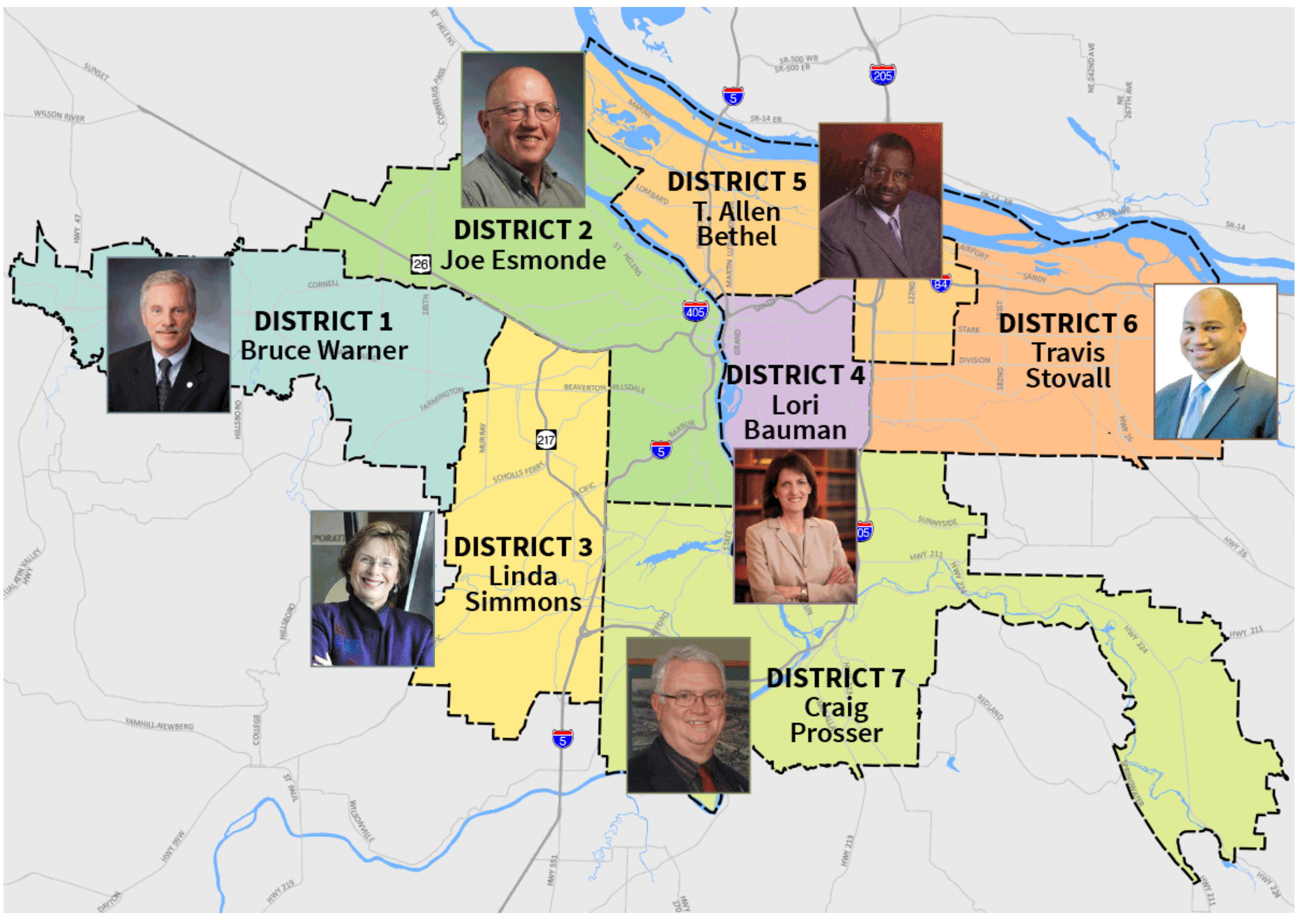
Report of Independent Auditors and Financial Statements with Supplementary Information
June 30, 2017 and 2016

(including Audit Comments and Disclosures Required by State Regulations)

Board of Directors

Name	District	Term Expires
Bruce Warner, President	#1	February 19, 2020
Joe Esmonde	#2	March 31, 2018
Linda Simmons	#3	May 31, 2019
Lori Irish Bauman	#4	May 31, 2019
Dr. T. Allen Bethel	#5	February 28, 2018
Travis Stovall	#6	February 19, 2020
Craig Prosser	#7	February 28, 2018



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

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Financial Section

Report of Independent Auditors

The Board of Directors
Tri-County Metropolitan Transportation District of Oregon

Report on the Financial Statements

We have audited the accompanying statements of net position of the Enterprise Fund and statements of fiduciary net position of the Retirement Plan for Management and Staff Employees, Pension Plan for Bargaining Unit Employees and total trust fund (pension plan trust funds) of Tri-County Metropolitan Transportation District of Oregon (the District), as of June 30, 2017 and 2016, and the statements of revenues, expenses, and changes in net position and cash flows of the Enterprise Fund for the years ended June 30, 2017 and 2016, and the statements of changes in fiduciary net position of the Pension Plan Trust Funds for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Enterprise Fund, the Retirement Plan for Management and Staff Employees, Pension Plan for Bargaining Unit Employees and total trust fund of the District as of June 30, 2017 and 2016, and the respective changes in financial position and cash flows for the Enterprise Fund, and changes in financial position for the Retirement Plan for Management and Staff Employees, Pension Plan for Bargaining Unit Employees, and total trust fund of the District for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The reconciliation of revenues and expenses (budget basis) to schedule of revenues and expenses (GAAP basis), reconciliation of fund balance (budget basis) to net position (GAAP basis), revenues and expenses budget (budget basis) and actual – general fund, the schedule of property tax levies and collections last five fiscal years, and schedule of property tax transactions and outstanding balances are presented for purposes of additional analysis and are not a required part of the basic financial statements.

These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, reconciliation of revenues and expenses (budget basis) to schedule of revenues and expenses (GAAP basis), reconciliation of fund balance (budget basis) to net position (GAAP basis), revenues and expenses budget (budget basis) and actual – general fund, the schedule of property tax levies and collections last five fiscal years, and schedule of property tax transactions and outstanding balances were fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with the Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated September 26, 2017, on our consideration of the District's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

Julie Desimone

Julie Desimone, Partner for
Moss Adams LLP
Portland, Oregon
September 26, 2017

Management's Discussion and Analysis

(dollars in thousands)

This section provides an overview and analysis of key data presented in the basic financial statements of Tri-County Metropolitan Transportation District of Oregon ("TriMet" or "the District") for the fiscal years ended June 30, 2017 and 2016, including the District operations within the Enterprise Fund, the TriMet Defined Benefit Retirement Plan for Management and Staff Employees Trust Fund and the Pension Plan for Bargaining Unit Employees of TriMet Trust Fund ("the Trust funds"). The Enterprise Fund accounts for all activities and operations of the District except for the activities included within the Trust funds. The TriMet Defined Benefit Retirement Plan for Management and Staff Employees Trust Fund accounts for the assets of the non-union employee benefit plan held by the District in a trustee capacity. The Pension Plan for Bargaining Unit Employees of TriMet Trust Fund accounts for the assets of the union employee benefit plan held by the District in a trustee capacity. Information within this section should be used in conjunction with the basic financial statements and accompanying notes. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The basic financial statements, presented on a comparative format for the years ended June 30, 2017 and 2016, are comprised of:

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

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

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

Statements of Pension Plan Fiduciary Net Position – This statement presents the Plan's assets and liabilities and the resulting net position restricted for pensions. The statement reflects the Plan's investments, at fair value, along with cash and cash equivalents, receivables and other assets and liabilities.

Statements of Changes in Pension Plan Fiduciary Net Position – This statement reflects the transactions that have increased or decreased the Plan's net position for the fiscal year. This statement reflects District contributions and investment earnings along with deductions for retirement benefits and administrative expenses.

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

ENTERPRISE FUND FINANCIAL HIGHLIGHTS

- Total operating and non-operating revenues were $575,316 for fiscal year 2017, an increase of 6.1 percent. The increase was the result of timing of receipts of prior year grant revenue authorization that occurred during fiscal year 2017, and increases in Payroll Tax revenues due to a rate increase in January 2017. Grant revenue increased 27.8 percent, totaling $92,708 for the fiscal year. Payroll Tax Revenue increased 3.7 percent, totaling $337,206 for the fiscal year.

Management's Discussion and Analysis

continued

(dollars in thousands)

- Total payroll and other tax revenues increased $12,132, or 3.7 percent, compared to fiscal year 2016. Employer payroll tax revenue increased $12,208, or 4.0 percent which indicates a leveling off of economic factors. Self employment and other tax revenues decreased slightly by $76, over fiscal year 2016.

  In 2004, the TriMet Board of Directors (Board) adopted Ordinance No. 279 increasing TriMet's employer payroll and self employment tax rate. The increase went into effect January 1, 2005 and was phased in over a 10 year period. The rate has increased by .0001 each January 1 since 2005 and the final increase occurred January 1, 2014, when it reached 0.007237.

  In 2009, the Legislative Assembly gave the TriMet Board the authority to increase the rate for payroll and self-employment taxes by an additional .001, in addition to any increases resulting from service area withdrawals. That legislation requires that the additional increases be phased in over ten years, prohibits any annual increase from exceeding .0002, and requires the TriMet Board to find, before implementing any additional increase, that the economy in the District has recovered to an extent sufficient to warrant the increase in tax. Effective January 1, 2016, the TriMet Board approved a 0.0001 increase as authorized by the 2009 legislation. The January 1, 2016 effective rate was 0.007337 and on January 1, 2017, the effective rate increased to 0.007437 as a result of the 2009 legislation.

- Grant revenue increased $20,158, or 27.8 percent, compared to fiscal year 2016. Revenues in this category include Federal Preventive Maintenance Funds and other operating support. Revenues under these programs are recognized when the grants are approved/authorized by the granting agency, funds are appropriated, and eligible expenses have been incurred. As such, the increase in revenues in the current year resulted from timing differences in grant approval during the year, as compared to the prior year. The increase was noted in receipts of the Urbanized Area Formula Funds grant.

- Passenger revenue was $116,895 for the fiscal year, a decrease of 1.0 percent. Pass revenue accounted for the majority of this decrease.

- Total operating and non-operating expenses increased 2.3 percent to $646,197, during fiscal year 2017. Labor expense increased 7.1 percent. The change is a combination of a decrease in labor reimbursements on capital grant projects and an increase in union salaries and wages in transportation operations and regular pay increases for employees. Fringe benefits expense decreased by $8,590, or 4.5 percent, as a result of a reduction in capital grant reimbursements for Capital Project activity charged to projects. Materials and services expenses increased 9.6 percent, or $8,579, primarily due to contract costs for the draft environmental impact statements for the Southwest Corridor project to connect SW Portland communities through high capacity transit. In addition, rail equipment maintenance expense increased over the prior year due to increased consumption in high valued material for the District's light rail fleet. Purchased transportation increased 8.3 percent to $30,301. The increase was noted in contracted services for paratransit services.

- Total net position at June 30, 2017, was $2,024,504, an increase of 1.7 percent from 2016. The increase in net position attributable to the following factors:

  - Reduction in long-term debt as the 2007 Series Payroll Tax revenue bonds and the 2005 Series Capital Grant Receipt bonds were paid off during the fiscal year.

  - Decrease in the net pension liability as the defined benefit pension plans are closed to new participants and the District has committed to bring both the union and non-union pension plans to a fully funded status.

- Total capital assets, net of accumulated depreciation, were $2,997,401 at June 30, 2017, a decrease of $46,985 or 1.5% from 2016. The decrease is noted in rail, right of way and stations in service and the related depreciation expense.

Management's Discussion and Analysis

continued

(dollars in thousands)

ENTERPRISE FUND FINANCIAL SUMMARY

Net Position

As previously noted, the District's total net position at June 30, 2017, was $2,024,504, an increase of $33,280 or 1.7 percent from June 30, 2016 (see Table 1). Total assets and deferred outflows of resources increased $5,523, or 0.1 percent, and total liabilities and deferred inflows of resources decreased $27,757 or 1.6 percent. The slight increase in total assets and deferred outflows is due an increase in investments related to debt issued in fiscal year 2017 and the overall decrease on the unamortized loss on pension assets related to the net pension liability. The decrease in total liabilities and deferred outflows is due to a decrease in the net pension liability and the final payment on one of the lease-leaseback transactions during fiscal year 2017.

Total net position at June 30, 2016, was $1,991,224, an increase of $40,245 or 2.1 percent from June 30, 2015 (see Table 1). Total assets and deferred outflows of resources increased $107,056, or 3.0 percent, and total liabilities and deferred inflows of resources increased $66,811 or 4.0 percent. The increase in total assets is due primarily to increases in capital assets associated with the construction of the Portland to Milwaukie light rail project ("PMLR"), increases in Payroll tax receivable as a result of increases in rate and improved economic conditions, and increase in Grants receivable due to timing of receipt of grants in the current year. The increase in total liabilities and deferred inflows is due primarily to issuance of debt to fund capital acquisitions in future months, and increases in the Net Pension liability.

Table 1

Net Position
As of June 30
(dollars in thousands)

				Increase (decrease)			
				2017 - 2016		2016 - 2015	
	2017	2016	2015	$	%	$	%
Assets							
Current and other assets	$ 658,856	$ 581,040	$ 537,706	$ 77,816	13.4 %	$ 43,334	8.1 %
Capital assets, net of depreciation	2,997,401	3,044,386	3,011,510	(46,985)	(1.5)%	32,876	1.1 %
Total assets	3,656,257	3,625,426	3,549,216	30,831	0.9 %	76,210	2.1 %
Deferred outflows of resources	61,502	86,810	55,964	(25,308)	(29.2)%	30,846	55.1 %
Total assets and deferred outflows of resources	$ 3,717,759	$ 3,712,236	$ 3,605,180	$ 5,523	0.1 %	$ 107,056	3.0 %
Liabilities							
Current liabilities	$ 193,557	$ 210,594	$ 152,525	$ (17,037)	(8.1)%	$ 58,069	38.1 %
Noncurrent liabilities	1,428,745	1,443,811	1,421,120	(15,066)	(1.0)%	22,691	1.6 %
Total liabilities	1,622,302	1,654,405	1,573,645	(32,103)	(1.9)%	80,760	5.1 %
Deferred inflows of resources	70,953	66,607	80,556	4,346	6.5 %	(13,949)	(17.3)%
Net position							
Net investment in capital assets	2,509,481	2,502,486	2,416,392	6,995	0.3 %	86,094	3.6 %
Restricted	35,892	11,296	52,216	24,596	217.7 %	(40,920)	(78.4)%
Unrestricted	(520,869)	(522,558)	(517,629)	1,689	(0.3)%	(4,929)	1.0 %
Total net position	2,024,504	1,991,224	1,950,979	33,280	1.7 %	40,245	2.1 %
Total liabilities, deferred inflows of resources, and net position	$ 3,717,759	$ 3,712,236	$ 3,605,180	$ 5,523	0.1 %	$ 107,056	3.0 %

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

Current and other assets increased $77,816, or 13.4 percent, in 2017, due primarily to increases in Investments related to debt issuance in fiscal year 2017 and an increase in Payroll Tax receivable as a result of increases in rate and improved economic conditions.

Current and other assets increase $43,334 or 8.1 percent, in 2016, due primarily to increases in Grants Receivable in the current year. The increase was due to timing of grant authorizations in the current year.

Current liabilities consist primarily of accounts payable, accrued compensation, current portion of bonds payable and unearned revenue. The decrease in Current liabilities of $17,037, or 8.1 percent in 2017 was due to decreases in long-term debt as maturities came due and the final payment on a lease-leaseback transaction in fiscal year 2017. The increase in Current liabilities of $58,069, or 38.1 percent, in 2016 was due to the increase in current portion of long-term debt, as principal payments on the interim financing for the Portland to Milwaukie Light Rail project begin to come due in the upcoming year. These payments are funded by the final grant draws for the project. This increase was offset by a decrease in unearned revenue associated with the Portland to Milwaukie project, as contributions were recognized in conjunction with related construction costs.

Noncurrent liabilities consist primarily of long-term debt, long-term lease liabilities, net pension liabilities and OPEB liabilities. Noncurrent liabilities decreased $15,066, or 1.0 percent, in 2017, primarily due to decreases in long-term debt of $11,953 as maturities came due, decreases in net pension liability of $50,469 partially offset by an increase in OPEB liability of $43,231. Noncurrent liabilities decreased $22,691, or 1.6 percent, in 2016, primarily due to issuance of debt, increases in OPEB liability of $45,606, increases in Net pension liability of $24,524, offset by decreases in Long term debt of $34,155 resulting from debt principal payments during the year, and the shift to current liabilities of the first principal payment on the interim financing noted above, and decreases in Unearned lease revenue of $5,051 as the amortization of the deferred balance transferred to a current liability.

Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the amount of outstanding indebtedness attributable to the acquisition, construction, or improvement of those assets. When there are significant unspent bond proceeds, the proceeds are an offset to the related indebtedness.

Net position restricted includes amounts restricted for principal and interest payments of amounts due related to outstanding revenue bonds (discussed in Note 5), as well as restricted deposits related to the lease transactions (discussed in Note 8), and other funds that are restricted in purpose.

Unrestricted net position has a negative balance for both fiscal years 2017 and 2016. This is primarily attributable to the net pension liability and other postemployment benefits (OPEB) obligation in the District's financial statements. Net pension liabilities recorded on the statement of net position totaled $151,504 and $201,973 for the years ended June 30, 2017 and 2016, respectively. The decrease from the prior year in the net pension liabilities is due to an increase in retirements and the District's defined benefits plans are closed plans. OPEB obligation recorded on the statement of net position totaled $563,846 and $520,615 for the years ended June 30, 2017 and 2016, respectively. This increase over the prior year is due to an increase in retirements coupled with rising healthcare costs. The OPEB plan remains open for union employees.

Changes in Net Position

The District's total revenues increased $31,997, or 5.9 percent, during fiscal year 2017 (see Table 2). Passenger revenue decreased $1,174, or 1.0 percent, Payroll and other tax revenue increased $12,132, or 3.7 percent, and Grant revenue increased $20,158, or 27.8 percent, due to timing of appropriations as discussed above.

The District's total revenues increased $48,628, or 9.9 percent, during fiscal year 2016 (see Table 2). Passenger revenue increased $1,335, or 1.1 percent, Payroll and other tax revenue increased $32,997, or 11.3 percent, and Grant revenue increased $24,954, or 52.4 percent, due to timing of appropriations as discussed above.

