are recorded as prepaid lease expense in the accompanying balance sheets and are expensed over the term of the lease. The payment agreement does 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 District has the option under the sale-leaseback agreements to buy back the assets at the end of the lease terms. 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 restricted 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 deferred lease revenue on the accompanying balance sheets. The deferred 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 buy out 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 agreement does 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 deferred revenue and is amortized over the life of the lease term.

There are no payments outstanding, as all required payments have been prepaid.

(c) 2005 Lease transaction

In November 2005, the District entered into a series of agreements related to 28 light rail vehicles, that was essentially a lease-leaseback transaction. 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 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 irrevocable 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). The obligations of MBIA Inc. are unconditionally and irrevocably guaranteed by MBIA Insurance Corporation. In the event Moody's or Standard & Poor's downgrades the rating of a guarantor below Aa3 or AA- the payment agreement counter party must collateralize the present value of its future obligations with an independent third party.

The District's prepayment of the payment agreements is recorded within prepaid expenses in the accompanying balance sheets and is reduced as payments are made over the term of the lease. The payment agreement does 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 deferred revenue and is recognized over the basic term of the lease. The Federal Transit Administration has reviewed the operative documents and approved the transaction.

There are no payments outstanding as all required payments have been prepaid. Leased assets are included within Capital Assets and amortization is recorded within depreciation expense.

(d) Recent legislative and regulatory activities

Domestic investors in sale-leaseback and lease-leaseback transactions have received considerable scrutiny by the Internal Revenue Service. 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, 2008 no indemnity claims have been made against TriMet.

In 2006 Congress passed, and the President signed into law, the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA). TIPRA imposes an excise tax on certain tax exempt entities that are a party to a subsequently listed transaction and certain entity managers. The provisions of the TIPRA excise tax are codified in Section 4965 of the Internal Revenue Code of 1986, as amended (Code). TriMet's 1997 and 1998 domestic lease transactions are subject to the Section 4965 tax. TriMet's 1997 and 1998 foreign lease and 2005 lease transactions discussed above are not subject to the Section 4965 tax.

On February 7, 2007 the Internal Revenue Service (IRS) published Notice 2007-18, which provided guidance under Section 4965 of the Code. On July 6, 2007, the IRS released Proposed and Temporary Treasury Regulations (collectively, the "Section 4965 Regulations") that address issues left open by Notice 2007-18. Section 4965 Regulations now clarify that the net income and proceeds from a prohibited tax shelter transaction should be determined in accordance with its substance (as determined by the IRS) and must be allocated to a particular taxable year in a manner that is consistent with the tax exempt entity's established method of accounting for U.S. federal income tax purposes. Net income and proceeds that are allocated to taxable years prior to the effective date are not subject to the excise tax imposed by Section 4965 of the Code. The result of the Section 4965 Regulations is that 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:

	2008	2007
Prepaid expense	$ 198,296	$ 206,056
Long-term restricted lease deposit	85,489	80,334
Deferred lease revenue - current	5,337	5,337
Deferred lease revenue	123,582	129,320
Long-term lease liability	127,044	123,014
Net leveraged lease expense	(765)	(1,079)

11. 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, 2008 were $304,532.

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.

12. DONATION TO LOCAL AGENCIES

In March 2008, the District contributed land with a book value of $621 to Reach Development, Inc. In November 2006, the District contributed $10,496 to the City of Portland to support the development of the Gibbs Street extension of the Portland Streetcar.

13. SUBSEQUENT EVENTS

Subsequent to June 30, 2008, U.S. Financial markets remain under tremendous liquidity pressure. This has led to the sale, takeover and bankruptcy of some of the largest financial institutions in the country. Two financial institutions involved in TriMet lease transactions discussed in note 10(b) and 10(c) have experienced rating downgrades that trigger collateralization requirements under the leases.

In June 2008, Moody's downgraded MBIA Insurance Corporation to A2. 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 September 2008, American International Group, Inc. ("AIG") was downgraded by Moody's to A2 and Standard and Poor's to A-, triggering collateralization requirements in the 1997 and 1998 lease transactions. On September 16, 2008, the federal government announced the takeover and liquidity infusion of AIG. AIG is required to collateralize obligations pursuant to the 1997 and 1998 lease transactions.

SUPPLEMENTARY INFORMATION

RECONCILIATION OF REVENUES AND EXPENSES (BUDGET BASIS) TO SCHEDULE OF REVENUES AND EXPENSES (GAAP BASIS)

FOR THE YEAR ENDED JUNE 30, 2008
(dollars in thousands)

	Operating Account	Debt Service Account	District Total
Budget basis			
Revenues	$ 964,327	$ 9,826	$ 974,153
Expenses	693,409	10,115	703,524
Revenues under expenses	$ 270,918	$ (289)	$ 270,629
Add budget requirements not qualifying as expenses under GAAP:			
Principal payments on long-term debt	13,126	7,625	20,751
Capital asset additions	317,524	-	317,524
Add (subtract) additional adjustments required by GAAP:			
Bond resources used to fund capital asset additions	(413,276)	-	(413,276)
Depreciation	(63,960)	-	(63,960)
Net leveraged lease income	(765)	-	(765)
OPEB Costs	(46,033)	-	(46,033)
Subtract budget resources not qualifying as revenues under GAAP:			
Federal, state and local government contributions	(151,522)	-	(151,522)
GAAP basis (loss) income before contributions and special items presented in statement of revenues, expenses and changes in net assets	$ (73,988)	$ 7,336	$ (66,652)