In fiscal year 2017, the Oregon economy continued to outperform the average state due to our industrial structure and ability to attract and retain working-age households. The state's labor market is still relatively tight. In recent months the transportation sector has surpassed its pre-recession levels. During the economic downturn, TriMet took steps to cut costs, including reduction of service. The efforts made during the financial recession combined with an improved economy, have improved the financial condition of TriMet, allowing for restoration and expansion of service levels and overall strengthening of the District's financial position.

Management's Discussion and Analysis

continued

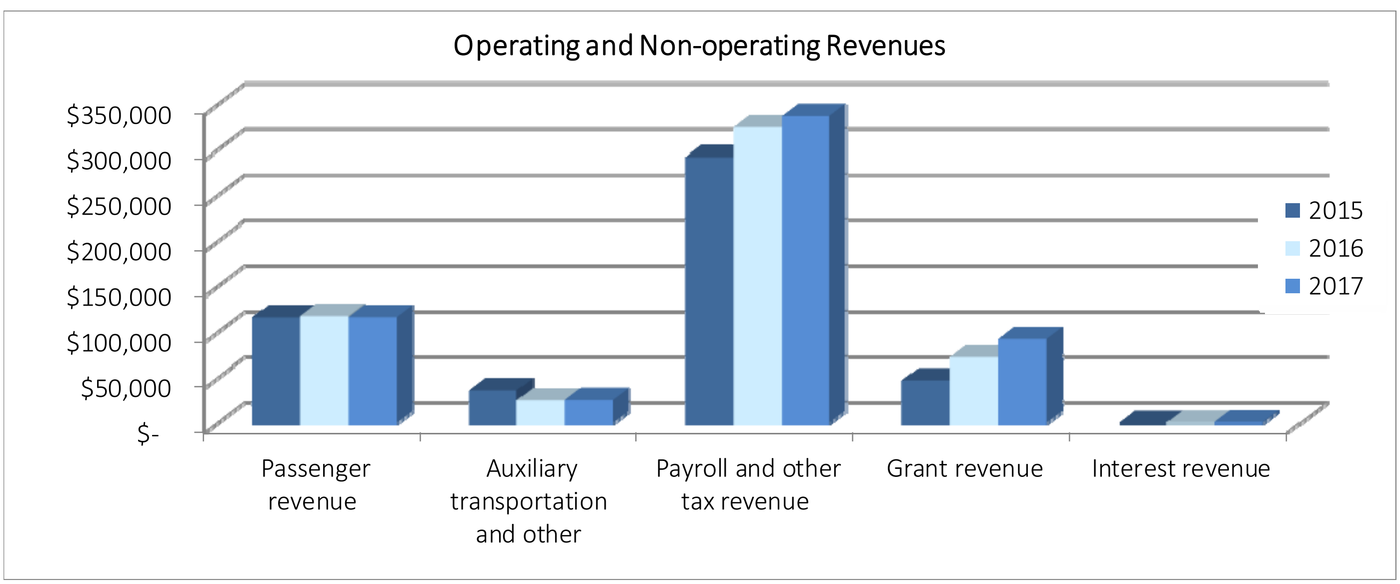
(dollars in thousands)

Table 2

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

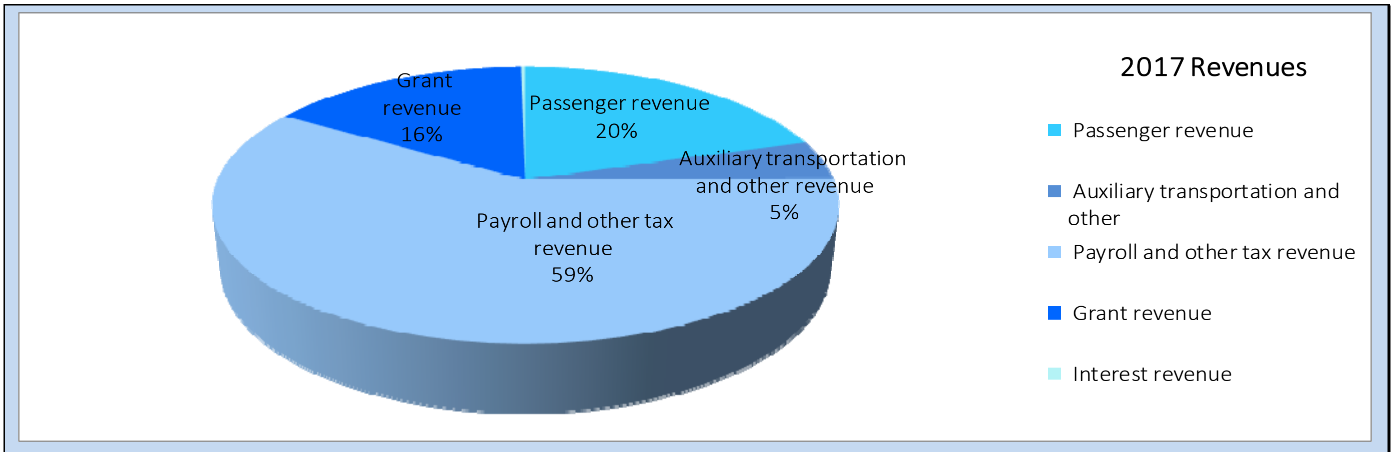
				Increase (decrease)			
				2017 - 2016		2016 - 2015	
	2017	2016	2015	$	%	$	%
Revenues							
Operating revenues							
Passenger revenue	$ 116,895	$ 118,069	$ 116,734	$ (1,174)	(1.0)%	$ 1,335	1.1 %
Auxiliary transportation and other	26,000	25,704	36,701	296	1.2 %	(10,997)	(30.0)%
Non-operating revenues							
Payroll and other tax revenue	337,206	325,074	292,077	12,132	3.7 %	32,997	11.3 %
Grant revenue	92,708	72,550	47,596	20,158	27.8 %	24,954	52.4 %
Interest revenue	1,388	803	464	585	72.9 %	339	73.1 %
Total operating and non-operating revenues	574,197	542,200	493,572	31,997	5.9 %	48,628	9.9 %
Expenses							
Labor	166,117	155,069	139,920	11,048	7.1 %	15,149	10.8 %
Fringe benefits	181,795	190,385	166,847	(8,590)	(4.5)%	23,538	14.1 %
Materials and services	98,160	89,581	82,913	8,579	9.6 %	6,668	8.0 %
Utilities	10,647	9,488	8,573	1,159	12.2 %	915	10.7 %
Purchased transportation	30,301	27,979	36,396	2,322	8.3 %	(8,417)	(23.1)%
Depreciation expense	129,750	132,999	91,555	(3,249)	(2.4)%	41,444	45.3 %
Other operating expense	10,597	10,181	10,340	416	4.1 %	(159)	(1.5)%
Net leveraged lease (income) expense	(1,119)	(278)	206	(841)	302.5 %	(484)	(235.0)%
Interest and other expense	18,830	16,227	2,703	2,603	16.0 %	13,524	500.3 %
Total expenses	645,078	631,631	539,453	13,447	2.1 %	92,178	17.1 %
Loss before contributions	(70,881)	(89,431)	(45,881)	18,550	(20.7)%	(43,550)	94.9 %
Capital contributions	104,161	129,676	226,380	(25,515)	(19.7)%	(96,704)	(42.7)%
Increase in net position	33,280	40,245	180,499	(6,965)	(17.3)%	(140,254)	(77.7)%
Total net position - beginning	1,991,224	1,950,979	1,770,480	40,245	2.1 %	180,499	10.2 %
Total net position - ending	$ 2,024,504	$1,991,224	$ 1,950,979	$ 33,280	1.7 %	$ 40,245	2.1 %

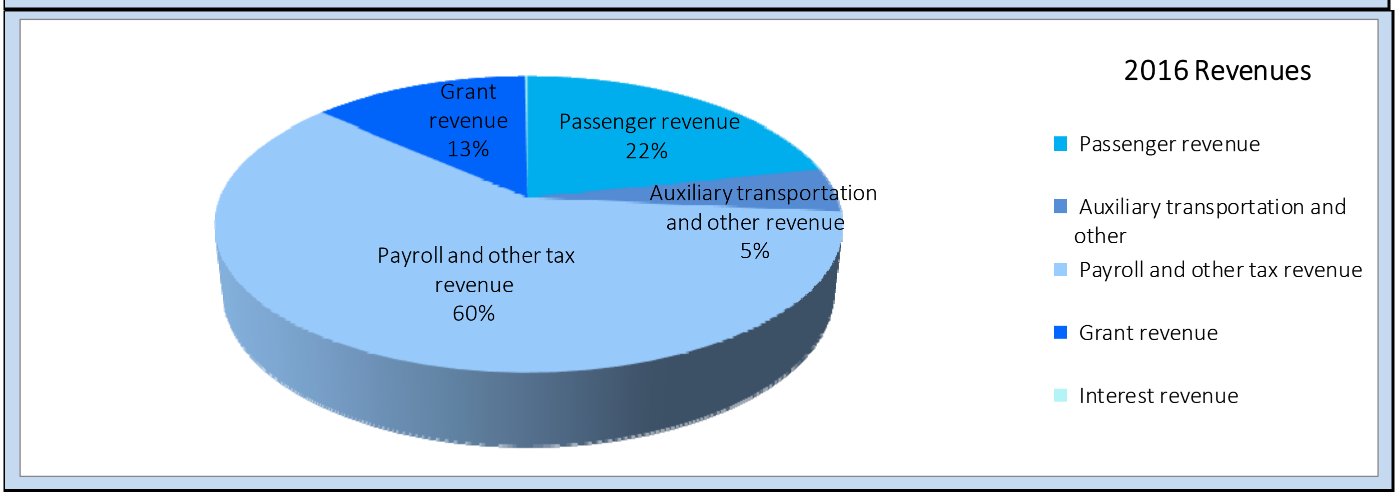
The following chart displays trends in Operating and Non-operating Revenues for the last three fiscal years:



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

The following charts display the allocation of District revenues for fiscal years 2017 and 2016:





Operating Revenues

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

Passenger Revenue
Passenger revenue includes fares earned from cash receipts from riders for the sale of passes and tickets, and employer paid pass and other group fare revenue programs. In fiscal year 2017, the District experienced an overall decrease in passenger revenue of 2.0 percent.

Auxiliary Transportation and Other Revenue
Auxiliary Transportation and Other Revenue includes revenue from LIFT service, Streetcar operating revenues, Local grants and operating assistance from other local governments. In fiscal year 2017, auxiliary transportation and other revenues increased $296. In fiscal year 2016, auxiliary transportation and other revenues decreased $10,997, resulting from decreases in Medical Transportation revenues associated with the transition of this service to another contractor by the State of Oregon in December 2014.

Non-operating Revenues

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

Management's Discussion and Analysis

continued

(dollars in thousands)

Payroll and Other Tax Revenues

Payroll tax revenues are the District's main source of revenue. Payroll and other tax revenues increased $12,132, or 3.7 percent in fiscal year 2017. In fiscal year 2016, payroll and other tax revenues increased $32,997, or 11.3 percent, compared to fiscal year 2015.

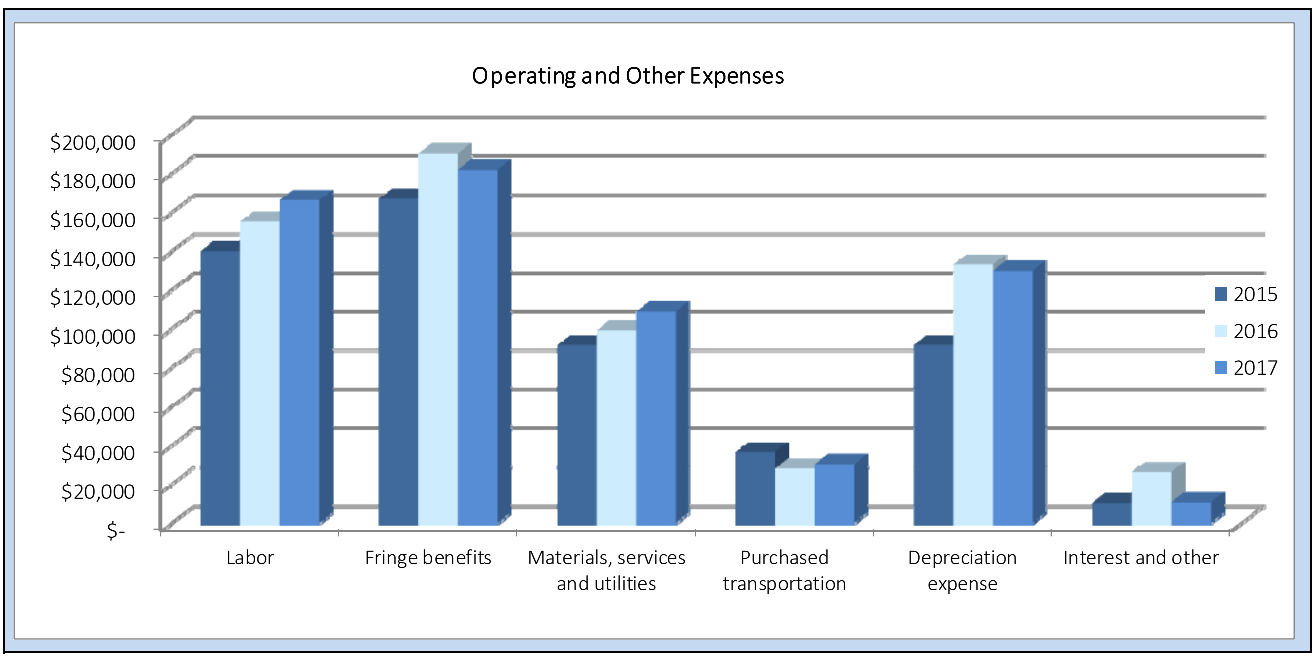
Operating and Other Expenses

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

Total expenses increased $13,447, or 2.1 percent, during fiscal year 2017. Labor costs increased $11,048, or 7.1 percent, and Fringe benefits decreased $8,590, or 4.5 percent, resulting primarily from a decrease in capital project reimbursement costs due to a reduction in the overall capital program expense during fiscal year 2017. Materials and services increased $8,579, or 9.6 percent, due primarily to a new contract for draft environmental impact services related to the Southwest Corridor project.

Total expenses increased $92,178, or 17.1 percent, during fiscal year 2016. Labor costs increased $15,149, or 10.8 percent, and Fringe benefits increased $23,538, or 14.1 percent, resulting primarily from increased staffing levels in the current year. Materials and services increased $6,668, or 8.0 percent, due primarily to increases in costs related to Portland Streetcar and increases in property maintenance and security services as a result of the opening of the Portland to Milwaukie Light Rail (PMLR). Purchased transportation decreased $8,417, or 23.1 percent during fiscal year 2016 as the result of the transition of the Medical Transportation program to another service provider in January 2015.

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



Capital Contributions

Capital contributions include federal grants and other local government contributions restricted for purchase or construction of capital assets. Capital contributions decreased $25,515 during fiscal year 2017, as the PMLR project opened during fiscal year 2016. Capital contributions decreased $96,704, during fiscal year 2016, due to timing of contributions recognized in relation to PMLR.

Management's Discussion and Analysis

continued
(dollars in thousands)

Capital Assets

At June 30, 2017, the District had invested $2,997,401, in capital assets, net of accumulated depreciation (see Table 3 and Note 4).

Table 3

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

				Increase (decrease)			
				2017 - 2016		2016 - 2015	
	2017	2016	2015	$	%	$	%
Land and other	$ 232,785	$ 231,713	$ 232,347	$ 1,072	0.5 %	$ (634)	(0.3)%
Rail right-of-way and stations	1,552,437	1,603,548	1,113,195	(51,111)	(3.2)%	490,353	44.0 %
Buildings	528,429	539,228	187,231	(10,799)	(2.0)%	351,997	188.0 %
Transportation equipment	414,518	413,514	291,464	1,004	0.2 %	122,050	41.9 %
Furniture and other equipment	143,810	157,262	60,491	(13,452)	(8.6)%	96,771	160.0 %
Construction in progress	125,422	99,121	1,126,782	26,301	26.5 %	(1,027,661)	(91.2)%
Total capital assets	$ 2,997,401	$ 3,044,386	$ 3,011,510	$ (46,985)	(1.5)%	$ 32,876	1.1 %

Total capital assets net of depreciation decreased $46,985, or 1.5 percent, during fiscal year 2017, primarily due to the impact of depreciation of assets in service. Total capital assets net of depreciation increased $32,876, or 1.1 percent, during fiscal year 2016, due to construction on PMLR, offset by the impact of depreciation of assets in service. PMLR extended TriMet's light rail system from Portland State University, to the South Waterfront, adding a new transit and pedestrian bridge across the Willamette River, and extending through Southeast Portland to the City of Milwaukie. The line opened in September 2015.

Long-Term Debt

Long-term debt includes revenue bonds guaranteed by payroll tax and grant receipt revenues. At June 30, 2017, the District had $692,940 in revenue bonds outstanding (see Note 5).

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

Table 4

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

Revenue bonds	Original issue amount	Balance at June 30, 2017	Moody's	Standard & Poor's
Payroll Tax Revenue Bonds:				
2009 Series A and B Payroll Tax	$ 49,550	$ 17,510	Aaa	AAA
2012 Series A Payroll Tax	93,290	16,050	Aaa	AAA
2015 Series A and B Payroll Tax	134,590	128,940	Aaa	AAA
2016 Series A Payroll Tax	74,800	74,800	Aaa	AAA
2017 Series A Payroll Tax	97,430	97,430	Aaa	AAA
Payroll Tax and Grant Receipt Revenue Bonds:				
2013 Series Payroll Tax and Grant Receipt	325,000	225,000	Aa3	A+
Grant Receipt Revenue Bonds:				
2011 Series A and B Capital Grant Receipt	142,380	133,210	A3	A

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

Lease Transactions

In prior years, TriMet entered into several lease-leaseback and sale-leaseback transactions (1997/1998 lease transactions) with investors (see Note 8). During fiscal year 2015, the District received a put option related to one sale-leaseback. The transaction closed on December 15, 2015. During fiscal year 2016, the District received a put option related to the remaining sale-leaseback. The transaction closed on June 15, 2016. As of June 30, 2017, the final termination payment of $5,051 was paid and completed in December 2016. The District is not aware of any default, event of default or event of loss under any of the operative lease documents at June 30, 2017. The District has one remaining lease transaction (2005 lease transaction) outstanding at year-end.

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

The TriMet Defined Benefit Retirement Plan for Management and Staff Employees Trust Fund accounts for the assets of the employee benefit plan held by TriMet in a trustee capacity. The plan covers most TriMet non-union employees hired before April 27, 2003. Covered employees who retire at or after age 62, with five years of service, are entitled to an annual retirement benefit, payable monthly for life, with annual cost of living increases. TriMet is required to maintain funds under the plan sufficient to pay benefits when due. The following chart displays assets, liabilities, and net position of the trust fund as well as the funded status of the plan as of June 30, 2017, 2016, and 2015:

Table 5

Trust Net Position
As of June 30
(dollars in thousands)

	2017	2016	2015
Trust assets	$ 123,982	$ 115,034	$ 111,141
Trust liabilities	26	37	41
Trust net position	$ 123,956	$ 114,997	$ 111,100
Total pension liability	$ 138,988	$ 133,362	$ 129,132
Funded percentage	89%	86%	86%

Total net position as of June 30, 2017 increased by $8,959 or 7.8 percent, due to employer contributions recorded in the plan of $6,330 in fiscal year 2017, the increase in fair market value of investments, and offset by reductions due to payment of retirement benefits under the terms of the plan (see Note 12). Total net position as of June 30, 2016 increased by $3,897 or 3.5 percent, due to employer contributions recorded in the plan of $7,036 in fiscal year 2016, the increase in fair market value of investments, and offset by reductions due to payment of retirement benefits under the terms of the plan. TriMet's board adopted a funding policy for the plan in 2014. Employer contributions to the plan are funded on a monthly basis.

The following chart displays changes in net position for the years ended June 30, 2017, 2016, and 2015:

Table 6

Changes in Trust Net Position
For the years ended June 30
(dollars in thousands)

	2017	2016	2015
Employer contributions	$ 6,330	$ 7,036	$ 6,559
Investment earnings	7,991	1,460	2,019
Total additions	14,321	8,496	8,578
Benefit payments	5,286	4,502	4,458
Administrative expenses	76	97	112
Total deductions	5,362	4,599	4,570
Increase in net position	8,959	3,897	4,008
Trust net position, beginning	114,997	111,100	107,092
Trust net position, ending	$ 123,956	$ 114,997	$ 111,100

Management's Discussion and Analysis

continued
(dollars in thousands)

THE PENSION PLAN FOR BARGAINING UNIT EMPLOYEES OF TRIMET TRUST FUND

The Pension Plan for Bargaining Unit Employees of TriMet Trust Fund accounts for the assets of the employee benefit plan held by TriMet in a trustee capacity. The plan covers all full-time and part-time employees represented by the Amalgamated Transit Union hired before August 1, 2012. Benefits under the plan are 100 percent vested after 10 years of service. Under the terms of the Bargaining Unit Pension Plan and Permanent Disability Agreement, covered members retiring at or after age 58 with 10 or more years of service will receive a monthly benefit for life with annual cost of living adjustments. TriMet is required to maintain funds under the plan sufficient to pay benefits when due. The following chart displays assets, liabilities, and net position of the trust fund as well as the funded status of the plan as of June 30, 2017, 2016, and 2015:

Table 7

Trust Net Position
As of June 30
(dollars in thousands)

	2017	2016	2015
Trust assets	$ 521,059	$ 473,024	$ 466,012
Trust liabilities	132	195	197
Trust net position	$ 520,927	$ 472,829	$ 465,815
Total pension liability	$ 657,399	$ 656,437	$ 625,233
Funded percentage	79%	72%	75%

Total net position as of June 30, 2017 increased by $48,098, or 10.2 percent, due to employer contributions to the plan of $37,859 in fiscal year 2017, the increase in fair market value of investments and offset by reductions due to payment of retirement benefits under the terms of the plan (see Note 13). Total net position as of June 30, 2016 increased by $7,014, or 1.5 percent, due to employer contributions to the plan of $39,805 in fiscal year 2016, the increase in fair market value of investments and offset by reductions due to payment of retirement benefits under the terms of the plan. TriMet's board adopted a funding policy for the plan in 2014. Employer contributions to the plan are funded on a monthly basis. The following chart displays changes in net position for the years ended June 30, 2017, 2016, and 2015:

Table 8

Changes in Trust Net Position
For the years ended June 30
(dollars in thousands)

	2017	2016	2015
Employer contributions	$ 37,859	$ 39,805	$ 37,793
Investment earnings	46,645	1,949	12,294
Total additions	84,504	41,754	50,087
Benefit payments	36,159	34,458	32,269
Administrative expenses	247	282	353
Total deductions	36,406	34,740	32,622
Increase in net position	48,098	7,014	17,465
Trust net position, beginning	472,829	465,815	448,350
Trust net position, ending	$ 520,927	$ 472,829	$ 465,815

Management's Discussion and Analysis

continued

(dollars in thousands)

ECONOMIC FACTORS AND FISCAL YEAR 2018 BUDGET

The District's Board of Directors adopted the fiscal year 2018 budget on May 24, 2017. The fiscal year 2018 budget includes $868,228 in total appropriations, a 2.4 percent decrease from fiscal year 2017. The budget focuses on payroll tax increases, changes in service, the cost of operating and maintaining the existing transit system, and continued commitment to strengthen pension reserves. The fiscal year 2018 adopted budget can be found on line under "Financial Information" and "Budgets" at: https://trimet.org/about/accountability.htm#policy

The fiscal year 2018 budget also includes the District's new electronic fare system, Hop Fastpass™, as well as light rail reliability improvements and system wide safety enhancements. For the fifth consecutive year, the budget does not include any increase in fares. Highlights from the $1.2 billion operating budget include:

- Bus service expansion – the District is the in the second year of a 10-year expansion of service funded in part from an increase in the employer payroll tax. In fiscal year 2018, bus service hours will increase 3.4 percent or 1,200 hours per week.
- New buses – purchase and deliver of new buses by the end of fiscal year 2018 to bring the total number of new-model buses to 433 and the average age of the fleet will be reduced to about eight years, which is the industry standard.
- Hop Fastpass – a new regional fare card launched in July 2017. More information about this program can be found at: myhopcard.com
- Safety enhancements – investments in safety and security includes a new transit police precinct, rail crossing improvements and enhanced training for rail operators.

Also significant in the 2018 budget and years ahead is the State of Oregon House Bill 2017 that passed in July 2017, a major transportation tax and spending bill that is estimated to raise approximately $3.8 billion in new tax and fee revenue over the next seven years to be spent on road and bridge maintenance, new highway construction and transit services around the state. The transportation bill includes a statewide payroll tax of .1 percent paid by employees to fund transit districts. The new payroll tax is estimated to raise $115 million a year and would be split among the state's transit districts, including Tri-County Metropolitan Transportation District of Oregon. The funds are to be used primarily to increase bus service.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

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

Enterprise Fund
Statements of Net Position

June 30, 2017 and 2016
(dollars in thousands)

Assets	2017	2016
Current assets (unrestricted):		
Cash and cash equivalents	$ 77,321	$ 58,590
Investments	28,845	4,323
Taxes and other receivables, net	103,510	98,560
Grants receivable	16,636	40,125
Prepaid expenses	7,668	10,205
Current assets (restricted):		
Cash and cash equivalents	90,580	57,740
Investments	120,220	102,463
Taxes and other receivables, net	160	204
Grants receivable	101,136	100,658
Prepaid expenses	638	724
Prepaid lease expenses and deposits	-	5,051
Total current assets	546,714	478,643
Capital assets		
Land and other	232,785	231,713
Construction in process	125,422	99,121
Property and equipment	4,157,256	4,121,284
Less accumulated depreciation	(1,518,062)	(1,407,732)
Net capital assets	2,997,401	3,044,386
Prepaid lease expenses	71,424	67,840
Materials, supplies and other	39,059	32,765
Other assets	1,659	1,792
Total assets	3,656,257	3,625,426
Deferred outflows of resources		
Unamortized loss on pension assets	55,574	80,070
Unamortized loss on refunded debt	5,928	6,740
Total deferred outflows of resources	61,502	86,810
Total assets and deferred outflows of resources	$ 3,717,759	$ 3,712,236

See accompanying notes to basic financial statements

Enterprise Fund
Statements of Net Position

June 30, 2017 and 2016
(dollars in thousands)
continued

Liabilities	2017	2016
Current liabilities (unrestricted):		
Accounts payable	$ 27,835	$ 24,300
Accrued payroll	20,579	19,322
Current portion of noncurrent liabilities	6,021	6,881
Unearned revenue	12,468	12,921
Current liabilities (restricted):		
Accounts payable	4,075	10,463
Current portion of long-term debt	101,040	111,533
Unearned revenue	1,000	1,000
Unearned capital project revenue	12,474	12,398
Other accrued liabilities	8,065	6,725
Unearned lease revenue, current portion	-	5,051
Total current liabilities	193,557	210,594
Noncurrent liabilities:		
Long-term debt	639,675	651,628
Long-term lease liability	59,321	55,914
Net pension liability	151,504	201,973
Other postemployment benefits liability	563,846	520,615
Other long-term liabilities	14,399	13,681
Total noncurrent liabilities	1,428,745	1,443,811
Total liabilities	1,622,302	1,654,405
Deferred inflows of resources		
Unamortized gain on pension investments	54,583	49,295
Unamortized gain on leases	16,370	17,312
Total deferred inflows of resources	70,953	66,607
Net position		
Net investment in capital assets	2,509,481	2,502,486
Restricted	35,892	11,296
Unrestricted	(520,869)	(522,558)
Total net position	2,024,504	1,991,224
Total liabilities, deferred inflows of resources and net position	$ 3,717,759	$ 3,712,236

See accompanying notes to basic financial statements

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

For the Years Ended June 30, 2017 and 2016
(dollars in thousands)

	2017	2016
Operating revenues		
Passenger revenue	$ 116,895	$ 118,069
Auxiliary transportation and other revenue	26,000	25,704
Total operating revenues	142,895	143,773
Operating expenses		
Labor	166,117	155,069
Fringe benefits	181,795	190,385
Materials and services	98,160	89,581
Utilities	10,647	9,488
Purchased transportation	30,301	27,979
Depreciation expense	129,750	132,999
Other operating expense	10,597	10,181
Total operating expenses	627,367	615,682
Operating loss	(484,472)	(471,909)
Non-operating revenues (expenses)		
Payroll and other tax revenue	337,206	325,074
Grant revenue	92,708	72,550
Interest income	1,388	803
Net leveraged lease income (expense)	1,119	278
Interest and other expense	(18,830)	(16,227)
Total non-operating revenues, net	413,591	382,478
Loss before contributions	(70,881)	(89,431)
Capital contributions	104,161	129,676
Changes in net position	33,280	40,245
Total net position - beginning	1,991,224	1,950,979
Total net position - ending	$ 2,024,504	$ 1,991,224

See accompanying notes to basic financial statements

Enterprise Fund
Statements of Cash Flows

For the Years Ended June 30, 2017 and 2016
(dollars in thousands)

	2017	2106
Cash flows from operating activities		
Receipts from passengers	$ 116,193	$ 117,136
Receipts from other sources	26,153	18,916
Payments to employees	(319,654)	(315,271)
Payments to suppliers	(160,642)	(135,133)
Net cash used in operating activities	(337,950)	(314,352)
Cash flows from noncapital financing activities		
Receipts from payroll taxes	332,231	316,054
Receipts from operating grants	116,230	57,900
Net cash provided by noncapital financing activities	448,461	373,954
Cash flows from capital and related financing activities		
Receipts from capital grants	103,726	8,453
Receipts from (Increase in) property taxes	(2)	22
Payments on leases	-	(207)
Receipts from sales or lease of capital assets	503	235
Acquisition and construction of capital assets	(83,197)	(129,349)
Issuance of long-term debt	110,351	209,390
Principal payments on long-term debt	(122,928)	(155,840)
Interest payments on long-term debt	(26,547)	(22,406)
Net cash used by capital and related financing activities	(18,094)	(89,702)
Cash flows from investing activities		
Purchases of investment securities	(634,564)	(462,664)
Proceeds from sales and maturities of investment securities	592,285	518,520
Interest received	1,433	1,256
Net cash provided by investing activities	(40,846)	57,112
Net (decrease) increase in cash and cash equivalents	51,571	27,012
Cash and cash equivalents, beginning of year	116,330	89,318
Cash and cash equivalents, end of year	$ 167,901	$ 116,330
Reconciliation of cash and cash equivalents		
Unrestricted cash and cash equivalents	$ 77,321	$ 58,590
Restricted cash and cash equivalents	90,580	57,740
Total cash and cash equivalents	$ 167,901	$ 116,330

See accompanying notes to basic financial statements

Enterprise Fund
Statements of Cash Flows

For the Years Ended June 30, 2017 and 2016
(dollars in thousands)
continued

Reconciliation of operating loss to net cash used in operating activities

	2017	2016
Operating loss	$ (484,472)	$ (471,909)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	129,750	132,999
(Gain) loss on disposal of capital assets	(71)	(191)
(Increase) decrease in taxes and other receivables	26	(1,221)
(Increase) decrease in prepaid and other assets	2,756	2,631
Increase (decrease) in materials, supplies and other	(6,294)	(6,193)
Increase (decrease) in operating accounts payable	(2,853)	8,020
Increase (decrease) in accrued payroll	1,257	(5,595)
Increase (decrease) in unearned revenue	(453)	(5,873)
Increase (decrease) in net pension liability	(20,685)	(12,892)
Increase (decrease) in other postemployment benefit liability	43,231	45,606
Increase (decrease) in other liabilities	(142)	266
Total adjustments	146,522	157,557
Net cash used in operating activities	$ (337,950)	$ (314,352)

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

(dollars in thousands)

	2017	2016
Net leveraged lease expense	$ 1,119	$ 278
Accretion/amortization of investments	(19,398)	(3,245)
Fiber optic lease	365	329

See accompanying notes to basic financial statements

Trust Fund
Statements of Pension Plan Fiduciary Net Position

June 30, 2017
(dollars in thousands)

	2017		
	Trust Fund		
	Retirement Plan for Management and Staff Employees	Pension Plan for Bargaining Unit Employees	Total
Assets			
Cash and cash equivalents	$ 927	$ 2,331	$ 3,258
Investments:			
Domestic Large/Mid Cap Equity	26,666	144,203	170,869
Domestic Small Cap Equity	3,534	17,666	21,200
International Equity	23,219	121,388	144,607
Domestic Fixed Income	17,412	51,919	69,331
Tactical Asset Allocation	17,405	37,013	54,418
Real Estate	10,863	52,363	63,226
Absolute Return	16,541	74,974	91,515
Private Credit	613	10,206	10,819
Private Equity	6,801	8,994	15,795
Total investments	123,054	518,726	641,780
Receivables:			
Investment earnings receivable	1	2	3
Total receivables	1	2	3
Total assets	123,982	521,059	645,041
Liabilities			
Accounts payable	26	132	158
Total liabilities	26	132	158
Net position			
Held in trust for pension benefits	$ 123,956	$ 520,927	$ 644,883

See accompanying notes to basic financial statements

Trust Fund
Statements of Pension Plan Fiduciary Net Position

June 30, 2016
(dollars in thousands)
continued

	2016		
	Trust Fund		
	Retirement Plan for Management and Staff Employees	Pension Plan for Bargaining Unit Employees	Total
Assets			
Cash and cash equivalents	$ 631	$ 1,624	$ 2,255
Investments:			
Domestic Large/Mid Cap Equity	25,329	129,046	154,375
Domestic Small Cap Equity	2,747	14,280	17,027
International Equity	18,315	100,006	118,321
Domestic Fixed Income	17,333	48,474	65,807
Tactical Asset Allocation	16,766	40,499	57,265
Real Estate	10,289	43,870	54,159
Absolute Return	16,304	60,833	77,137
Private Credit	683	11,059	11,742
Private Equity	6,561	8,964	15,525
Total investments	114,327	457,031	571,358
Receivables:			
Investment redemption receivable	-	13,946	13,946
Investment earnings receivable	76	423	499
Total receivables	76	14,369	14,445
Total assets	115,034	473,024	588,058
Liabilities			
Accounts payable	37	195	232
Total liabilities	37	195	232
Net position			
Held in trust for pension benefits	$ 114,997	$ 472,829	$ 587,826

See accompanying notes to basic financial statements

Trust Fund
Statement of Changes in Pension Plan Fiduciary Net Position

For the Year Ended June 30, 2017
(dollars in thousands)

	2017		
	Trust Fund		
	Retirement Plan for Management and Staff Employees	Pension Plan for Bargaining Unit Employees	Total
Additions			
Employer contributions	$ 6,330	$ 37,859	$ 44,189
Investment income (loss):			
Interest	(71)	(407)	(478)
Dividends	1,020	3,251	4,271
Other income	307	2,456	2,763
Net increase (decrease) in fair value of investments	6,868	42,065	48,933
Less investment expense	(133)	(720)	(853)
Net investment income	7,991	46,645	54,636
Total additions	14,321	84,504	98,825
Deductions			
Benefits	5,286	36,159	41,445
Administrative expenses	76	247	323
Total deductions	5,362	36,406	41,768
Change in net position	8,959	48,098	57,057
Net position held in trust for pension benefits:			
Beginning of year	114,997	472,829	587,826
End of year	$ 123,956	$ 520,927	$ 644,883

See accompanying notes to basic financial statements

Trust Fund
Statement of Changes in Pension Plan Fiduciary Net Position

For the Years Ended June 30, 2016
(dollars in thousands)
continued

	2016		
	Trust Fund		
	Retirement Plan for Management and Staff Employees	Pension Plan for Bargaining Unit Employees	Total
Additions			
Employer contributions	$ 7,036	$ 39,805	$ 46,841
Investment income (loss):			
Interest	-	1	1
Dividends	1,385	5,614	6,999
Net increase (decrease) in fair value of investments	193	(2,996)	(2,803)
Less investment expense	(118)	(670)	(788)
Net investment income	1,460	1,949	3,409
Total additions	8,496	41,754	50,250
Deductions			
Benefits	4,502	34,458	38,960
Administrative expenses	97	282	379
Total deductions	4,599	34,740	39,339
Change in net position	3,897	7,014	10,911
Net position held in trust for			
Beginning of year	111,100	465,815	576,915
End of year	$ 114,997	$ 472,829	$ 587,826

See accompanying notes to basic financial statements

Notes to Financial Statements

June 30, 2017
(dollars in thousands)

1. Organization and Summary of Significant Accounting Policies

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

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

The District uses one budgetary fund to account for its operating activities: General. The General Fund accounts for the financial resources associated with operating the District. Principle sources of revenue in the General Fund are passenger fares, employer payroll and self employment taxes, State of Oregon payroll assessments ("in lieu"), federal grants, and interest. Primary expenditures in the General Fund are personal services, materials and services, and principal and interest on debt secured by General Fund revenues. The District also has fiduciary responsibility for two pension plans: The TriMet Defined Benefit Plan for Management and Staff Employees Trust Fund, and the Pension Plan for Bargaining Unit Employees of TriMet Trust Fund. The investment, pension funding and benefit payment activity in these funds and pension plan net position are reported in the Trust Fund.