RECONCILIATION OF FUND BALANCE (BUDGET BASIS) TO NET ASSETS (GAAP BASIS)

JUNE 30, 2008

Budget basis ending fund balance	
General fund	$ 341,453
Debt service fund	10,453
	351,906
Reconciliation to GAAP basis:	
Net capital assets	1,894,754
Capital related debt	(471,333)
Invested portion of capital related debt	4,396
Other postemployment benefits	(46,033)
Prepaid lease expense	192,959
Long term restricted lease deposit	85,489
Long term deferred lease revenue	(123,582)
Long term lease liability	(127,044)
Deferred lease gain	(1,034)
GAAP basis net assets	$ 1,760,478

SCHEDULE OF REVENUES AND EXPENSES
BUDGET (BUDGET BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2008
(dollars in thousands)

OPERATING ACCOUNT

	Original Budget	Final Budget	Actual	Variance from Final Budget Over (Under)
Revenues				
Operating revenue	$ 103,004	$ 103,004	$ 112,618	$ 9,614
Tax revenue	220,262	220,262	215,133	(5,129)
Operating grant and other revenue	74,126	74,126	66,903	(7,223)
Capital program resources	3,512	3,512	4,043	531
Light rail program resources	342,827	342,827	560,757	217,930
Other non-operating resources	8,365	8,365	4,873	(3,492)
Total revenues	752,096	752,096	964,327	212,231
Expenses				
Operating program:				
Office of the general manager	2,393	2,443	2,241	(202)
Communications and technology	18,314	18,214	17,692	(522)
Finance and administration	12,049	12,881	12,366	(515)
General counsel/human resources	16,947	16,820	15,756	(1,064)
Operations	282,911	289,006	281,684	(7,322)
Capital projects and facilities	29,112	29,462	23,236	(6,226)
Debt service	23,464	23,464	18,037	(5,427)
Pass-through requirements	8,365	8,365	4,873	(3,492)
Contingency	10,750	3,650	-	(3,650)
Total operating program	404,305	404,305	375,885	(28,420)
Capital programs				
Communications and technology	2,054	2,054	2,026	(28)
Finance and administration	1,650	1,650	652	(998)
Operations	4,834	4,834	4,305	(529)
Capital projects and facilities	3,401	3,401	1,656	(1,745)
Total capital programs	11,939	11,939	8,639	(3,300)
Light rail programs				
Washington County Commuter Rail Project	77,588	77,588	71,949	(5,639)
I205/Portland Mall Light Rail Project	265,239	262,239	235,545	(26,694)
Milwaukie Light Rail Project	-	3,000	1,391	(1,609)
Total light rail programs	342,827	342,827	308,885	(33,942)
Total expenses	759,071	759,071	693,409	(65,662)
Revenues over(under) expenses	(6,975)	(6,975)	270,918	277,893
Beginning fund balance	70,824	70,824	70,535	(289)
Ending fund balance	$ 63,849	$ 63,849	341,453	$ 277,604

SCHEDULE OF REVENUES AND EXPENSES
BUDGET (BUDGET BASIS) AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2008
(dollars in thousands)

DEBT SERVICE ACCOUNT

	Original Budget	Final Budget	Actual	Variance from Final Budget Over (Under)
Revenues				
Previously levied taxes estimated to be received	350	350	447	97
Interest income	300	300	410	110
Taxes necessary to balance	8,907	8,907	8,969	62
Total revenues	9,557	9,557	9,826	269
Expenses				
Redemption of principal	$ 7,625	$ 7,625	$ 7,625	$ -
Interest expense	2,492	2,492	2,490	(2)
Total expenses	10,117	10,117	10,115	(2)
Revenues over(under) expenses	(560)	(560)	(289)	271
Beginning fund balance	9,724	9,724	10,742	1,018
Ending fund balance	$ 9,164	$ 9,164	10,453	$ 1,289

SCHEDULE OF PROPERTY TAX LEVIES AND COLLECTIONS
LAST FIVE FISCAL YEARS
FOR THE YEAR ENDED JUNE 30, 2008
(dollars in thousands)

		Collected within the fiscal year of levy			Total collections to date	
Fiscal year ended June 30	Tax levy for the fiscal year	Amount	Percentage of levy	Collections in subsequent years	Amount	Percentage of levy
2008	$ 9,514	$ 8,969	94%	$ -	$ 8,969	94%
2007	10,269	9,730	95%	210	9,940	97%
2006	11,971	11,343	95%	297	11,640	97%
2005	10,650	10,056	94%	301	10,357	97%
2004	10,011	9,444	94%	320	9,764	98%