(a) Financial reporting entity

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

(b) Basis of accounting and presentation

The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. Under GAAP, the District accounts for activity under the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The District has a fiduciary responsibility for the two defined benefit pension plans. The financial activities of the pension plans are included in the trust fund statements in the financial section of this report. In addition, the District has a fiduciary responsibility for the other postemployment benefit plan (OPEB). As of June 30, 2017, the OPEB plan had $401 in net position and no activity other than interest earnings. Therefore, the trust fund statements for the OPEB plan are not included as part of the basic financial statements.

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The District has applied all applicable GASB pronouncements in the financial statements. GASB Statement No. 84, *Fiduciary Activities,* is effective for the District in fiscal year 2020. The District is in the process of evaluating the impact of this standard on the financial statements.

(c) Revenue recognition

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

Notes to Financial Statements

June 30, 2017
(dollars in thousands)
continued

(d) Restricted Assets

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

(e) Tax revenues

Funding of day-to-day operations is primarily provided by the payroll tax imposed by TriMet pursuant to ORS 267.380 and the self employment tax imposed by TriMet pursuant to ORS 267.385. The payroll tax is imposed on employers with respect to wages earned within the TriMet service district. An employer is not permitted to deduct any portion of the tax from the wages of an employee. The self employment tax is imposed on self-employed individuals with respect to their net earnings generated within the TriMet service district. TriMet currently imposes these taxes at a rate of 0.7437 percent of the wages paid to individuals (for the payroll tax) and the net earnings from self-employed individuals (for the self employment tax). The taxes are collected on TriMet's behalf by the Department of Revenue of the State of Oregon under an agreement entered into pursuant to ORS 305.620. Imposed tax revenues are recorded as assets and revenues in the period that the obligation is incurred by the employers and the self-employed individuals. Amounts accrued are estimated based upon historical trends in payroll tax cash receipts. TriMet records an allowance for past due amounts that have not been collected by the state as of year-end.

(f) Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of certain assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(g) Cash and cash equivalents

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

(h) Investments

ORS Chapter 294 authorizes the District to invest in obligations of the U.S. Treasury and U.S. Government agencies and instrumentalities, certain bankers' acceptances and corporate indebtedness, and repurchase agreements. The District records all investments at fair value based upon quoted market rates, with changes in unrealized gains and losses reported as investment income.

(i) Materials and supplies

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

(j) Prepaid expenses

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

(k) Receivables

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

Grants receivable. Grants receivable are recorded in accordance with the non-exchange guidance. Accordingly, receivables are recorded when all eligibility criteria have been met.

Notes to Financial Statements

June 30, 2017
(dollars in thousands)
continued

(l) Capital assets and depreciation

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

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

Capital assets are assigned the following estimated useful lives:

Rail right-of-way, bridges and stations	5-70 years
Buildings	40 years
Transportation equipment	5-30 years
Furniture and other equipment	3-20 years

(m) Self insurance liabilities

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

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

(n) Compensated absences

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

(o) Bond discounts, premiums and refundings

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

(p) Contributed capital

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

Notes to Financial Statements

June 30, 2017
(dollars in thousands)
continued

(q) Net position

Restricted net position represents funds with a specified restricted purpose such as capital construction or acquisition, or debt service payments; and net investment in capital assets. Unrestricted net position includes all other balances not included in Restricted net position.

(r) Stewardship, compliance and accountability

The annual budget is adopted on a basis consistent with generally accepted accounting principles (GAAP). Differences from the budgetary basis to the GAAP basis are noted on the Reconciliation of Revenues and Expenses (Budget Basis) to Schedule of Revenues and Expenses (GAAP Basis). The District's legal level of budgetary control (i.e. the level at which expenditures may not legally exceed appropriations) is at the fund and divisional level and include expenses for operating, operating projects and capital projects. All annual appropriations lapse at fiscal year-end. The Board of Directors approved any budgetary modifications to the adopted fiscal year 2017 budget throughout the year. For fiscal year-end June 30, 2017, the District was in budget compliance at all division levels.

2. Cash and Investments

Cash and Investments at June 30, 2017 and 2016, consisted of the following:

	2017			2016		
	Fair value	% of portfolio	Weighted average maturity (years)	Fair value	% of portfolio	Weighted average maturity (years)
Cash and investments:						
Cash on hand	$ 393	0.1 %	-	$ 416	0.2 %	-
Demand deposits with financial institutions	69,177	21.8 %	-	36,547	16.4 %	-
Oregon local government investment pool	46,182	14.6 %	-	46,628	20.9 %	-
Commercial paper	-		-	2,000	0.9 %	-
Federal National Mortgage Association	-		-	20,637	9.2 %	0.16
Federal Home Loan Bank	50,123	15.8 %	0.27	20,008	9.0 %	0.04
U.S. Treasuries	151,091	47.7 %	0.37	96,880	43.4 %	0.29
Total cash and investments	$ 316,966			$ 223,116		

Cash and investments are reflected in the Statements of net position as follows:

	2017	2016
Cash and cash equivalents		
Unrestricted	$ 77,321	$ 58,590
Restricted	90,580	57,740
Investments		
Unrestricted	28,845	4,323
Restricted	120,220	102,463
Total cash and investments	$ 316,966	$ 223,116

Notes to Financial Statements

June 30, 2017
(dollars in thousands)
continued

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of an asset. Level 1 inputs are quoted prices in active markets for identical assets. Investments in Federal Home Loan Bank and U.S. Treasuries are valued using quoted market prices (Level 1 inputs).

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

The Local Government Investment Pool (LGIP) is administered by the Oregon State Treasury. The LGIP is an open-ended no-load diversified portfolio offered to any agency, political subdivision or public corporation of the State who by law is made the custodian of, or has control of, any fund. The LGIP is commingled with the State's short-term funds. In seeking to best serve local governments of Oregon, the Oregon Legislature established the Oregon Short-Term Fund Board, which is not registered with the U.S. Securities and Exchange Commission as an investment company. The purpose of the Board is to advise the Oregon State Treasury in the management and investment of the LGIP. The Oregon Audits Division of the Secretary of State's Office audits the LGIP annually. The Division's most recent audit report on the LGIP was unqualified. The fair value of pool shares is equal to TriMet's proportionate position in the pool.

The LGIP includes investments in external investment pools and does not meet the requirements for "leveling" discosures as established in GASB Statement No. 72. Therefore, fair value of the LGIP is determined by the pool's underlying portfolio.

Interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, TriMet manages its exposure to declines in fair values by limiting the maximum maturity of its investment portfolio to 5 years, with a weighted average maturity of less than 2.0 years. At June 30, 2017, the weighted average maturity of the investment portfolio was 0.32 years.

Credit risk. Credit risk is the risk that an issuer will fail to pay principal or interest in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause the fair value of the investment to decline. TriMet's investment policy, which is in compliance with Oregon State law (ORS 294 and 295), limits investment in corporate indebtedness on the settlement date to a rating of P-1 or Aa3 or better by Moody's Investors Service or A-1 or AA- or better by Standard & Poor's Corporation or equivalent rating by any nationally recognized statistical rating organization. All investments identified in the ORS are included as permitted investments in the District's investment policy.

Concentration of credit risk. Concentration of credit risk is the risk associated with the lack of diversification or having too much invested in a few individual issues. TriMet's investment policy sets forth the procedures, guidelines, and criteria for the operation of TriMet's investment program. This policy governs the investment of all TriMet funds, except funds held in trust for pensions and deferred compensation. The investment policy establishes maximum amounts, either as a percentage of total portfolio or fixed dollar amount, that may be invested in investment types and any single issuer including U.S. government securities (no limit), agency securities (33 percent maximum with any one agency, 90 percent maximum of the total portfolio), commercial paper (2.5 percent maximum with any issuer, 10 percent maximum of the total portfolio), local government investment pool (limited to maximum per ORS 294.810), time deposits, certificates of deposit and savings accounts (25 percent maximum with any issuer, 50 percent maximum of the total portfolio), corporate indebtedness (2.5 percent maximum with any issuer, 10 percent maximum of the total portfolio) and municipal debt obligations (5 percent maximum with any issuer, 10 percent maximum of the total portfolio). At June 30, 2017, the District had 47.7 percent invested in U.S. government securities, 15.8 percent in agency securities, 21.8 percent in demand deposits, 14.6 percent in local government investment pool, and 0.1 percent in cash.

Custodial credit risk - deposits and investments. For deposits, this is the risk that in the event of a bank failure, TriMet's deposits may not be returned. ORS Chapter 295 governs the collateralization of certain Oregon public funds and provides the statutory requirements for the Public Funds Collateralization Program. Bank depositories are required to pledge collateral against any public funds deposits in excess of federal deposit insurance amounts. All banks holding funds in TriMet's name, that are not held in trust for debt service, are included on the list of qualified depositories maintained by the Oregon State Treasurer. At June 30, 2017, the carrying amount of the District's deposits (excluding amounts held in trust for debt service) was $37,361 and the bank balance was $41,685. Of this bank balance, $750 was covered by the federal depository insurance's general deposit rules and $40,935 was collateralized by the PFCP.

Notes to Financial Statements

June 30, 2017
(dollars in thousands)
Continued

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

3. Receivables

At June 30, 2017 and 2016, the District had the following receivables under various federal and state grant agreements:

2017	Unrestricted	Restricted	Total
Federal pass through	$ -	$ 39	$ 39
Other federal	16,308	100,144	116,452
State grants	328	212	540
Local governments	-	741	741
	$ 16,636	$ 101,136	$ 117,772

2016	Unrestricted	Restricted	Total
Federal pass through	$ -	$ 72	$ 72
Other federal	40,067	100,034	140,101
State grants	53	69	122
Local governments	5	483	488
	$ 40,125	$ 100,658	$ 140,783

Notes to Financial Statements

June 30, 2017
(dollars in thousands)
continued

Taxes and other receivables at June 30, 2017 and 2016, including the applicable allowances for uncollectible accounts, are as follows:

2017	Receivable	Allowance for uncollectible accounts	Net receivable
Unrestricted:			
Payroll tax	$ 83,127	$ 2,070	$ 81,057
Self-employment tax	9,817	510	9,307
Trade accounts	6,302	400	5,902
Property Tax	105	65	40
Other	7,204	-	7,204
Total unrestricted	106,555	3,045	103,510
Restricted:			
Other	160	-	160
Total restricted	160	-	160
Total taxes and other receivables	$ 106,715	$ 3,045	$ 103,670

2016	Receivable	Allowance for uncollectible accounts	Net receivable
Unrestricted:			
Payroll tax	$ 80,179	$ 3,534	$ 76,645
Self-employment tax	12,223	3,584	8,639
Trade accounts	6,391	400	5,991
Property Tax	103	65	38
Other	7,247	-	7,247
Total unrestricted	106,143	7,583	98,560
Restricted:			
Other	204	-	204
Total restricted	204	-	204
Total taxes and other receivables	$ 106,347	$ 7,583	$ 98,764

Notes to Financial Statements
June 30, 2017
(dollars in thousands)
continued

4. Capital Assets

Capital assets at June 30, 2017 and 2016 consisted of the following:

2017	Lives (in years)	Beginning balance	Additions	Deletions	Transfers	Ending balance
Capital assets, not being depreciated						
Land and other		$ 231,713	$ 86	$ (380)	$ 1,366	$ 232,785
Construction in process		99,121	83,035	-	(56,734)	125,422
Total capital assets, not being depreciated		330,834	83,121	(380)	(55,368)	358,207
Capital assets, being depreciated						
Rail right-of-way and stations	5-70	2,398,177	-	(43)	10,936	2,409,070
Buildings	40	735,245	14	(10)	5,643	740,892
Transportation equipment	5-30	712,598	-	(18,005)	33,315	727,908
Furniture and other equipment	3-20	275,264	61	(1,413)	5,474	279,386
Total capital assets, being depreciated		4,121,284	75	(19,471)	55,368	4,157,256
Less accumulated depreciation for						
Rail right-of-way and stations		(794,628)	(62,048)	43	-	(856,633)
Buildings		(196,016)	(16,457)	10	-	(212,463)
Transportation equipment		(299,084)	(32,273)	17,967	-	(313,390)
Furniture and other equipment		(118,004)	(18,972)	1,400	-	(135,576)
Total accumulated depreciation		(1,407,732)	(129,750)	19,420	-	(1,518,062)
Total capital assets, being depreciated, net		2,713,552	(129,675)	(51)	55,368	2,639,194
Total capital assets, net		$ 3,044,386	$ (46,554)	$ (431)	$ -	$ 2,997,401

2016	Lives (in years)	Beginning balance	Additions	Deletions	Transfers	Ending balance
Capital assets, not being depreciated						
Land and other		$ 232,347	$ 160	$ -	$ (794)	$ 231,713
Construction in process		1,126,782	132,931	-	(1,160,592)	99,121
Total capital assets, not being depreciated		1,359,129	133,091	-	(1,161,386)	330,834
Capital assets, being depreciated						
Rail right-of-way and stations	5-70	1,834,610	12	(3)	563,558	2,398,177
Buildings	40	368,087		(6)	367,164	735,245
Transportation equipment	5-30	575,763	32,241	(13,033)	117,627	712,598
Furniture and other equipment	3-20	172,406	574	(10,753)	113,037	275,264
Total capital assets, being depreciated		2,950,866	32,827	(23,795)	1,161,386	4,121,284
Less accumulated depreciation for						
Rail right-of-way and stations		(721,415)	(73,216)	3	-	(794,628)
Buildings		(180,856)	(15,160)	-	-	(196,016)
Transportation equipment		(284,299)	(27,818)	13,033	-	(299,084)
Furniture and other equipment		(111,915)	(16,805)	10,716	-	(118,004)
Total accumulated depreciation		(1,298,485)	(132,999)	23,752	-	(1,407,732)
Total capital assets, being depreciated, net		1,652,381	(100,172)	(43)	1,161,386	2,713,552
Total capital assets, net		$ 3,011,510	$ 32,919	$ (43)	$ -	$ 3,044,386

Notes to Financial Statements

June 30, 2017
(dollars in thousands)
continued

5. Long-Term Debt

Long-Term Debt at June 30, 2017 and 2016 consists of the following:

2017	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Payroll Tax Bonds:					
2007 Revenue Bonds, Series A	$ 1,545	$ -	$ (1,545)	$ -	$ -
2009 Revenue Bonds, Series A and B	19,050	-	(1,540)	17,510	1,600
2012 Senior Lien Payroll Tax Bonds, Series A	18,315	-	(2,265)	16,050	2,380
2015 Senior Lien Payroll Tax Bonds, Series A and B	134,590	-	(5,650)	128,940	7,255
2016 Senior Lien Revenue Refunding Bonds, Series A	74,800	-	-	74,800	355
2017 Senior Lien Revenue Refunding Bonds, Series A	-	97,430	-	97,430	-
Payroll Tax and Capital Grant Receipt Revenue Bonds:					
2013 Payroll Tax and Grant Receipt Revenue Bonds	325,000	-	(100,000)	225,000	80,000
Capital Grant Receipt Revenue Bonds:	-				
Capital Grant Receipt Revenue Bonds, Series 2005	2,730	-	(2,730)	-	-
2011 Capital Grant Receipt Revenue Bonds	142,380	-	(9,170)	133,210	9,450
Capital Leases:					
Other	28	-	(28)	-	-
	718,438	97,430	(122,928)	692,940	101,040
Add (deduct):					
Unamortized bond premium	44,723	12,921	(9,869)	47,775	
Current portion of long-term debt	(111,533)			(101,040)	
Long-term debt, net	$ 651,628			$ 639,675	

2016	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Payroll Tax Bonds:					
2005 Revenue Refunding Bonds, Series A	$ 17,380	$ -	$ (17,380)	$ -	$ -
2007 Revenue Bonds, Series A	35,330	-	(33,785)	1,545	1,545
2009 Revenue Bonds, Series A and B	42,740	-	(23,690)	19,050	1,540
2012 Senior Lien Payroll Tax Bonds, Series A	89,150	-	(70,835)	18,315	2,265
2015 Senior Lien Payroll Tax Bonds, Series A and B	-	134,590	-	134,590	5,650
2016 Senior Lien Revenue Refunding Bonds, Series A	-	74,800	-	74,800	-
Payroll Tax and Capital Grant Receipt Revenue Bonds:					
2013 Payroll Tax and Grant Receipt Revenue Bonds	325,000	-	-	325,000	90,000
Capital Grant Receipt Revenue Bonds:					
Capital Grant Receipt Revenue Bonds, Series 2005	12,880	-	(10,150)	2,730	1,335
2011 Capital Grant Receipt Revenue Bonds	142,380	-	-	142,380	9,170
Capital Leases:					
Other	62	-	(34)	28	28
	664,922	209,390	(155,874)	718,438	111,533
Add (deduct):					
Unamortized bond premium	40,210	14,580	(10,067)	44,723	
Current portion of long-term debt	(19,349)			(111,533)	
Long-term debt, net	$ 685,783			$ 651,628	

Total interest cost on all outstanding debt was $18,830 and $20,557 in fiscal years 2017 and 2016, respectively. All interest costs were expensed in fiscal year 2017 while during fiscal year 2016, $4,330 of interest was capitalized and $16,227 was charged to expense.

Notes to Financial Statements

June 30, 2017
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continued

Description of Debt:	June 30, 2017 Principal and interest to maturity	Principal and interest paid in the year	Pledged revenue for the year
Payroll Tax Bonds - pledged: Employer payroll, self employment tax, and state in lieu revenue			
2007 Revenue Bonds, Series A	$ -	$ 1,584	
2009 Revenue Bonds, Series A and B	28,588	2,463	
2012 Senior Lien Payroll Tax Bonds, Series A	18,433	3,072	
2013 Payroll Tax and Grant Receipts Bonds- Interest	234,850	9,850	
2015 Revenue Bonds, Series A and B	194,752	11,676	
2016 Revenue Bonds, Series A	111,747	2,221	
2017 Revenue Bonds, Series A	166,069	-	
	$ 754,439	$ 30,866	$ 336,131
Capital Grant Receipt Revenue Bonds - pledged: Section 5307, STP, and CMAQ grant receipts			
Capital Grant Receipt Revenue Bonds, Series 2005	$ -	$ 2,730	
2011 Capital Grant Receipt Revenue Bonds	172,689	15,856	
	$ 172,689	$ 18,586	$ 31,887
Capital Grant Receipt Revenue Bonds - pledged: Section 5309 full funding grant agreement revenues			
2013 Payroll Tax and Grant Receipts Bonds - Principal	$ 234,850	$ 100,000	$ 100,000

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, and to budget appropriate funds needed to pay all debt service obligations.

Under U.S. Treasury Department regulations, all governmental tax exempt debt issued after August 31, 1986 is subject to arbitrage rebate requirements. The requirements stipulate, in general, that the yield on earnings from the investment of tax exempt bond proceeds, which exceed yield on related bonds, must be remitted to the Federal Government on every fifth anniversary of each bond issue. The District has evaluated each bond issue and has recognized no arbitrage liabilities as of June 30, 2017 and 2016.

Payroll Tax Bonds

TriMet has the following Revenue Bonds outstanding which are backed by Payroll Tax Revenues: 2007 Revenue Bonds Series A, 2009 Revenue Bonds Series A and B, 2012 Senior Lien Payroll Tax Revenue Bonds Series A, 2015 Revenue Bonds Series A and B, 2016 Revenue Bonds Series A and a 2017 Revenue Bonds. The Revenue Bonds are payable from and secured by a pledge of the employer payroll and self employment taxes levied by the District. The Payroll Tax Revenue Bonds are not general obligations of the District.

2005 Revenue Refunding Bonds, Series A

On March 29, 2005, TriMet defeased in substance future principal and interest payments on its 1999 Revenue Bonds, Series A, of $30,345 and $12,724, and its 2000 Revenue Bonds, Series A, of $35,235 and $13,295, respectively, with the issuance of the 2005 Revenue Refunding Bonds, Series A (2005 Revenue Bonds). Final payment on the 1999 and 2000 bonds has been completed.

On June 17, 2014, TriMet defeased in substance future principal and interest payments on a portion of its 2005 Revenue Refunding Bonds, Series A. On September 9, 2015, TriMet defeased in substance future principal and interest payments on all remaining 2005 Revenue Bonds, Series A. As of June 30, 2017, there were $9,125, in defeased bonds with scheduled maturities on September 1, 2017 and 2018. The 2005 Revenue bonds are subject to redemption prior to maturity at the option of TriMet on any date on or after September 1, 2017, at a price of par (100%) plus accrued interest thereon to the date of redemption.

Notes to Financial Statements

June 30, 2017
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continued

2007 Revenue Bonds, Series A

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

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

On September 9, 2015, TriMet defeased in substance future principal and interest payments on a portion of its 2007 Revenue Bonds, Series A. As of June 30, 2017, there were $32,300, in defeased bonds with scheduled maturities annually on September 1, 2017 through 2031.

In September 2016, the final principal payment of $1,545 on the 2007 Revenue Bonds, Series A was made by TriMet and there are no future debt service obligations for the District.

2009 Revenue Bonds, Series A and B

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

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

On September 9, 2015, TriMet defeased in substance future principal and interest payments on a portion of its 2009 Revenue Bonds. As of June 30, 2017, there were $22,200, in defeased bonds with scheduled maturities annually on September 1, 2020 through 2029.

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

Fiscal year ending June 30:	Principal	Interest
2018	$ 1,600	$ 864
2019	1,660	803
2020	1,720	744
2021	-	718
2022	-	718
2023-2027	-	3,590
2028-2032	5,910	3,256
2033-2034	6,620	385
	$ 17,510	$ 11,078

Notes to Financial Statements

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continued

2012 Senior Lien Payroll Tax Bonds, Series A

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

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

On May 11, 2016, TriMet defeased in substance future principal and interest payments on a portion of its 2012 Senior Lien Payroll Tax Bonds, Series A. As of June 30, 2017, there were $68,670, in defeased bonds with scheduled maturities annually on September 1, 2023 through 2037.

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

Fiscal year ending June 30:	Principal	Interest
2018	$ 2,380	$ 691
2019	2,490	582
2020	2,605	467
2021	2,725	347
2022	2,850	221
2023	3,000	75
	$ 16,050	$ 2,383

2015 Revenue Bonds, Series A and B

On September 9, 2015, TriMet issued $71,885 in Senior Lien Payroll Tax Revenue Bonds, Series A to fund capital projects. TriMet also issued $62,705 in Senior Lien Payroll Tax Revenue Refunding Bonds, Series B to refinance certain series of revenue bonds currently outstanding.

The 2015 Revenue Bonds mature serially each September 1, beginning September 1, 2016 through 2040, with $25,430 in term bonds maturing on September 1, 2040. Interest is payable semiannually on March 1 and September 1 and fixed interest rates range from 2.0 percent to 5.0 percent on outstanding maturities. The 2015 Revenue Bonds are subject to redemption prior to maturity in whole or in part at the option of TriMet on any date on or after September 1, 2025, at a price of par (100%) plus accrued interest thereon to the date of redemption.

Future maturities of the 2015 Revenue Bonds, Series A and B, are as follows:

Fiscal year ending June 30:	Principal	Interest
2018	$ 7,255	$ 5,805
2019	7,565	5,488
2020	3,345	5,246
2021	5,115	5,078
2022	5,355	4,846
2023-2027	30,815	20,141
2028-2032	33,690	11,824
2033-2037	18,135	5,854
2038-2041	17,665	1,530
	$ 128,940	$ 65,812

Notes to Financial Statements

June 30, 2017
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continued

2016 Revenue Refunding Bonds, Series A

On May 11, 2016, TriMet issued $74,800 in Senior Lien Payroll Tax Revenue Refunding Bonds, Series A to refinance certain series of revenue bonds currently outstanding.

The 2016 Revenue Bonds mature serially each September 1, beginning September 1, 2017 through 2034, with $17,915 in term bonds maturing on September 1, 2037. Interest is payable semiannually on March 1 and September 1 and fixed interest rates range from 1.5 percent to 5.0 percent on outstanding maturities. The 2016 Revenue Bonds are subject to redemption prior to maturity in whole or in part at the option of TriMet on any date on or after September 1, 2026, at a price of par (100%) plus accrued interest thereon to the date of redemption.

Future maturities of the 2016 Revenue Bonds, Series A, are as follows:

	Principal	Interest
Fiscal year ending June 30:		
2018	$ 355	$ 2,753
2019	360	2,746
2020	365	2,735
2021	380	2,725
2022	390	2,719
2023-2027	15,620	12,261
2028-2032	23,060	7,861
2033-2037	28,115	3,055
2038	6,155	92
	$ 74,800	$ 36,947

2017 Revenue Bonds, Series A

On February 22, 2017, TriMet issued $97,430 in Senior Lien Payroll Tax Revenue Bonds to fund capital projects.

The 2017 Revenue Bonds mature serially each September 1, beginning September 1, 2018 through 2041, with $24,400 in term bonds maturing on September 1, 2041. Interest is payable semiannually on March 1 and September 1 and fixed interest rates range from 2.0 percent to 5.0 percent on outstanding maturities. The 2017 Revenue Bonds are subject to redemption prior to maturity in whole or in part at the option of TriMet on any date on or after September 1, 2026, at a price of par (100%) plus accrued interest thereon to the date of redemption.

Future maturities of the 2017 Revenue Bonds, Series A are as follows:

	Principal	Interest
Fiscal year ending June 30:		
2018	$ -	$ 4,559
2019	$ 2,305	$ 4,425
2020	$ 2,365	$ 4,366
2021	$ 2,450	$ 4,281
2022	$ 2,560	$ 4,169
2023-2027	$ 14,805	$ 18,841
2028-2032	$ 18,965	$ 14,686
2033-2037	$ 24,165	$ 9,481
2038-2042	$ 29,815	$ 3,831
	$ 97,430	$ 68,639

Notes to Financial Statements

June 30, 2017
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continued

Payroll Tax and Grant Receipt Revenue Bonds

Payroll Tax and Grant Receipt Revenue Bonds, Series 2013

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

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

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

	Principal	Interest
Fiscal year ending June 30:		
2018	$ 80,000	$ 6,417
2019	90,000	2,883
2020	55,000	550
	$ 225,000	$ 9,850

Capital Grant Receipt Bonds

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

Capital Grant Receipt Revenue Bonds, Series 2005

On June 23, 2005, TriMet issued $79,320 in Capital Grant Receipt Revenue Bonds, Series 2005 to finance a portion of capital cost and improvements of the transit system, including the Washington County Commuter Rail and I-205/Portland Mall Light Rail projects, Portland Streetcar extension, and to acquire transit buses. The Grant Receipt Revenue Bonds, Series 2005 are not general obligations of the District.

The Grant Receipt Revenue Bonds, Series 2005 mature serially each October 1, beginning October 1, 2006 through 2017. Interest is payable semiannually on April 1 and October 1, and fixed interest rates range from 3.50 percent to 5.0 percent on outstanding maturities. The 2005 Capital Grant Receipt Revenue Bonds are subject to redemption prior to maturity in whole or in part at the option of TriMet on any date on or after October 1, 2015 at a price of par (100%) plus accrued interest thereon to the date of redemption.

TriMet called the bonds and the final principal and interest payment on the Series 2005 was on October 20, 2016.

Notes to Financial Statements
June 30, 2017
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continued

2011 Capital Grant Receipt Revenue Bonds

On June 20, 2011, TriMet issued $142,380 in 2011 Capital Grant Receipt Revenue Bonds to pay for a portion of the costs of capital projects, including new buses, construction on PMLR, and other regional projects. The 2011 Capital Grant Receipt Revenue Bonds are not general obligations of the District.

The 2011 Capital Grant Receipt Revenue Bonds mature serially each October 1, beginning October 1, 2016 through 2027. Interest is payable semiannually on April 1 and October 1 and fixed interest rates range from 2.5 percent to 5.0 percent on outstanding maturities. The 2011 Capital Grant Receipt Revenue Bonds are subject to redemption prior to maturity in whole or in part at the option of TriMet on any date on or after October 1, 2021 at a price of par (100%) plus accrued interest thereon to the date of redemption.

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

	Principal	Interest
Fiscal year ending June 30:		
2018	$ 9,450	$ 6,321
2019	9,900	5,857
2020	10,380	5,382
2021	10,850	4,878
2022	11,390	4,328
2023-2027	66,005	12,333
2028	15,235	380
	$ 133,210	$ 39,479

Notes to Financial Statements

June 30, 2017
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continued

6. Risk Management

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

The Oregon Tort Claims Act (the Act) is the common law sovereign immunity from suit for public bodies in Oregon, including TriMet. Prior to July 1, 2009, the Act capped the liability of public bodies, including TriMet, at $200 for individual claims. In addition, the public body may be substituted as a defendant in lieu of individual employees of the public body, thereby limiting recovery for claims against individual employees to the limits applicable to public bodies. Under the Act, TriMet currently indemnifies its employees for any liability that they incur within the scope of their work. Effective July 1, 2009, Oregon SB 311 increased the per claim damage limits under the Oregon Tort Claims Act to $500 and the per occurrence damage limit to $1,000, for events occurring after July 1, 2009. The limits are subject to per claims per occurrence changes based on changes to the consumer price index. At June 30, 2017, the per claims limit was $683 and the per occurrence limit was $1,366. Effective July 1, 2017, those limits raise to $706 per claim and $1,412 per occurrence.

The District is self-insured for all public liability claims, subject to the limits under Oregon SB 311. The District is self-insured to the extent of the first $2,000 per occurrence for industrial accident claims related to heavy rail or PMLR operations and $5,000 per occurrence for all other industrial accident claims. The District provides for the estimated losses to be incurred from the pending and potential claims that result from industrial and public liability accidents occurring prior to year-end. The District's policy is to record claims incurred but not reported at the estimated level of the undiscounted liability. The liabilities are based on the ultimate cost of settling the claims, including the effects of inflation and other legal and economic factors.

Changes in the District's public liability and industrial accident claims liabilities are as follows for the years ended June 30, 2017 and 2016:

	2017		2016	
	Industrial accident claims	Public liability	Industrial accident claims	Public liability
Liability at beginning of year	$ 6,573	$ 4,496	$ 5,646	$ 4,317
Current year claims	2,091	617	3,193	455
Changes in estimates for claims of prior periods	622	321	1,346	908
Payments of claims	(3,344)	(1,245)	(3,612)	(1,184)
Liability at end of year	$ 5,942	$ 4,189	$ 6,573	$ 4,496

Based on historical experience, the District has classified $3,669 and $4,502 of the industrial accident and public liability claims liabilities as current liabilities, at June 30, 2017 and 2016, respectively.

Notes to Financial Statements
June 30, 2017
(dollars in thousands)
continued

7. Other Long-term Liabilities

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

2017	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Uninsured claims liability:					
Industrial accident claims	$ 6,573	$ 2,713	$ (3,344)	$ 5,942	$ 2,765
Employee dental insurance	379	23	-	402	402
Employee health insurance	-	1,737	-	1,737	1,737
Other claims	2,000	-	(1,788)	212	212
Public liability	4,496	938	(1,245)	4,189	905
Total claims liability	13,448	5,411	(6,377)	12,482	6,021
Long-term employee sick leave	3,444	1,034	-	4,478	-
Rent payable	1,446	-	(188)	1,258	-
Unearned lease revenue	2,224	-	(22)	2,202	-
Total other liabilities	20,562	6,445	(6,587)	20,420	6,021
Deduct current portion	(6,881)			(6,021)	
Other long-term liabilities	$ 13,681			$ 14,399	

2016	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Uninsured claims liability:					
Industrial accident claims	$ 5,646	$ 4,539	$ (3,612)	$ 6,573	$ 3,290
Employee dental insurance	340	39	-	379	379
Other claims	3,393	-	(1,393)	2,000	2,000
Public liability	4,317	1,364	(1,185)	4,496	1,212
Total claims liability	13,696	5,942	(6,190)	13,448	6,881
Long-term employee sick leave	2,868	576	-	3,444	-
Rent payable	1,483	-	(37)	1,446	-
Unearned lease revenue	2,249	-	(25)	2,224	-
Total other liabilities	20,296	6,518	(6,252)	20,562	6,881
Deduct current portion	(8,195)			(6,881)	
Other long-term liabilities	$ 12,101			$ 13,681	

8. Lease Transactions

Office and equipment leases

The District leases office space under non-cancelable operating leases. Total costs for such leases were $1,555 and $1,208 in 2017 and 2016, respectively. The future minimum lease payments for these leases are as follows:

Fiscal year ending June 30:	
2018	1,327
2019	1,357
2020	1,327
2021	1,207
2022	1,232
Thereafter	1,821
	$ 8,271

Notes to Financial Statements

June 30, 2017
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continued

1997 and 1998 Lease transactions

During fiscal years 1997 and 1998, the District entered into two sale-leaseback transactions for 31 light rail vehicles with a foreign investor. Equipment sales to the foreign investor resulted in original proceeds to the District of $80,600. The investor leased all assets back to the District for a period of 18 years. The leases qualify for accounting treatment as operating leases. Using the proceeds of the sales, the District fully funded payment agreements with American International Group, Inc. and its subsidiaries (AIG) totaling $65,849. Under the payment agreements, AIG is obligated to make all required lease payments. The prepayments by the District to AIG are recorded as prepaid lease expense in the accompanying statement of net position and are expensed over the term of the lease. The payment agreements do not constitute legal defeasance. Thus, if AIG fails to fulfill its contractual obligation to make future lease payments, the District may be required to meet all financial obligations required under the lease transaction.

Under the foreign sale-leaseback agreement, the foreign investor had a put option which required the District to buy back the leased equipment if exercised. The District deposited $11,995 with AIG, which represented the present value of the options at the buy back dates. These deposits earned interest at rates ranging from 5.3 percent to 5.9 percent and were recorded as long-term restricted lease deposits on the District's statement of net position. The interest earned on the restricted deposits is recorded as a component of net leveraged lease expense on the statements of revenues, expenses and changes in net position. The foreign investor has exercised the two put options related to these leases. Payment and transfer of asset ownership under this option was completed December 2015 and June 2016.

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. The Head Leases qualified for accounting treatment as operating leases. The Leasehold Investors prepaid all required lease payments totaling $175,849, which was recorded as unearned lease revenue on the accompanying statement of net position. The unearned revenue is recognized over the terms of the leases. As of June 30, 2017, the final termination payment of $5,051 was paid and completed in December 2016. The 1998 and 1997 Leasehold Investors sublet all assets back to the District for a period of 18 and 15 years, respectively. The subleases also qualify as operating leases. TriMet used the proceeds of the lease transactions to fully fund payment agreements with AIG totaling $130,562. Under the terms of the payment agreements, AIG is required to make all sublease payments. The prepayments are recorded as prepaid lease expenses in the accompanying statement of net position and are expensed over the terms of the leases.

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 inflows of resources and amortized over the lease terms. As of June 30, 2017, TriMet is not aware of any default, event of default or event of loss under any of the operative documents.

2005 Lease transaction

In November 2005, the District entered into a series of agreements related to 28 light rail vehicles. In simultaneous transactions, the District leased the 28 light rail vehicles (the Head Lease) to a trust (TriMet 2005 Statutory Trust) for the benefit of a third party investor (2005 Equity Investor) for a basic term of 28 or 29 years, depending on the age of the vehicles. The Head Lease qualifies for accounting treatment as a capital lease. The trust subleased all 28 vehicles back to the District (the Lease Agreement) for a period of 28 or 29 years. The sublease also is recorded as a capital lease. The District received all required lease payments totaling $123,700, which have been recorded in the accompanying statement of net position as unamortized gain of $12,557 (before expenses of $911) and a long-term lease liability for lease payments of $111,143. The liability is reduced as lease payments are made over the term of the lease. The District's net benefit from the 2005 transactions was $11,646. The net benefit is recorded as deferred inflows of resources and is recognized over the basic term of the lease. Leased assets are included within Capital Assets and depreciation of the leased assets is recorded over the term of the lease. The Federal Transit Administration reviewed the operative documents and approved the transaction.

Notes to Financial Statements

June 30, 2017
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continued

TriMet used $111,143 of the proceeds from the Head Lease transaction to fully fund three payment agreements ($84,382 to Premier International Funding Co. for the Series A Payment Agreement and $26,761 to MBIA Inc. for the Equity Payment Undertaking Agreement and the Debt Payment Undertaking Agreement). The obligations of Premier International Funding Co. are unconditionally and irrevocably guaranteed by Financial Security Assurance Inc. (FSA), which has subsequently been acquired by Assured Guaranty Ltd. In February 2009, TriMet terminated the MBIA Equity Payment Undertaking agreement and received $28,033 and terminated the Debt Payment Undertaking Agreement and received $14,528. Simultaneously, TriMet purchased and placed in trust US Treasury securities for $28,399 to collateralize all future equity payment obligations. The debt payment obligations have not been collateralized and are general obligations of TriMet. Net of transaction expenses, the 2009 MBIA termination created $13,954 in net benefit. The net benefit is recorded as deferred inflow of resources and is recognized over the remaining term of the lease.

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

The 2005 leases include the following trigger events relating to TriMet: (1) outstanding General Obligation Bond ratings are downgraded by Standard & Poors below "A+" or by Moody's below "A1", or if General Obligation Bonds are no longer rated, long-term senior payroll tax revenue bonds are downgraded by Standard & Poors below "A+" or by Moody's below "A1", or (2) TriMet becomes eligible to be a debtor under Bankruptcy code, or (3) TriMet loses its taxing authority related to payroll and self-employment taxes. If a trigger event occurs, TriMet is required to provide equity strip collateral in amounts defined in the lease agreements. TriMet's long-term senior lien payroll tax revenue bonds are rated AAA by Standard & Poors and Aaa by Moody's at June 30, 2017. As of June 30, 2017, TriMet is not aware of any default, event of default or event of loss under any of the operative documents. The total outstanding lease obligations under the 2005 leases are as follows:

	FSA uncollateralized	US Treasuries in trust	TriMet obligation	Total payment obligations
Fiscal year ending June 30:				
2018	$ -	$ 28	$ -	$ 28
2019	780	-	-	780
2020	2,629	-	-	2,629
2021	2,534	-	-	2,534
2022	-	-	-	-
2023-2027	-	110	1,024	1,134
2028-2032	-	135	-	135
2033-2036	71,563	68,560	9,587	149,710
	$ 77,506	$ 68,833	$ 10,611	$ 156,950

Legislative and regulatory activities

Pursuant to the terms of the tax indemnity agreements of TriMet's 1997 and 1998 lease transactions, unless an indemnification event occurs, the District bears no liability for the related adverse U.S. federal income tax consequence to the domestic investors. As of June 30, 2017, no indemnity claims have been made against TriMet. With respect to TriMet's 1997 and 1998 lease transactions, the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA), as codified in Section 4965 of the Internal Revenue Code of 1986 as amended (Code), the guidance provided by the Internal Revenue Service (IRS) in IRS Notice 2007-18 published on February 7, 2007 and the Proposed and Temporary Regulations released on July 6, 2007 subsequently thereto, TriMet does not have a TIPRA excise tax liability.

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June 30, 2017
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Financial Statement Summary

The following is a summary of amounts related to the lease transactions as of June 30:

	2017	2016
Assets:		
Prepaid lease expense - current	$ -	$ 5,051
Prepaid lease expense	71,424	67,840
Total assets	$ 71,424	$ 72,891
Liabilities:		
Unearned lease revenue - current	$ -	$ 5,051
Long-term lease liability	59,321	55,914
Total liabilities	59,321	60,965
Deferred Inflows of Resources:		
Unamortized gain on leases	16,370	17,312
Total liabilities and deferred inflows of resources	$ 75,691	$ 78,277
Net leveraged lease revenue (expense)	$ 1,119	$ 278

9. Commitments and Contingencies

TriMet has active light rail construction and other capital projects, as well as other funding commitments. Authorized commitments unexpended as of June 30, 2017 were $472,644.

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.

In September 2017, subsequent to year-end, the District paid $8,700 as a deposit to escrow in connection with a January 2017 intergovernmental agreement with Portland Development Commission (Prosper Portland) for the purchase and sale of property related to the development of a convention center hotel and garage including a facility for the District's Safety and Security Division. Under this agreement, the District will own a condominium share of the property and further develop and operate a new facility for transit safety and security at this location. The District's condominium property share of the overall purchase price of the property is $9,000. The budget for the Transit Police Center Project is $18,300 and is expected to be developed over three years.

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June 30, 2017
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continued

10. Enterprise Fund Pension Benefits

Union Defined Contribution Plan

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

Plan description

Effective July 13, 2012, the District adopted the Union DC Plan in accordance with Internal Revenue Code (IRC) Section 401(a). Participation in the Union DC Plan is mandatory for all union employees hired on or after August 1, 2012. Under the Union DC Plan, the District will contribute 8.0 percent of considered compensation each pay period. Considered compensation is taxable compensation plus employee elected pre-tax deferrals, less overtime pay, bonuses, commissions, or other extraordinary pay and cash-out of unused vacation. Within 30 days of becoming eligible for the Union DC Plan, employees make a one-time irrevocable election to contribute between zero and 15 percent of their compensation to the Plan on a pretax basis. Due to tax laws, the pre-tax election must be made within 30 days after an employee becomes eligible to participate in the DC Plan and the election cannot be changed for as long as the employee is eligible. In addition, the employee can elect to make voluntary, after-tax, contributions, up to 15 percent of compensation. The after-tax contribution election may be adjusted by the employee at any time. Plan participants fully vest in the District's contributions after three years of service with the District. Upon severance from employment, TriMet will contribute 60 percent of the employee's unused sick leave (up to a maximum of 1,700 hours) to the employee's account. The TriMet Board has authority over amendments to plan benefit and contribution provisions, in conjunction with the Working and Wage Agreement.

Method used to value investments

Plan investments are reported at fair value. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of an asset. Level 1 inputs are quoted prices in active markets for identical assets. Investments of securities held in the Union DC Plan are valued using quoted market prices (Level 1 inputs).

As of June 30, 2017 and 2016, there were 1,073 and 831 active employees, respectively, covered by the Union DC Plan. District contributions to the Union DC Plan were $3,481 and $2,484 for the years ending June 30, 2017 and 2016, respectively. Employee contributions to the Union DC Plan were $2,342 and $1,562 for the years ending June 30, 2017 and 2016, respectively.

Notes to Financial Statements

June 30, 2017
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continued

Management Defined Contribution Plan

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

Plan description

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

Under the Management DC Plan, the District contributes 8.0 percent of considered compensation each pay period. Considered compensation is taxable compensation plus employee elected pre-tax deferrals, less overtime pay, bonuses, commissions, or other extraordinary pay and cash-out of unused vacation. Within 30 days of becoming eligible for the Management DC Plan, employees make a one-time irrevocable election to contribute between zero and 15 percent of their compensation to the Plan on a pretax basis. Due to tax laws, the pre-tax election must be made within 30 days after an employee becomes eligible to participate in the DC Plan and the election cannot be changed for as long as the employee is eligible. In addition, the employee can elect to make voluntary, after-tax, contributions, up to 15 percent of compensation. The after-tax contribution election may be adjusted by the employee at any time. Plan participants fully vest in the District's contributions after three years of service with the District. Upon severance from employment, TriMet will contribute 60 percent of the employee's unused sick leave (up to a maximum of 1,700 hours) to the employee's account. The TriMet Board has authority over amendments to plan benefit and contribution provisions.

Method used to value investments

Plan investments are reported at fair value. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of an asset. Level 1 inputs are quoted prices in active markets for identical assets. Investments of securities held in the Union DC Plan are valued using quoted market prices (Level 1 inputs).

As of June 30, 2017 and 2016 there were 350 and 285 active employees, respectively, covered by the Management DC Plan. District contributions to the Management DC Plan were $2,341 and $2,113 for the years ending June 30, 2017 and 2016, respectively. Employee contributions to the Management DC Plan were $900 and $818 for the years ending June 30, 2017 and 2016, respectively.

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June 30, 2017
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continued

11. Other Employee Benefits

Deferred compensation plan

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

Compensated absences

Union employees receive paid vacation benefits in accordance with the Working and Wage Agreement. Employees are eligible for one to six weeks of vacation depending on their years of service with the District. Non-union employees receive similar vacation benefits as prescribed by TriMet's personnel policies. As of June 30, 2017 and 2016, the District's vacation pay liability was $11,680 and $11,306, respectively, all of which was classified as a current liability in accrued payroll.

Postemployment benefits other than pension

Plan description

TriMet provides postemployment health care and life insurance benefits (OPEB), in accordance with the Working and Wage Agreement for union employees and TriMet's personnel policies to all eligible employees and their qualified dependents, who retire from the District on or after attaining age 55 with service of at least 10 years for union employees and five years for non-union employees hired before April 27, 2003 and 10 years for non-union employees hired before May 1, 2009. The District pays a portion of the premiums for primary medical and hospitalization, dental and vision benefits for eligible retirees and spouses. Non-union employees hired after April 30, 2009 with service of at least 10 years and after attaining age 55 can elect to participate in the District's OPEB plan, but the retiree pays 100% of the premium costs. Union employees hired after October 24, 2014 with service of at least 10 years and after attaining age 55 receive a monthly stipend to purchase medical benefits. TriMet-provided benefits are secondary to Medicare benefits, where applicable. The District provides a $10 life insurance benefit to union retirees and non-union retirees. The District's postemployment insurance plan does not issue a financial report.

Annual OPEB cost and net OPEB obligation

The District's annual OPEB cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the guidance of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize unfunded actuarial liabilities over a closed period of 30 years. A schedule of the components of the District's annual OPEB cost is presented below:
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	2017	2016	2015
Annual required contribution (ARC)	$ 76,658	$ 76,628	$ 73,999
Interest on net OPEB obligation	18,221	16,625	15,080
Adjustment to annual required contribution	(35,094)	(30,540)	(27,320)
Annual OPEB cost	59,785	62,713	61,759
Contributions made	(16,554)	(17,107)	(17,617)
Increase in net OPEB obligation	43,231	45,606	44,142
Net OPEB obligation - beginning of year	520,615	475,009	430,867
Net OPEB obligation - end of year	$ 563,846	$ 520,615	$ 475,009
Percentage of annual OPEB cost contributed	28%	27%	29%

Notes to Financial Statements

June 30, 2017
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continued

Postemployment benefits other than pension, continued

Funding policy

The District has a trust fund for future net OPEB obligations. In fiscal year 2012, the District funded $400 into the trust fund. The District pays for the premiums for eligible retirees. Retirees may not convert the benefit into an in lieu payment to secure coverage under independent plans. There were 2,542 and 2,453 union and non-union retirees, dependents, and surviving spouses receiving the postemployment health care and life insurance benefits, at December 31, 2016 and 2015, respectively. The District's contribution covers actual pay-as-you-go funding requirements. The District contributed costs of postemployment health care and life insurance benefits totaling $16,554 and $17,107 in fiscal year 2017 and 2016, respectively.

Funded status and funding progress

The schedule of funding progress is presented below:

Schedule of funding progress
As of January 1
(dollars in thousands)

Actuarial valuation date	2017	2016	2015
Actuarial value of assets	$ 401	$ 401	$ 401
Actuarial accrued liability (AAL)	769,305	760,727	711,180
Unfunded AAL (UAAL)	$ 768,904	$ 760,326	$ 710,779
Funded ratio	0.05%	0.05%	0.06%
Covered payroll	$ 173,892	$ 167,369	$ 154,966
UAAL as a percentage of covered payroll	442%	454%	459%

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, 2017 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 3.5 percent, and health care cost rates varying from 4.25 percent to 8.25 percent for the major medical component for participants. The District's UAAL is being amortized using the level-percent of pay method with a closed group 30 year amortization methodology. At June 30, 2017 there are 21 years of amortization remaining. Changes to the actuarial assumptions in the January 1, 2017 valuation were made to update health care claims costs and trend rates.

Notes to Financial Statements

June 30, 2017
(dollars in thousands)
continued

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

The TriMet Defined Benefit Retirement Plan for Management and Staff Employees Trust Fund accounts for the assets of the employee benefit plan held by TriMet in a trustee capacity. TriMet is the sole administrator for the TriMet Defined Benefit Retirement Plan for Management and Staff Employees ("Management DB Plan"). The Management DB Plan is a governmental plan maintained and operated solely by TriMet. The TriMet Board has appointed four people to oversee the Management DB Plan.

TriMet recorded $2,437 and $2,977 in pension expense for the Management DB Plan in the years ended June 30, 2017 and 2016, respectively.

Plan description

The Management DB Plan is a single-employer defined benefit plan. The plan covers all TriMet non-union employees hired before April 27, 2003 who are not covered by the Management DC Plan. The plan is closed to new enrollment. Participation began at the date of hire with benefits being 100 percent vested after five years of service. Covered employees who retire at or after age 62, with five years of service, are entitled to an annual retirement benefit, payable monthly for life. Benefits vary based on final average salary, job classification and date of hire. Vested non-union employees convert unused sick leave to monthly pension benefits at a rate of final average salary (stated on an hourly basis) multiplied by one-half of unused sick leave (up to a maximum of 850 hours) divided by 101.9. Benefits in payout status are increased annually by 90 percent of the percentage increase in the U.S. Consumer Price Index. The Management DB Plan is a plan document originally adopted on December 7, 1970 and as amended restated as of July 1, 2013. Amendments to the plan are authorized by the TriMet Board of Directors. 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.

The following is a summary of plan participants at June 30, 2017 and 2016:

	2017	2016
Active employees	108	129
Retirees and beneficiaries:		
Receiving benefits	277	250
Deferring benefits	-	-
Deferred Retirement benefits		
Terminated employees	85	91
Transfers to union plan	19	23
Disabled employees	4	3
Total Participants	493	496

Summary of accounting policies

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

Notes to Financial Statements

June 30, 2017
(dollars in thousands)
Continued

Investment policy and method to value investments

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

Plan investments are reported at fair value. The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Fair value of securities is determined by the plan asset managers at quoted market price, where available, except for securities which are not actively traded, which are valued at net asset value by the asset manager. The Plan has the following fair value measurements by fair value level at June 30, 2017:

		Fair Value Measurement Using		
	Balance at June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Measured at Fair Value Level				
Fixed income	$ 17,412	$ 17,412	$ -	$ -
U.S. large-mid cap equities	26,666	26,666	-	-
U.S. small cap equities	3,534	3,534	-	-
International equity	23,220	23,220	-	-
	$ 70,832	$ 70,832	-	-
Measured at Net Asset Value				
Tactical asset allocation	17,405			
Absolute return	16,541			
Private real estate	10,863			
Private equity	613			
Private credit	6,801			
Cash	927			
	53,150			
Total Fair Value of Investments	$ 123,982			

Notes to Financial Statements
June 30, 2017
(dollars in thousands)
Continued

The Plan has the following fair value measurements by fair value level at June 30, 2016:

		Fair Value Measurement Using		
	Balance at June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Measured at Fair Value Level				
Fixed income	$ 17,333	$ 17,333	$ -	$ -
U.S. large-mid cap equities	25,329	25,329	-	-
U.S. small cap equities	2,747	2,747	-	-
International equity	18,251	18,251	-	-
Foreign currency hedge fund	64	64	-	-
	$ 63,724	$ 63,724	-	-
Measured at Net Asset Value				
Tactical asset allocation	16,766			
Absolute return	16,304			
Private real estate	10,365			
Private equity	683			
Private credit	6,561			
Cash	631			
	51,310			
Total Fair Value of Investments	$ 115,034			

Investments measured at Net Asset Value ("NAV")

Tactical Asset Allocation includes investment in a private offering fund with a goal of providing returns that exceed inflation by a premium of 5% on an annualized basis over a market cycle. The fair values of the investments in this type have been determined using the NAV per share of the investments.

Absolute Return includes investment in a private offering fund with a goal of generation of consistent positive returns with lower levels of volatility and low levels of correlation to traditional stocks and bonds. The fair values of the investments in this type have been determined using the NAV per share of the Management DB Plan's ownership interest in the investments. Distributions from this fund will be received as the underlying investments of the fund are liquidated.

Private Real Estate includes investment in a commingled investment vehicle with a goal of generating consistent, low volatility returns. Investments in this category are in high quality, well-leased properties, with a focus on income generation. The fair values of the investments in this type have been determined using the NAV per share of the Management DB Plan's ownership interest in partners' capital. Distributions from this fund will be received as the underlying investments of the fund are liquidated.

Notes to Financial Statements

June 30, 2017
(dollars in thousands)
Continued

Private Equity includes investment in a commingled fund of funds with a goal of generating high levels of long-term returns. The fair values of the investments in this type have been determined using the NAV per share of the Management DB Plan's ownership interest in the investments. Distributions from this fund will be received as the underlying investments of the fund are liquidated.

Private Credit includes investment in commingled investment vehicles, which invest globally utilizing less liquid or illiquid credit market instruments. The fair values of the investments in this type have been determined using the NAV per share of the Management DB Plan's ownership interest in the investments. Distributions from this fund will be received as the underlying investments of the fund are liquidated.

Outstanding commitments and redemption limitations for each investment class as of June 30, 2017 and 2016 are as follows:

Measured at Net Asset Value	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
As of June 30, 2017:				
Private real estate	$ 10,863	$ -	Quarterly	90 days
Private equity	$ 613	$ 1,990	N/A	N/A
Private credit	$ 927	$ 3,538	N/A	N/A
As of June 30, 2016:				
Private real estate	$ 10,365	$ -	Quarterly	90 days
Private equity	$ 683	$ 78	N/A	N/A
Private credit	$ 6,561	$ 3,523	N/A	N/A

Rate of Return

For the years ended June 30, 2017 and 2016, respectively, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 6.9 percent and 1.3 percent. The money-weighted return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Investments – concentration of credit risk

The plan trustees have adopted an Investment Policy which defines target allocations in each class of investment. The target allocations are based upon asset liability studies, which are performed every five years. The following are the trustee adopted asset allocation policies as of June 30, 2017 and 2016:

	2017	2016
Fixed income	14%	14%
U.S. equity	24%	24%
International equity	17%	17%
Tactical asset allocation	15%	15%
Absolute return	14%	14%
Private real estate	7%	7%
Private equity	2%	2%
Private credit	7%	7%
Total	100%	100%

Notes to Financial Statements

June 30, 2017
(dollars in thousands)
Continued

As of June 30, 2017 and 2016, the plan had investments of more than 5% of the total Plan fiduciary net position, as follows:

	2017	2016
Ryan Labs Core Bond Fund	13.9%	15.1%
Graham Tactical Trend	7.4%	14.6%
State Street RAFI US 1000 Fund	10.6%	11.1%
Vanguard Russell 1000 Index Fund	10.8%	11.0%
Vanguard Total International Stock Fund	9.3%	8.3%
RREEF America REIT II	7.5%	7.9%
Capital Guardian International Fund	9.3%	7.6%
AQR Enhanced Style Premia Fund, L.P.	6.3%	7.2%
Millennium	7.0%	7.0%
PIMCO All Asset Fund	2.0%	0.0%
Welton Paragon	7.2%	0.0%

Funding policy and net pension liability

The funding policy of the Management DB Plan provides for an actuarially determined contribution (ADC) calculated using the individual entry age normal actuarial cost method. The ADC consists of normal cost and an amortization of the unfunded actuarial accrued liability. The normal cost is determined as the level percentage of pay basis over the service of the active employees between entry age and assumed exit age. Past service liabilities are amortized over a closed ten year period. The components of the net pension liability of the Management DB Plan were as follows:

Net pension liability
As of June 30

	2017	2016
Total pension liability	$ 138,988	$ 133,362
Plan fiduciary net position	123,956	114,997
Net pension liability	$ 15,032	$ 18,365
Plan fiduciary net position as a percent of total pension liability	89.2%	86.2%
Annual covered payroll	$ 10,592	$ 12,722
Unfunded AAL as a percentage of covered payroll	141.9%	144.5%

Notes to Financial Statements
June 30, 2017
(dollars in thousands)
continued

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 6.3 percent, discount rate on plan liabilities of 6.3 percent, an annual post-retirement benefit increase of 2.5 percent, and annual salary increases of 2.75 percent. Mortality rates were based on the RP 2014 Mortality Table for males and females, projected 10 years past the valuation date using Scale BB. All participants are assumed to retire by the age of 67, with a certain percentage of active participants assumed to elect retirement beginning at age 55. Net pension liability has been measured and reported as of June 30, 2017.

The long-term expected rate of return on pension plan investments of 6.3 percent was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are then combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage. Estimated real rates of return by asset class were as follows at June 30, 2017:

Long-Term Expected Real Rate of Return	
Asset Class	
Fixed income	1.7%
U.S. large-mid cap equities	4.9%
U.S. small cap equities	5.9%
International equity	6.0%
Tactical asset allocation	3.7%
Absolute return	2.0%
Private real estate	3.9%
Private equity	8.9%
Private credit	5.0%

The discount rate used to measure the total pension liability was 6.3 percent. The projection of cash flows used to determine the discount rate assumed that District contributions will be made consistent with the current funding plan. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine total pension liability.

Notes to Financial Statements

June 30, 2017
(dollars in thousands)
continued

Changes in net pension liability

The following table presents the changes in the net pension liability for the years ended June 30, 2017 and 2016:

Management DB Plan

	2017	2016
Total pension liability		
Service cost	$ 1,162	$ 1,224
Interest cost	8,309	8,327
Benefit payments	(5,286)	(4,502)
Change in assumptions	-	474
Experience (gain) loss	1,441	(1,293)
Net change in total pension liability	5,626	4,230
Total pension liability, beginning	133,362	129,132
Total pension liability, ending	138,988	133,362
Plan fiduciary net position		
Contributions	(6,330)	(7,036)
Expected investment income	7,267	(7,279)
Difference between actual and expected income	648	5,916
Benefit payments	5,286	4,502
Net change in plan fiduciary net position	6,871	(3,897)
Plan fiduciary net position, beginning	(114,997)	(111,100)
Plan fiduciary net position, ending	(108,126)	(114,997)
Net pension liability, ending	$ 30,862	$ 18,365
Plan fiduciary net position as a percent of total pension liability	78%	86%
Covered payroll	$ 10,593	$ 12,722
Net pension liability as a percent of covered payroll	291%	144%

Notes to Financial Statements

June 30, 2017
(dollars in thousands)
continued

Sensitivity of the net pension liability to changes in the discount rate

The following table presents the sensitivity of the net pension liability calculation to a one percent increase or decrease in the discount rate used to measure the total pension liability:

Discount rate	Net pension liability
1% decrease (5.3%)	$ 33,159
Current discount rate (6.3%)	$ 15,032
1% increase (7.3%)	$ (76)

Deferred Inflows and Outflows of Resources

The following table presents the components of Deferred inflows and outflows of resources for the Management DB Plan for the years ended June 30, 2017 and 2016:

Deferred outflows	2017	2016
Differences between projected and actual earnings on pension investments	$ 5,499	$ 7,667
Changes in assumptions	-	195
Differences between expected and actual experience in the measurement of total pension liability	480	-
Total deferred outflows	$ 5,979	$ 7,862
Deferred inflows		
Differences between projected and actual earnings on pension investments	$ (2,123)	$ (4,034)
Changes in assumptions	-	(532)
Total deferred inflows	$ (2,123)	$ (4,566)

The following table presents the future amortization of Deferred inflows and outflows of resources for the Management DB Plan:

	Deferred outflows	Deferred inflows
2018	$ 2,648	$ (1,688)
2019	2,168	(145)
2020	1,163	(145)
2021	-	(145)
2022	-	-
Thereafter	-	-
	$ 5,979	$ (2,123)

Notes to Financial Statements

June 30, 2017
(dollars in thousands)
continued

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

The Pension Plan for Bargaining Unit Employees of TriMet Trust Fund accounts for the assets of the employee benefit plan held by TriMet in a trustee capacity. TriMet is the sole administrator for the Pension Plan for Bargaining Unit Employees of TriMet ("Bargaining Unit DB Plan"). The Bargaining Unit DB Plan is a governmental plan maintained and operated solely by TriMet. Three trustees appointed by the TriMet Board and three union representatives appointed by the Amalgamated Transit Union ("Union") oversee the Bargaining Unit DB Plan.

TriMet recorded $19,072 and $29,193 in pension expense for the Bargaining Unit DB Plan in the years ending June 30, 2017 and 2016, respectively.

Plan description

The Bargaining Unit DB Plan is a single-employer defined benefit plan. The Bargaining Unit DB Plan covers all full-time and part-time employees represented by the Amalgamated Transit Union hired in a union position before August 1, 2012. Eligible union employees begin to participate on their date of hire, with benefits being 100 percent vested after 10 years of service. Under the terms of the Bargaining Unit Pension Plan and Permanent Disability Agreement, covered members retiring at or after age 58 with 10 or more years of service will receive a monthly benefit for life with annual cost of living adjustments. Pension benefits for covered members retiring after February 1, 2016 are $83.78 per month, per year of service. Effective with the current Working and Wage agreement, each February 1, the retirement benefit is adjusted based on the amount of any general wage adjustments received by bargaining unit employees during the previous 12 months. Pension benefits for retirees in payout status are adjusted each February 1, also based on the general wage adjustments during the prior 12 months. Effective July 12, 2012, pension benefits for retirees in payout status will be adjusted each May 1, based upon the U.S. Urban Wage Earners and Clerical Workers Consumer Price Index (CPI) (annual average). Provisions of the Working and Wage Agreement between TriMet and the Union effective December 1, 2009, requires vested union employees to convert any unused accumulated sick leave (up to a maximum of 1,700 hours) to monthly pension benefits at a rate of 25 cents per hour. Amendments to the plan are made under provision in the Working and Wage Agreement. No employee contributions are required or permitted under the Bargaining Unit DB Plan. Benefit provisions are established and amended through provisions of the Working and Wage Agreement between TriMet and the Union.

The following is a summary of plan participants at June 30, 2017 and 2016:

	2017	2016
Active employees	1,460	1,580
Retirees and beneficiaries:		
Receiving benefits	1,780	1,701
Deferred Retirement benefits:		
Terminated employees	124	122
Transfers to management plan	58	64
Total Participants	3,422	3,467

Summary of accounting policies

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

Notes to Financial Statements

June 30, 2017
(dollars in thousands)
continued

Investment policy and method to value investments

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

Plan investments are reported at fair value. The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. Fair value of securities is determined by the plan asset managers at quoted market price, where available, except for securities which are not actively traded, which are valued at net asset value by the asset manager. The Plan has the following fair value measurements by fair value level at June 30, 2017:

		Fair Value Measurement Using		
Measured at Fair Value Level	**Balance at June 30, 2017**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Fixed income	$ 51,919	$ 51,919	$ -	$ -
U.S. large-mid cap equities	144,203	144,203	-	-
U.S. small cap equities	17,666	17,666	-	-
International equity	121,390	121,390	-	-
Foreign currency hedge fund	-	-	-	-
	335,178	335,178	-	-
Measured at Net Asset Value				
Tactical asset allocation	37,013			
Absolute return	74,974			
Private real estate	52,363			
Private equity	10,206			
Private credit	8,994			
Cash	2,331			
	185,881			
Total Fair Value of Investments	$ 521,059			

Notes to Financial Statements

June 30, 2017
(dollars in thousands)
Continued

The Plan has the following fair value measurements by fair value level at June 30, 2016:

		Fair Value Measurement Using		
Measured at Fair Value Level	**Balance at June 30, 2016**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Fixed income	$ 48,572	$ 48,572	$ -	$ -
U.S. large-mid cap equities	129,046	129,046	-	-
U.S. small cap equities	14,676	14,676	-	-
International equity	99,339	99,339	-	-
Foreign currency hedge fund	350	350	-	-
	291,983	291,983	-	-
Measured at Net Asset Value				
Tactical asset allocation	40,499			
Absolute return	74,779			
Private real estate	44,186			
Private equity	11,059			
Private credit	8,964			
Cash	1,554			
	181,041			
Total Fair Value of Investments	$ 473,024			

Investments measured at Net Asset Value ("NAV")

Tactical Asset Allocation includes investment in a private offering fund with a goal of providing returns that exceed inflation by a premium of 5% on an annualized basis over a market cycle. The fair values of the investments in this type have been determined using the NAV per share of the investments.

Absolute Return includes investment in a private offering fund with a goal of generation of consistent positive returns with lower levels of volatility and low levels of correlation to traditional stocks and bonds. The fair values of the investments in this type have been determined using the NAV per share of the Bargaining Unit DB Plan's ownership interest in the investments. Distributions from this fund will be received as the underlying investments of the fund are liquidated.

Private Real Estate includes investment in a commingled investment vehicle with a goal of generating consistent, low volatility returns. Investments in this category are in high quality, well-leased properties, with a focus on income generation. The fair values of the investments in this type have been determined using the NAV per share of the Bargaining Unit DB Plan's ownership interest in partners' capital. Distributions from this fund will be received as the underlying investments of the fund are liquidated.

Private Equity includes investment in a commingled fund of funds with a goal of generating high levels of long-term returns. The fair values of the investments in this type have been determined using the NAV per share of the Bargaining Unit DB Plan's ownership interest in the investments. Distributions from this fund will be received as the underlying investments of the fund are liquidated.

Private Credit includes investment in commingled investment vehicles, which invest globally utilizing less liquid or illiquid credit market instruments. The fair values of the investments in this type have been determined using the NAV per share

Notes to Financial Statements

June 30, 2017
(dollars in thousands)
Continued

Outstanding commitments and redemption limitations for each investment class as of June 30, 2017 and 2016 are as follows:

Measured at Net Asset Value	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
As of June 30, 2017:				
Private real estate	$ 52,363	$ -	Quarterly	45 days
Private equity	$ 10,206	$ 8,559	N/A	N/A
Private credit	$ 2,331	$ 3,118	N/A	N/A
As of June 30, 2016:				
Private real estate	$ 44,186	$ -	Quarterly	45 days
Private equity	$ 11,059	$ 1,486	N/A	N/A
Private credit	$ 8,965	$ 3,541	N/A	N/A

Rate of Return

For the years ended June 30, 2017 and 2016, respectively, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 9.85 percent and .42 percent. The money-weighted return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Investments – concentration of credit risk

The plan trustees have adopted an Investment Policy which defines target allocations in each class of investment. The target allocations are based upon asset liability studies, which are performed every five years. The following is the trustee adopted asset allocation policy as of June 30, 2017 and 2016:

	2017	2016
U.S. equity	30%	30%
Fixed Income	10%	10%
International equity	22%	22%
Tactical asset allocation	8%	8%
Absolute return	15%	15%
Private real estate	10%	10%
Private equity	3%	3%
Private credit	2%	2%
Total	100%	100%

Notes to Financial Statements
June 30, 2017
(dollars in thousands)
Continued

As of June 30, 2017 and 2016, the plan had the following investments of more than 5% of the total Plan fiduciary net position:

	2017	2016
State Street RAFI US 1000 Index Fund	14.5%	14.1%
Vanguard Russell 1000 Index Fund	13.1%	14.0%
Vanguard Total International Stock Index Fund	11.1%	11.0%
Capital Guardian International All Countries Equity Class Db	12.1%	10.6%
AFL/CIO Housing Trust	8.8%	10.1%
RREEF America REIT II	7.5%	8.2%
AQR Enhanced Style Premia Fund, L.P.	4.5%	6.0%
Millennium	5.6%	5.9%
Graham Tactical Trend	4.6%	5.3%
Aurora Offshore Class AA	0.1%	1.2%
I Shares Russell 1000 Index E T F	1.0%	0.4%
PIMCO All Asset Fund	0.0%	0.0%

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. The funding policy of the Bargaining Unit DB Plan provides for an actuarially determined contribution (ADC) calculated using the individual entry age normal actuarial cost method. The ADC consists of normal cost and an amortization of the unfunded actuarial accrued liability. The normal cost is determined as the level percentage of pay basis over the service of active employees between entry age and assumed exit age. Past service liabilities are amortized over a closed fifteen year period. The components of the net pension liability of the Bargaining Unit DB Plan were as follows:

Net pension liability As of June 30	2017	2016
Total pension liability	$ 657,399	$ 656,437
Plan fiduciary net position	520,927	472,829
Net pension liability	$ 136,472	$ 183,608
Plan fiduciary net position as a percent of total pension liability	79.2%	72.0%
Annual covered payroll	$ 106,596	$ 117,666
Unfunded AAL as a percentage of covered payroll	128.1%	156.1%

Actuarial methods and assumptions

Significant actuarial assumptions used in the valuation include a long term rate of return on the investment of present and future assets of 6.75 percent, RP-2014 mortality tables, inflation of 2.5 percent and annual salary increases of 2.75 percent and benefit multiplier increases of 2.5 percent annually for participants who retired prior to August 1, 2012 and 2.25 percent annually for participants who retire after August 1, 2012. Mortality rates were based on the RP-2014 Combined Healthy Mortality Table with Blue Collar Adjustment for males and females, set forward 1 year for males and 2 years for females. Net pension liability has been measured and reported as of June 30, 2017.

Notes to Financial Statements

June 30, 2017
(dollars in thousands)
continued

The long-term expected rate of return on pension plan investments of 6.75 percent was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are then combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimated real rates of return by asset class were as follows at June 30, 2017:

Long-Term Expected Real Rate of Return

Asset Class	
Fixed income	1.7%
U.S. large-mid cap equities	4.9%
U.S. small cap equities	5.9%
International equity	6.0%
Tactical asset allocation	3.7%
Absolute return	2.0%
Private real estate	3.9%
Private equity	8.9%
Private credit	5.0%

The discount rate used to measure the total pension liability was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that District contributions will be made consistent with the current funding plan. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine total pension liability.

Notes to Financial Statements

June 30, 2017
(dollars in thousands)
continued

Changes in net pension liability

The following table presents the changes in the net pension liability for the years ended June 30, 2017 and 2016:

Bargaining Unit DB Plan

	2017	2016
Total pension liability		
Service cost	$ 10,851	$ 10,703
Interest cost	43,889	43,372
Changes of assumptions	-	18,776
Effect of economic/demographic gains	(19,615)	(8,967)
Benefit payments	(34,163)	(32,680)
Net change in total pension liability	962	31,204
Total pension liability, beginning	656,437	625,233
Total pension liability, ending	657,399	656,437
Plan fiduciary net position		
Contributions	(35,862)	(38,027)
Net investment income	(46,645)	(1,948)
Benefit payments	34,163	32,680
Administrative expense	246	281
Net change in plan fiduciary net position	(48,098)	(7,014)
Plan fiduciary net position, beginning	(472,829)	(465,815)
Plan fiduciary net position, ending	(520,927)	(472,829)
Net pension liability, ending	$ 136,472	$ 183,608
Plan fiduciary net position as a percent of total pension liability	79%	72%
Covered payroll	$ 106,596	$ 117,666
Net pension liability as a percent of covered payroll	128%	156%

Notes to Financial Statements

June 30, 2017
(dollars in thousands)
continued

Sensitivity of the net pension liability to changes in the discount rate

The following table presents the sensitivity of the net pension liability calculation to a one percent increase or decrease in the discount rate used to measure the total pension liability:

Discount rate	Net pension liability	
1% decrease (5.75%)	$	211,991
Current discount rate (6.75%)	$	136,472
1% increase (7.75%)	$	72,492

Deferred Inflows and Outflows of Resources

The following table presents the components of Deferred inflows and outflows of resources for the Bargaining Unit DB Plan at June 30, 2017, 2016, and 2015:

	2017		2016	
Deferred outflows				
Differences between projected and actual earnings on pension investments	$	26,161	$	36,166
Changes in assumptions		23,182		34,537
Differences between expected and actual experience in the measurement of total pension liability		252		1,506
Total deferred outflows	$	49,595	$	72,209
Deferred inflows				
Differences between projected and actual earnings on pension investments	$	(19,077)	$	(18,383)
Changes in assumptions		(26,024)		(15,920)
Differences between expected and actual experience in the measurement of total pension liability		(7,359)		(10,426)
Total deferred inflows	$	(52,460)	$	(44,729)

The following table presents the future amortization of Deferred inflows and outflows of resources for the Bargaining Unit DB Plan:

	Deferred outflows		Deferred inflows	
2018	$	21,610	$	(22,822)
2019		18,078		(13,867)
2020		9,907		(10,269)
2021		-		(5,502)
2022		-		-
Thereafter		-		-
	$	49,595	$	(52,460)

Notes to Financial Statements

June 30, 2017
(dollars in thousands)
continued

14. Subsequent Events

Payroll Tax and Grant Receipt Revenue Bonds, Series 2013

Upon the receipt of the Full Funding Grant Agreement (FFGA) grant resources, the District will exercise an early redemption of $100,000 of principal on the outstanding on the Series 2013 Payroll Tax and Grant Receipt Revenue Bonds. The remaining balance of the bonds will be $125,000 after this redemption. The District expects to receive the FFGA resources by December 31, 2017.

Capital Grant Receipt Revenue Refunding Bonds, Series 2017A

On August 30 2017, the District issued $76,015 in Capital Grant Receipt Revenue Refunding Bonds, Series 2017A. The bonds are being issued to refund a portion of the Series 2011A Bonds and the pay the issuance costs of the Series 2017 bonds.

Required Supplementary Information

Schedule of Funding Progress
(dollars in thousands)

Other postemployment benefits

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Unfunded AAL (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
January 1, 2017	$ 401	$ 769,305	$ 768,904	$ 173,892	442%
January 1, 2016	401	760,727	760,326	167,369	454%
January 1, 2015	401	711,180	710,779	154,966	459%
January 1, 2014	401	949,993	949,592	145,469	653%
January 1, 2013	401	852,756	852,355	151,180	564%
January 1, 2012	-	900,541	900,541	151,448	595%
January 1, 2010	-	816,544	816,544	137,869	592%

Schedule of Changes in Net Pension Liability and Related Ratios

(dollars in thousands)

Management DB Plan

	2017	2016	2015	2014	2013
Total pension liability					
Service cost	$ 1,162	$ 1,224	$ 505	$ 793	$ 906
Interest cost	8,309	8,327	7,931	8,454	7,903
Benefit payments	(5,286)	(4,502)	(4,458)	(3,892)	(3,519)
Changes of benefit terms	-	-	-	-	1,711
Change in assumptions	-	474	(2,178)	(531)	1,015
Experience (gain) loss	1,441	(1,293)	3,592	(3,002)	152
Net change in total pension liability	5,626	4,230	5,392	1,822	8,168
Total pension liability, beginning	133,362	129,132	123,740	121,918	113,750
Total pension liability, ending	138,988	133,362	129,132	123,740	121,918
Plan fiduciary net position					
Contributions	6,330	7,036	6,559	5,602	9,776
Expected investment income	7,267	7,279	7,022	6,354	5,372
Difference between actual and expected income	648	(5,916)	(5,142)	7,720	4,728
Benefit payments	(5,286)	(4,502)	(4,458)	(3,892)	(3,519)
Net change in plan fiduciary net position	8,959	3,897	3,981	15,784	16,357
Plan fiduciary net position, beginning	114,997	111,100	107,119	91,335	74,978
Plan fiduciary net position, ending	123,956	114,997	111,100	107,119	91,335
Net pension liability, ending	$ 15,032	$ 18,365	$ 18,032	$ 16,621	$ 30,583
Plan fiduciary net position as a percent of total pension liability	89%	86%	86%	87%	75%
Covered payroll	$ 10,593	$ 12,722	$ 12,751	$ 13,142	$ 14,200
Net pension liability as a percent of covered payroll	142%	144%	141%	126%	215%

Schedule of Changes in Net Pension Liability and Related Ratios

(dollars in thousands)

Bargaining Unit DB Plan

	2017	2016	2015	2014	2013
Total pension liability					
Service cost	$ 10,851	$ 10,703	$ 11,756	$ 11,406	$ 11,122
Interest cost	43,889	43,372	43,025	42,870	41,827
Effect of plan changes	-	-	-	-	-
Changes of assumptions	-	18,776	(16,558)	29,476	15,354
Effect of economic/demographic (gains) losses	(19,615)	(8,967)	(541)	(11,294)	(8,583)
Benefit payments	(34,163)	(32,680)	(30,677)	(28,846)	(27,373)
Net change in total pension liability	962	31,204	7,005	43,612	32,347
Total pension liability, beginning	656,437	625,233	618,228	574,616	542,269
Total pension liability, ending	657,399	656,437	625,233	618,228	574,616
Plan fiduciary net position					
Contributions	35,862	38,027	36,200	47,261	70,380
Net investment income	46,645	1,948	12,276	64,461	42,349
Benefit payments	(34,163)	(32,680)	(30,677)	(28,846)	(27,373)
Administrative expense	(246)	(281)	(363)	(486)	(223)
Net change in plan fiduciary net position	48,098	7,014	17,436	82,390	85,133
Plan fiduciary net position, beginning	472,829	465,815	448,379	365,989	280,856
Plan fiduciary net position, ending	520,927	472,829	465,815	448,379	365,989
Net pension liability, ending	$ 136,472	$ 183,608	$ 159,418	$ 169,849	$ 208,627
Plan fiduciary net position as a percent of total pension liability	79%	72%	75%	73%	64%
Covered payroll	$ 106,596	$ 117,666	$ 116,556	$ 124,696	$ 125,143
Net pension liability as a percent of covered payroll	128%	156%	137%	136%	167%

Schedules of Pension Contributions
(dollars in thousands)

Management DB Plan

Actuarial valuation date	Actuarially determined contribution	Contributions	Contribution excess (deficiency)	Covered payroll	Contributions as a percentage of covered payroll
June 30, 2017	$ 3,735	$ 6,330	$ 2,595	$ 10,593	60%
June 30, 2016	4,242	7,036	2,794	12,722	55%
June 30, 2015	4,219	6,559	2,340	12,751	51%
June 30, 2014	4,957	5,602	645	13,142	43%
June 30, 2013	6,491	9,776	3,285	14,200	69%

Bargaining Unit DB Plan

Actuarial valuation date	Actuarially determined contribution	Contributions	Contribution excess	Covered payroll	Contributions as a percentage of covered payroll
June 30, 2017	$ 28,498	$ 35,862	$ 7,364	$ 106,596	34%
June 30, 2016	28,030	38,027	9,997	117,666	32%
June 30, 2015	31,926	37,793	5,867	116,556	32%
June 30, 2014	35,553	48,689	13,136	124,696	39%
June 30, 2013	34,638	36,766	2,128	125,143	29%

Schedules of Investment Returns

Annual Money-Weighted Rate of Return, Net of Investment Expense

	2017	2016	2015	2014	2013
Management DB Plan	6.92%	1.30%	1.87%	15.62%	13.10%
Bargaining Unit DB Plan	9.85%	0.42%	2.73%	17.28%	14.06%

Supplementary Information

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

For The Year Ended June 30, 2017
(dollars in thousands)

Budget basis	
Revenues	$ 780,912
Expenses	704,734
Revenues over expenses	76,178
Add budget activity not qualifying as revenues/ expenses under GAAP:	
Principal payments on long-term debt	122,928
Capital asset additions	83,197
Add (subtract) adjustments required by GAAP:	
Unfunded pension costs	20,140
Depreciation	(129,750)
Net leveraged lease revenue	1,119
Claims liability changes	448
Unfunded OPEB Costs	(43,231)
Subtract budget resources not qualifying as revenues under GAAP:	
Loss on asset deletion	(393)
Debt Issuance	(97,430)
Federal, state and local government contributions	(104,087)
GAAP basis loss before contributions presented in statement of revenues, expenses and changes in net position	$ (70,881)

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

June 30, 2017
(dollars in thousands)

Budget basis ending fund balance	$ 441,464
Reconciliation to GAAP basis:	
Net capital assets	2,997,401
Capital related debt	(692,940)
Other postemployment benefits	(563,846)
Net pension liability	(151,504)
Unamortized gain on pension investments	(54,583)
Unamortized loss on pension investments	55,574
Claims liability	(2,795)
Prepaid lease expense	71,424
Unamortized gain on leases	(16,370)
Long term lease liability	(59,321)
GAAP basis net position	$ 2,024,504

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

For The Year Ended June 30, 2017
(dollars in thousands)

GENERAL FUND

	Original budget	Final budget	Actual	Variance from final budget over (under)
Revenues				
Operating revenue	$ 138,845	$ 138,845	$ 136,061	$ (2,784)
Tax revenue	336,747	336,747	336,131	(616)
Operating grant and other revenue	89,551	89,551	103,124	13,573
Capital program resources	14,980	14,980	4,027	(10,953)
Bond proceeds	-	-	97,430	97,430
Light rail program resources	125,000	125,000	10,060	(114,940)
Federal funds restricted for debt service	-	-	90,000	90,000
Other non-operating resources	6,465	6,465	4,079	(2,386)
Total revenues	711,588	711,588	780,912	69,324
Expenses				
Operating program:				
Office of the general manager	1,894	1,894	1,663	(231)
Public affairs	15,156	15,156	13,660	(1,496)
Safety and security	22,694	22,694	21,905	(789)
Information technology	12,252	12,252	10,569	(1,683)
Finance and administration	19,155	19,155	16,715	(2,440)
Labor relations and human resources	3,774	4,093	4,006	(87)
Legal services	2,398	2,398	2,072	(326)
Operations	345,198	345,129	346,091	962
Capital projects	9,972	9,972	8,178	(1,794)
OPEB and UAAL pension	49,637	49,637	47,807	(1,830)
Regional Funding Exchanges	3,063	3,063	3,063	-
Debt service	265,483	265,483	141,730	(123,753)
Pass-through requirements	6,465	6,465	4,079	(2,386)
Contingency	21,973	21,723	-	(21,723)
Total operating program	779,114	779,114	621,538	(157,576)
Capital programs				
Public affairs	8,022	8,022	3,270	(4,752)
Safety and security	8,056	8,056	3,125	(4,931)
Information technology	12,784	12,784	4,356	(8,428)
Finance and administration	18,811	18,811	6,890	(11,921)
Operations	55,634	55,634	41,374	(14,260)
Capital projects and facilities	35,518	35,518	24,181	(11,337)
Total capital programs	138,825	138,825	83,196	(55,629)
Total expenses	917,939	917,939	704,734	(213,205)
Revenues under expenses	(206,351)	(206,351)	76,178	282,529
Beginning fund balance	336,780	336,780	365,286	28,506
Ending fund balance	$ 130,429	$ 130,429	$ 441,464	$ 311,035

Schedule of Property Tax Levies and Collections
Last Five Fiscal Years

For The Year Ended June 30, 2017
(dollars in thousands)

		Collected within the fiscal year of levy		Collections in	Total collections to date	
Fiscal year ended June 30	Tax levy for the fiscal year	Amount	Percentage of levy	subsequent years	Amount	Percentage of levy
2012	$ 7,494	$ 6,724	90%	$ 208	$ 6,932	93%
2011	10,908	10,259	94%	298	10,557	97%
2010	10,422	9,765	94%	354	10,119	97%
2009	9,344	8,722	93%	386	9,108	97%
2008	9,514	8,969	94%	309	9,278	98%

Schedule of Property Tax Transactions and Outstanding Balances

For The Year Ended June 30, 2017
(dollars in thousands)

Tax year	Beginning balance	Levy extended by assessor	Discounts	Interest	Adjustments	Collections	Ending balance
2011-12	$ 28	$ -	$ -	$ -	$ 9	$ (1)	$ 36
2010-11	35	-	-	1	1	(2)	35
2009-10	32	-	-	-	(3)	(1)	28
2008-09	2	-	-	-	2	(1)	3
2007-08	1	-	-	-	-	-	1
2006-07	1	-	-	-	-	-	1
2005-06	1	-	-	-	-	-	1
2004-05	1	-	-	-	(1)	-	-
2003-04	1	-	-	-	(1)	-	-
2002-03	1	-	-	-	(1)	-	-
2001-02	-	-	-	-	-	-	-
2000-01 & prior	-	-	-	-	-	-	-
	$ 103	$ -	$ -	$ 1	$ 6	$ (5)	$ 105

Audit Comments and Disclosures Required by State Regulations

Report of Independent Auditors on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Oregon Municipal Auditing Standards*

Board of Directors
Tri-County Metropolitan Transportation District of Oregon

We have audited the basic financial statements of Tri-County Metropolitan Transportation District of Oregon (District), as of and for the year ended June 30, 2017, and have issued our report thereon dated September 26, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

Compliance

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

- The accounting records and related internal control structure.
- The use of various depositories to secure the deposit of public funds.
- The requirements relating to debt.
- The requirements relating to the preparation, adoption, and execution of the annual budgets for fiscal years 2018 and 2017.
- The requirements relating to insurance and fidelity bond coverage.
- The appropriate laws, rules and regulations pertaining to programs funded wholly or partially by other governmental agencies.
- The statutory requirements pertaining to the investment of public funds.
- The requirements pertaining to the awarding of public contracts and the construction of public improvements.

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

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

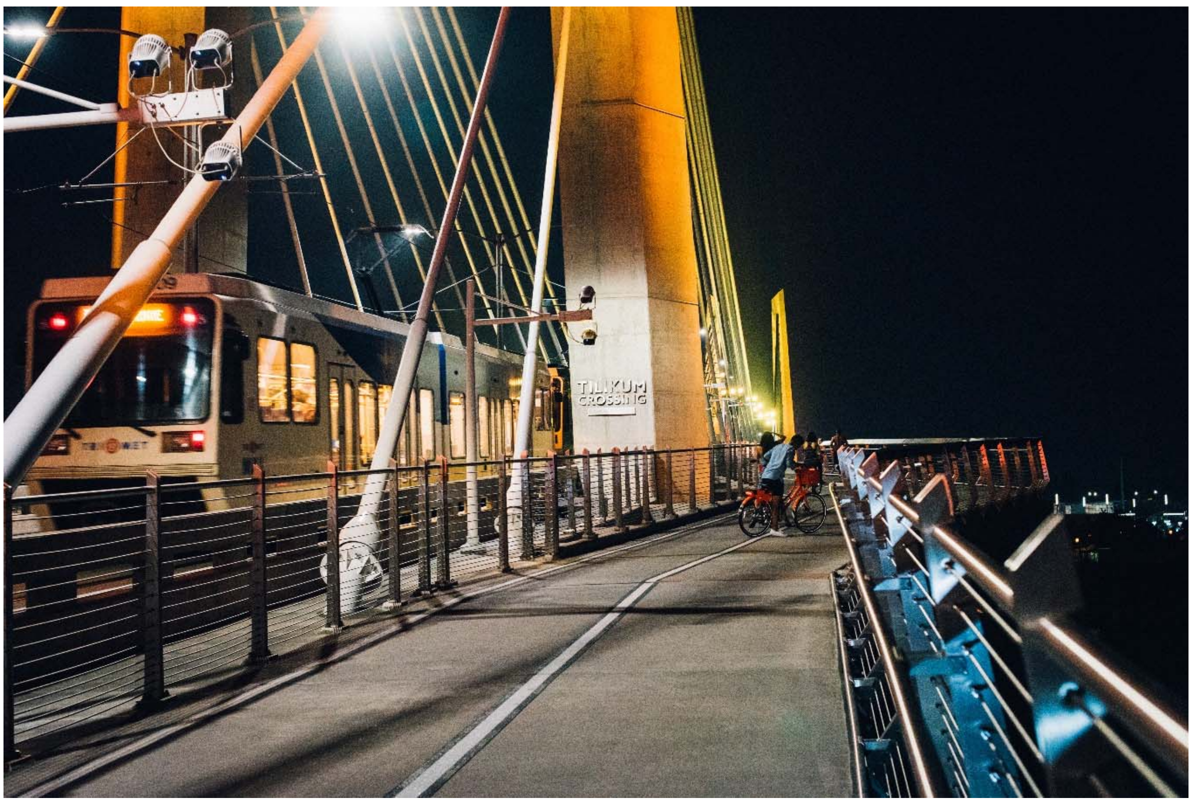
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Julie Desimone

Julie Desimone, Partner
for Moss Adams LLP
Portland, Oregon
September 26, 2017

Federal Grant Programs



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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Tri-County Metropolitan Transportation District of Oregon

We have audited, in accordance with the 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, the financial statements of the Enterprise Fund, Retirement Plan for Management Staff Employees, Pension Plan for Bargaining Unit Employees, and Total Trust Fund of Tri-County Metropolitan Transportation District of Oregon (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 26, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

Portland, Oregon
September 26, 2017

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Report of Independent Auditors on Compliance for Each Major Federal Program, Report on Internal Control Over Compliance, and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Directors
Tri-County Metropolitan Transportation District of Oregon

Report on Compliance for Major Federal Program

We have audited Tri-County Metropolitan Transportation District of Oregon's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal program for the year ended June 30, 2017. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the District as of and for the year ended June 30, 2017, and have issued our report thereon dated September 26, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Moss Adams LLP

Portland, Oregon
September 26, 2017

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017
(dollars in thousands)

Federal grantor/program title	Federal CFDA number	Pass Through/ Grant number	Total expenditures	Passed through to subrecipients
U.S. Department of Transportation				
Federal Transit Cluster:				
U.S. Department of Transportation - Direct Programs				
Federal Transit - Capital Investment Grants	20.500**	OR-03-0126	$ 100,000	$ -
Federal Transit - Capital Investment Grants	20.500**	OR-03-0125	5	5
			100,005	5
Federal Transit - Formula Grants	20.507**	OR-95-X038	362	-
Federal Transit - Formula Grants	20.507**	OR-95-X054	38	-
Federal Transit - Formula Grants	20.507**	OR-2017-011	72	-
Federal Transit - Formula Grants	20.507**	OR-2016-011	56	-
Federal Transit - Formula Grants	20.507**	OR-2016-014	16,000	-
Federal Transit - Formula Grants	20.507**	OR-2016-013	3,101	-
Federal Transit - Formula Grants	20.507**	OR-2016-015	58,604	154
			78,233	154
State of Good Repair Grants Program	20.525**	OR-2016-006	13	-
State of Good Repair Grants Program	20.525**	OR-2017-010	13,091	-
			13,104	-
Passed through from METRO				
Federal Transit - Formula Grants	20.507**	METRO # 931908	18	-
Total Federal Transit Cluster			191,360	160
Transit Services Program Cluster:				
U.S. Department of Transportation - Direct Programs				
Job Access - Reverse Commute Program	20.516	OR-37-X009	412	369
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	OR-16-X042	197	185
Passed through from Oregon Department of Transportation:				
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	ODOT 30734	1,994	299
Total Transit Services Program Cluster			2,603	853
Total Public Transportation Research Cluster:				
U.S. Department of Transportation - Direct Programs				
Capital Assistance Program for Reducing Energy Consumption/Greenhouse Gas Emission	20.523	OR-88-0001	85	-
Public Transportation Research, Technical Assistance, and Training	20.514	OR-2017-005	107	-
Passed through from Operation Lifesaver:				
Operation Lifesaver	20.301	FTA: VA-26-5020-01	5	-
Total Public Transportation Research Cluster			197	-
Passed through from Oregon Department of Transportation:				
Federal Transit - Formula Grants for Rural Areas	20.509	ODOT 31579	58	-
Total U.S. Department of Transportation Programs			**194,217**	**1,012**
U.S. Department of Homeland Security - Direct Programs				
Nat'l Explosives Det Canine Team Program	97.072	HSTS02-16-H-NCP489	132	-
Rail and Transit Security Grant Program	97.075	EMW-2016-RA-00012	367	-
Total U.S. Department of Homeland Security Programs			**499**	**-**
Total Expenditures of Federal Awards			**$ 194,716**	**$ 1,012**

** Identifies program audited as a major program

The accompanying notes are an integral part of this schedule.

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2017

(dollars in thousands)

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes all federal grant activity of Tri-County Metropolitan Transportation District of Oregon (the District), under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because this schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the District.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting, which is consistent with the financial statements, as described in Note 1 to the District's June 30, 2017 financial statements. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District does not utilize the 10 percent deminimus rate for overhead allocation.

3. Relationship to the Basic Financial Statements

Federal awards are reported in the District's financial statements as operating grant revenue and capital contributions.

4. Subrecipients

Included within the federal expenditures presented in the Schedule of Federal Awards are federal awards to subrecipients as follows:

Subrecipient	Federal CFDA Number	Grant Number/TriMet Contract number	Total Expenditures
City of Portland	20.500	TriMet #10-0400	$ 5
Ride Connection	20.507	TriMet #16-0051	154
Ride Connection	20.513	TriMet #15-0186	185
Ride Connection	20.513	TriMet #16-0812	291
Ride Connection	20.513	TriMet #17-0009	8
Ecoshuttle	20.516	TriMet #17-0179	8
Portland Community College	20.516	TriMet #17-0817	47
Ride Connection	20.516	TriMet #15-0292	250
Swan Island Business Association	20.516	TriMet #15-0291	64

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ☐ Yes ☒ No

Identification of Major Federal Programs and type of auditor's report issued on compliance for major federal programs

CFDA Numbers	*Name of Federal Program or Cluster*	*Type of Auditor's Report Issued*
20.500, 20.507, 20.525	Federal Transit Cluster	Unmodified

Dollar threshold used to distinguish between type A and type B programs: $3,000,000

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

Section II - Financial Statement Findings

None reported

Section III - Federal Award Findings and Questioned Costs

None reported

Schedule of Prior Federal Findings

For the Year Ended June 30, 2017

Schedule of Prior Federal Award Findings

None reported